

4. Financial Inspection

Pursuant to the *Central Bank of the Republic of China (Taiwan) Act*, the CBC conducts target examinations to ensure effective enforcement of policies related to monetary, credit, and foreign exchange management. To fulfill its mandate of financial stability, the CBC has established an off-site monitoring system and a financial stability assessment framework to systematically monitor and assess potential risks and risk sources in order to deploy appropriate policies and measures in a timely manner.

On-Site Target Examinations

Target examinations in 2014 inspected the handling of land collateralized loans and housing loans, required reserves, banks' offered rates, counterfeit money detection and follow-up, the promotion of the usage of NTD200 notes, notes and coins withdrawn from circulation, forward foreign exchange transactions and reporting, Treasury Marketing Units (TMUs), foreign exchange business of securities enterprises, spot foreign exchange financial trading across foreign currencies, foreign exchange remittances, and the correctness of reporting to the CBC, etc.

Follow-up on Banks' Compliance with Examination Findings

In 2014, in light of the CBC's target examination findings and the Financial Supervisory Commission's examination findings related to the CBC's operations or regulations, the CBC continued monitoring how the examined financial institutions had improved and urged them to rectify related deficiencies, thus ensuring successful implementation of the CBC's policies.

Off-Site Monitoring

Based on financial conditions, the amendments to relevant laws and regulations as well as the monitoring of financial institutions' dynamic operations, the CBC reviews and amends as necessary the format and content of periodical statistical data submitted by financial institutions. In 2014, developments related to off-site monitoring for the above purposes included the following:

- (1) In line with the increasing asset growth of domestic banks, the threshold for bank classification by asset size was raised from NT\$200 billion to NT\$600 billion.
- (2) The assessment criteria of "risk weighted capital adequacy ratio," "allowance for uncollectible accounts," and "valuation reserves" for domestic banks were adjusted.
- (3) For foreign and Mainland Chinese banks, the assessment criteria of "ROE" and "internal management commentaries" were adjusted, and the formulas for "valuation reserves" and

“expected loss on credit” were adjusted.

- (4) A compliance indicator, “the ratio of guaranteed and endorsed bills to total equity, greater than 5.5 times, for bills finance companies” was added.
- (5) The indicators of “capital to stockholders' equity ratio” and “pre-tax income/capital” were added as assessment criteria for securities finance companies. Meanwhile, the risk weight of individual indicators was adjusted.

Financial Institution Information Transparency

The CBC regularly compiles and publishes financial institution statistics, such as “Condition and Performance of Domestic Banks (Quarterly)” and “Major Business Statistics of Financial Institutions,” as well as the latest financial regulations. It also discloses related information on its website. As a result, operational transparency of financial institutions has strengthened, and market self-discipline has been reinforced.

Financial Stability Assessment

The CBC compiles financial soundness indicators so that the relevant authorities, market participants and the public are kept informed of the status and sources of financial system risks in Taiwan. In 2014, the 8th Financial Stability Report was published. The publication also promotes cross-border communication and information sharing with regard to Taiwan's financial stability and surveillance.

International Cooperation in Financial Supervision

In 2014, the CBC continued to actively engage in international cooperation related to financial supervision, as follows:

(1) Participating in international meetings/conferences or research programs

- A. The 5th SEACEN Financial Stability Forum and 5th Meeting of Deputy Governors in Charge of Financial Stability and Banking Supervision, the 16th SEACEN Conference of Directors of Supervision of Asia-Pacific Economies, the 27th Meeting of SEACEN Directors of Supervision, SEACEN Web-Based Supervisory Discussion Room, and 2014 Research Project “Building on the Counter-cyclical Buffer Consensus: Asian Empirical Test.”
- B. BIS “IBFS 2014 Compilers Workshop.”
- C. The 4th ECB Conference on Accounting, Financial Reporting and Corporate Governance for Central Banks.

D. APEC Financial Regulators Training Initiative: 19th Advisory Group Meeting.

E. The 17th Asia/Pacific Group on Money Laundering (APG) 2014 Annual Meeting.

(2) Information-sharing with international institutions

A. Completing questionnaires from the SEACEN Centre and the Asian Development Bank, respectively. The former was to be used for a Financial Reporting Symposium with regard to curriculum design. The latter was regarding the APEC Financial Regulators Training Initiative.

B. Exchanging views with the US Fed's supervisory officials with regard to their "Final rules to strengthen the oversight of operations of foreign banks."