

7. Financial Inspection

Pursuant to the objectives and duties stipulated in *The Central Bank of the Republic of China (Taiwan) Act*, the CBC conducts targeted examinations to ensure that monetary, credit, and foreign exchange policies are implemented effectively. The CBC has also established an off-site monitoring system and a financial stability assessment framework to systematically monitor and assess potential risks and their possible sources. Once sources of problems are identified, the CBC then adopts appropriate policies in a timely manner to achieve the operational goal of financial stability.

On-Site Examination

Targeted examinations in 2017 included commercial banks' required reserves, disclosure of housing loan information, large amounts (or quantities) of returned checks, liquidity coverage ratio, counterfeit money detection, foreign exchange remittances, non-delivery forwards transactions, foreign currency exchange, foreign exchange transfer messages, and correctness of reporting to the CBC, etc.

Follow-up on Examination Findings

Based on the findings from the CBC's targeted examinations as well as the results of the Financial Supervisory Commission's financial examinations that are related to the CBC's operations or regulations, the CBC continued to track whether the financial institutions under inspection had improved their operations to ensure the effectiveness of the CBC's policies.

Strengthening Off-Site Monitoring

To respond to changing financial conditions and regulatory amendments and to fully understand the dynamics of financial institutions' business operations, the CBC constantly reviews and revises all relevant reporting forms and contents of statistical data submitted by financial institutions. Developments related to off-site monitoring in 2017 included the following:

- (1) Modifying the declaration format and content of the one-stop declaration window in accordance with the new version of International Financial Reporting Standard 9 (IFRS 9).
- (2) Modifying formats and contents of the table of *Term to Maturity and Term Structure of NT Dollar Liquidity* to fully understand liquidity risks faced by financial institutions. Domestic banks, local branches of foreign and Mainland Chinese banks are required to report this table.
- (3) Modifying the tables of *Loan by Borrower and by Usage*, *Credit by Collateral*, *Guarantee by type of Recipient*, *Domestic Banks Credit to Mainland Area*, and *Country Risk Exposure* to meet

the need for financial supervision.

- (4) Adjusting domestic bank capital adequacy indicators, such as minimum required ratio and its grading criteria of the *Regulatory Capital to Risk-weighted Assets Ratio*, *Tier 1 Capital Ratio*, and *Common Equity Ratio*.
- (5) Adjusting minimum required criteria of the *Liquidity Coverage Ratio* for the analysis of domestic bank compliance and liquidity conditions.
- (6) Adjusting financial holding company observation indicators, screening standards, and grading principles to meet higher standards of capital adequacy ratio and liquidity coverage ratio of commercial bank subsidiaries.
- (7) Adjusting the statutory limit on (longer-term) internal financing of credit departments of farmers' and fishermen's associations.

Improving Information Transparency of Financial Institution Operations

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 to strengthen operational transparency of financial institutions, and to reinforce market self-discipline.

Financial Stability Assessment

The CBC compiles financial soundness indicators and develops credit and market risks models. We continued to regularly publish the *Financial Stability Report* to help financial authorities, financial institutions, and the financial community understand current situations and sources of risks and to promote cross-border communication and information sharing.

International Cooperation in Financial Supervision

In 2017, the CBC continued to actively engage in international cooperation related to financial supervision, such as attending the eighth SEACEN Meeting of Deputy Governors in Charge of Financial Stability and Banking Supervision.