

7. Financial Inspection

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

On-Site Examination

Targeted examinations in 2018 were conducted on interbank funds transfers and settlements business, disclosure of housing loan information by financial institutions, high-priced housing loans, mortgage grace periods, counterfeit money detection (either in terms of the NT dollar or foreign currency), foreign exchange remittances, foreign exchange transfer telegrams or messages, foreign currency loans and guarantees, accuracy of submission of financial statements and reports of offshore banking units as well as reports of term-to-maturity analysis of NT dollar assets/liabilities, etc.

Follow-up on Examination Findings

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

Strengthening Off-Site Monitoring

To respond to changing financial conditions and regulatory amendments and to keep good track of financial institutions' business operations, the Bank constantly reviews and revises all relevant reporting forms and contents of statistical data submitted by financial institutions. Developments related to off-site monitoring in 2018 included the following:

- (1) In accordance with the new version of *International Financial Reporting Standard 9 (IFRS 9)*, ratio formulas and analytical categories of the report audit system, the format of quarterly reports on the *Condition and Performance of Domestic Banks*, and the declaration format and content of the one-stop declaration window were all modified.
- (2) To meet the need for regulatory changes and financial supervision, several reporting requirements were modified. The Bank's newly required reporting of two forms, namely the *Concise Reporting*

Table of Financial Statements and Business Affairs of Overseas Branches of Domestic Banks, and the *Concise Reporting Table of Financial Statements and Business Affairs of Oversea Subsidiaries of Domestic Banks* was introduced. The Bank also modified the *Credit Services Reporting Table* for domestic banks and local branches of foreign and mainland banks, and the reporting formats and contents of the Term to Maturity analysis of NT Dollar Assets/Liabilities Reports by bills finance companies.

- (3) To meet regulatory requirements of banks' capital adequacy ratios and liquidity coverage ratios, minimum requirements and grading standards of the Common Equity ratio, Tier 1 Capital Ratio, Capital Adequacy Ratio of domestic banks and minimum standards of Liquidity Coverage Ratio were all modified.
- (4) To strengthen liquidity risks analysis and regulatory compliance of domestic banks, the grading criteria of the Net Stable Funding Ratio was added to the categories of liquidity and regulatory compliance analysis of financial supervision. The quarterly reports on *the Condition and Performance of Domestic Banks* would also need to include the Net Stable Funding Ratio item.
- (5) To understand credit risks in the transactions of financial derivatives, the grading criteria of the Gross Positive Fair Value of Derivative Financial Instruments (GPFV) was added to the categories of business strategy and stability analysis of financial supervision.
- (6) In line with relevant regulatory changes, the requirements concerning loan to equity ratios of local branches of foreign and mainland banks in the compliance analysis of financial surveillance were adjusted.
- (7) To monitor operational risks of bills finance companies, new categories, namely operating and management strategy and liquidity analysis, as well as relevant ratios, were added.

Improving Information Transparency of Financial Institution Operations

The Bank regularly compiles and publishes financial institution statistics, such as *Condition and Performance of Domestic Banks (Quarterly)*, *Business Overview of Financial Institutions (Yearly)* and *Major Business Statistics of Financial Institutions*. All related information is disclosed on the Bank's website to strengthen operational transparency of financial institutions and to reinforce self-discipline of the market.

Financial Stability Assessment

In addition to the financial soundness indicators and credit and market risks models, the Bank also developed a Graphical User Interface of Credit and Market Risks Models and 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 2018, the Bank continued to actively engage in international cooperation related to financial supervision, such as attending the 9th SEACEN Meeting of Deputy Governors in Charge of Financial Stability and Banking Supervision, the 20th SEACEN-FSI Conference of the Directors of Supervision of Asia-Pacific Economies, and the 31st Meeting of Directors of Supervision of SEACEN Members. The Bank also received high-level officials, who came to Taiwan to participate the Asia Financial Supervision Conference.