

14. Banking Supervision

To ensure the safety and soundness of financial institutions and maintain the stability of the overall financial system, based on the *Central Bank of China Act*, the Bank not only strengthens bank examination, but also cooperates with the Ministry of Finance to review the current system of financial regulation and supervision.

In addition to the routine division of duties among the various relevant government agencies engaged in the work of bank examination, particular emphasis in 1999 was given to the following:

(1) Reforming the Financial Supervisory System

The Executive Yuan (Cabinet) passed a resolution in November to establish a new financial supervisory authority in the future. This new authority will assume the overall responsibility for supervising all financial institutions, including banks, insurance companies, and securities firms. However, the Bank will retain certain powers to conduct target financial examination which is related to monetary aggregates, bank credit, and foreign exchange policy.

(2) Handling Bank Runs

A credit cooperative experienced a bank run after the media reported possible misconduct. The Bank therefore closely monitored the situation as well as examined its financial reports to prevent it from becoming a larger-scale financial incident.

(3) Enhancing the Reporting System for Early-Warning Signs

In July 1999, *Guidelines for the Reporting System of Bills Finance Companies* was revised to promote data processing efficiency as well as to enhance the supervision mechanism. In addition, investment and trust companies have been required to increase their reporting frequency of non-past-due loans from a quarterly basis to a monthly one.

(4) Supervising the Internal Auditing of Commercial Banks

In addition to routine bank examinations, the Bank also supervises and evaluates financial institutions' internal auditing and control systems in relation to financial security, based on the *Guidelines for Evaluating the Internal Auditing of Domestic Banks, Investment and Trust Companies*,

and Bills Finance Companies. The results of such evaluations serve as an important reference for the Bank to assess commercial banks' plans to extend their branch networks.

(5) Enhancing Target Examination and Promoting Risk Management

The Bank enhanced its target examination of financial institutions with high past-due loan ratios. Plans to reduce the ratio and to improve asset quality are required. Their progress has been reviewed and monitored on a periodical basis by the Bank. Financial institutions with a higher frequency of financial incidences or frauds are also required to draft and enforce plans for further improvement. The Bank also requires all financial institutions to improve their interest rate risk and liquidity risk management.