

14. Banking Supervision

To ensure the safety and soundness of financial institutions and to maintain the stability of the financial system, 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. Particular emphasis was given to the following.

The Development of Regulatory Consolidation

As financial institutions providing multiple products have become a trend in the international financial arena, many countries have consolidated their regulatory agencies in order to function more effectively. This reform was also advanced in Taiwan. The drafted Financial Supervision Commission Act, currently in the reviewing process at the Legislative Yuan, proposed a unified supervisory authority to assume overall responsibility for supervising all financial institutions.

Promoting Overall Financial Reforms

The Bank prepared reports related to the government's financial restructuring plan, wherein proposals were provided about the reconstruction of community financial institutions, the handling of problem commercial banks, the risk management of financial holding companies, and the promotion of the establishment of the Financial Supervision Commission. The Executive Yuan (the Cabinet) further established the Financial Reform Task Force, including Banking, Insurance, Capital Market, Community Finance and Financial Crime Investigation working groups. The Bank participated in the Task Force to study, propose and promote overall financial reforms.

Enhancing Off-site Monitoring

To enhance banks' asset quality control, the Bank required local banks to file non-performing loan records on a monthly basis. To enhance liquidity management of financial institutions, the Bank required them to report the term structure of assets and liabilities denominated in NT dollars on a quarterly basis. Moreover, in compliance with the financial statistics of the Bank for International Settlements, the Bank compiled country risk exposure statistics and adopted an on-line reporting system.

Besides the above information, the Bank collected data such as banks' loan loss reserve provision

, loans and factoring in Mainland China, country risk exposures, and financial derivative products, in order to detect early warning signals for banking problems.

Implementing On-site Examination

The Bank, the Ministry of Finance, and the Central Deposit Insurance Corporation shared the responsibility to conduct regular on-site examinations in Taiwan. In addition, target examinations were also conducted to accommodate the implementation of monetary policy, with information from off-site examinations, important financial incidences and contingencies, and letters of accusation serving as the reference material.

To conform to the international practice of consolidated supervision, the Bank enhanced its supervision of the overseas branches of domestic banks. In 2002, the Bank sent examiners to the U.S., Japan, and Hong Kong to conduct on-site examinations, and also visit the local financial supervisory authorities to share information and exchange experience.

Supervising the Internal Auditing of Banks

The Bank supervised and evaluated financial institutions' internal auditing and control systems, based on the guidelines for evaluating the internal auditing of local banks, investment trust companies, and bills finance companies. The results of such evaluations served as an important reference for the Bank and the Ministry of Finance to approve local financial institutions' plans to expand their businesses or branches.

Other Important Measures

- (1) In order to enhance the supervision of financial holding companies (FHC), the Bank collaborated with the Ministry of Finance and the Central Deposit Insurance Corporation to devise examination manuals and various reporting tables. Moreover, the FHC financial statement auditing indicators were devised to serve as reference material for off-site monitoring.
- (2) In compliance with the recently revised or enacted financial laws and also to strengthen the supervision of the risk and internal management of financial institutions, the Bank added or revised its related financial examination process, such as:
 - (a) The Bureau of Monetary Affairs of the MOF promulgated regulations about outsourcing arrangements by financial institutions, and the U.S. Office of the Comptroller of the Currency promulgated the Risk Management Guidelines of the Outsourcing Arrangements.

In compliance with these developments, the Bank thus revised its financial institution outsourcing checking items and questionnaires.

- (b) The Bank revised its checking items in the questionnaires of bank liquidity risk management, bank business internal control, bills finance company internal control and bank trust business.

