

4. Banking Supervision

To ensure the sound operations of financial institutions and maintain the stability of the financial system, the Bank conducted banking supervision in accordance with the mandate endowed by the *Central Bank of China Act*. The Bank also actively planned to establish a framework to evaluate financial stability, including the establishment of financial soundness indicators and other financial stability indicators to systematically monitor, analyze, and evaluate the possible sources of financial system risks in order to adopt appropriate policies with the objective of financial stability.

Implementing On-site Examinations

According to the mandate endowed by the *Central Bank of China Act*, the Bank only conducted target examinations related to monetary, credit, and foreign exchange policies, and payment systems when necessary.

Monitoring the Compliance with the Examination Opinions

Focusing the Bank's examination opinion and the Financial Supervisory Commission's examination opinion involving the Bank's business or regulations, the Bank monitored the improvement of the examined financial institutions, punished the misbehaving institutions according to the law when necessary, and urged the financial institutions to actually improve related deficiencies.

Enhancing Offsite Monitoring

Based on the periodical reports submitted by financial institutions, the Bank assessed the operations, financial conditions and regulatory compliance of individual financial institutions by utilizing the report auditing system. The Bank then compiled analysis on various business practices and other information to serve as a reference for relevant supervisory agencies.

Establishing the Framework to Evaluate Financial Stability

The Bank revised the *Organic Regulations of the Departments and Offices of the Central Bank of China* so the duties and organizational structure of the Department of Financial Inspection were adjusted to be responsible for the evaluation of financial stability. Meanwhile, the Bank referred to the IMF guidelines for compiling financial soundness indicators to draw up the Financial Soundness Indicators Reporting Items and Explanations. This was the first step toward establishing a relevant databank.

Other Important Measures

- (1) To comply with the regulations of the Financial Supervisory Commission and the Agriculture Commission, the Bank promulgated a new regulation regarding financial institutions' reporting to the Bank about important and unexpected events;
- (2) to support the Financial Supervisory Commission to establish a single reporting window for financial supervisory information of domestic banks, foreign banks, and bills finance companies;
- (3) completing the auditing system of bond fund statements, and planning to establish the auditing system for the statements of insurance companies, securities firms, and futures firms;
- (4) overseeing financial institutions' usage of banknote processing machines in order to take counterfeits out of circulation.

