Appendix 4

Look-Through Approach - a flow chart

Whether the bank is able to identify the underlying counterparties in the structure?

Yes | No
---|---

Whether the bank can demonstrate that all underlying exposures are less than 0.25% of eligible capital base?

Yes | No
---|---

Is total exposure to structure less than 0.25% of eligible capital base?

Yes | No
---|---

Exposure to be reckoned on structure itself as a distinct counterparty

Is exposure to an underlying less than 0.25% of eligible capital base?

Yes | No
---|---

Exposure to be reckoned on structure itself as a distinct counterparty

Exposure to be reckoned on "Unknown Client" (aggregate of all such unknown clients to be subject to single counterparty limits)

Yes | No
---|---

Exposure may be reckoned on structure itself as a distinct counterparty

Exposure to be reckoned on underlying and should be added with other direct/indirect exposures to that underlying
Look-Through Approach - An Illustrative example

Bank’s eligible capital base: 1000
Corpus of structure: 500
Bank’s investment in structure: 100 (which is 10% of eligible capital base i.e. more than 0.25% of eligible capital base)

Exposure values as per look-through approach:

<table>
<thead>
<tr>
<th>Underlying</th>
<th>Investment of structure in that underlying</th>
<th>Bank’s exposure to underlying through structure</th>
<th>Bank’s other direct / indirect exposure to underlying</th>
<th>Total exposure to underlying</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>amount</td>
<td>as % of corpus</td>
<td>amount</td>
<td>as % of eligible capital base</td>
</tr>
<tr>
<td>Underlying 1</td>
<td>125</td>
<td>25.00%</td>
<td>25</td>
<td>2.50%</td>
</tr>
<tr>
<td>Underlying 2</td>
<td>100</td>
<td>20.00%</td>
<td>20</td>
<td>2.00%</td>
</tr>
<tr>
<td>Underlying 3</td>
<td>90</td>
<td>18.00%</td>
<td>18</td>
<td>1.80%</td>
</tr>
<tr>
<td>Underlying 4</td>
<td>75</td>
<td>15.00%</td>
<td>15</td>
<td>1.50%</td>
</tr>
<tr>
<td>Underlying 5</td>
<td>50</td>
<td>10.00%</td>
<td>10</td>
<td>1.00%</td>
</tr>
<tr>
<td>Underlying 6</td>
<td>30</td>
<td>6.00%</td>
<td>6</td>
<td>0.60%</td>
</tr>
<tr>
<td>Underlying 7</td>
<td>20</td>
<td>4.00%</td>
<td>4</td>
<td>0.40%</td>
</tr>
<tr>
<td>Underlying 8</td>
<td>10</td>
<td>2.00%</td>
<td>2</td>
<td>0.20%</td>
</tr>
</tbody>
</table>

Note:

1. Exposure to underlying 8 (which is less than 0.25% of eligible capital base) may be counted as exposure on structure itself. Consequently, for underlying 8 total exposure to underlying will be 15.00% or 15.20% at the option of the bank.

2. Had the bank been not able to identify underlying exposures, entire exposure to the structure (i.e. 100, which is greater than 0.25% of eligible capital base) would be exposure on ‘unknown client’. All such unknown clients would be treated as a single counterparty and single counterparty limit would apply on aggregate exposure to all such unknown clients.