

Collective Investment Undertakings (CIUs), securitisation vehicles and other structures - adoption of “Look Through Approach” (LTA)

1. Under the Look Through Approach (LTA), a bank may choose to look through the structure to identify those underlying assets for which the underlying exposure value is equal to or above 0.25 percent of its eligible capital base. In this case, the counterparty corresponding to each of the underlying assets must be identified so that these underlying exposures can be added to any other direct or indirect exposure to the same counterparty. The bank's exposure amount to the underlying assets that are below 0.25 percent of the bank's eligible capital base may be assigned to the structure itself .

2. Any structure where all investors rank pari passu (e.g., CIU)- When the LTA is required according to the paragraphs above, the exposure value assigned to a counterparty is equal to the pro rata share that the bank holds in the structure multiplied by the value of the underlying asset in the structure. Thus, a bank holding a Re.1 investment in a structure, which invests in 20 assets each with a value of Rs.5, must assign an exposure of Re 0.05 to each of the counterparties. An exposure to counterparty must be added to any other direct or indirect exposures the bank has to that counterparty.

3 Any structure with different seniority levels among investors (eg securitisation vehicles) - When the LTA (in terms of paragraphs above) is required for an investment in a structure with different levels of seniority, the exposure value to a counterparty should be measured for each tranche within the structure, assuming a pro rata distribution of losses amongst investors in a single tranche. To compute the exposure value to the underlying asset, a bank must:

- i. first, consider the lower of the value of the tranche in which the bank invests and the nominal value of each underlying asset included in the underlying portfolio of assets
- ii. second, apply the pro rata share of the bank's investment in the tranche to the value determined in the first step above.