**Annexure-A**

**Explanation:**

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|---|---|
| Modified look through | Since the bank is not aware of the underlying investment of the mutual fund on a monthly basis, the bank may refer to the offering document of the mutual fund to determine the maximum exposure allowed against various asset classes.<br><br>For example, a mutual fund is restricted to hold net assets ranging between 30% to 70% in equity securities at all times and the remaining net assets may be invested in government securities, cash in bank account, TDRs and/or TFCs.<br><br>In this scenario, the bank would determine capital charge by assuming that the mutual fund first invests to the maximum extent (i.e. 70%) in the equity securities (i.e. most risky asset class category attracting highest capital charge under trading book rules). Afterwards, the bank would determine the second highest capital charge attracting asset class and apply its capital charge on the rest of the 30% of its investment. |
| Conservative Approach | Continuing with above example. Alternatively, the bank may calculate capital charge based on the equity securities (which is the most risky asset category) this mutual fund is authorized to hold as per its offering document. |

- In case the underlying asset class is commodities, real estate etc., (that have not been addressed in the Market Risk Section of SBP Basel II instructions) then banks should apply and report the capital charge by treating their positions as Equity Risk.