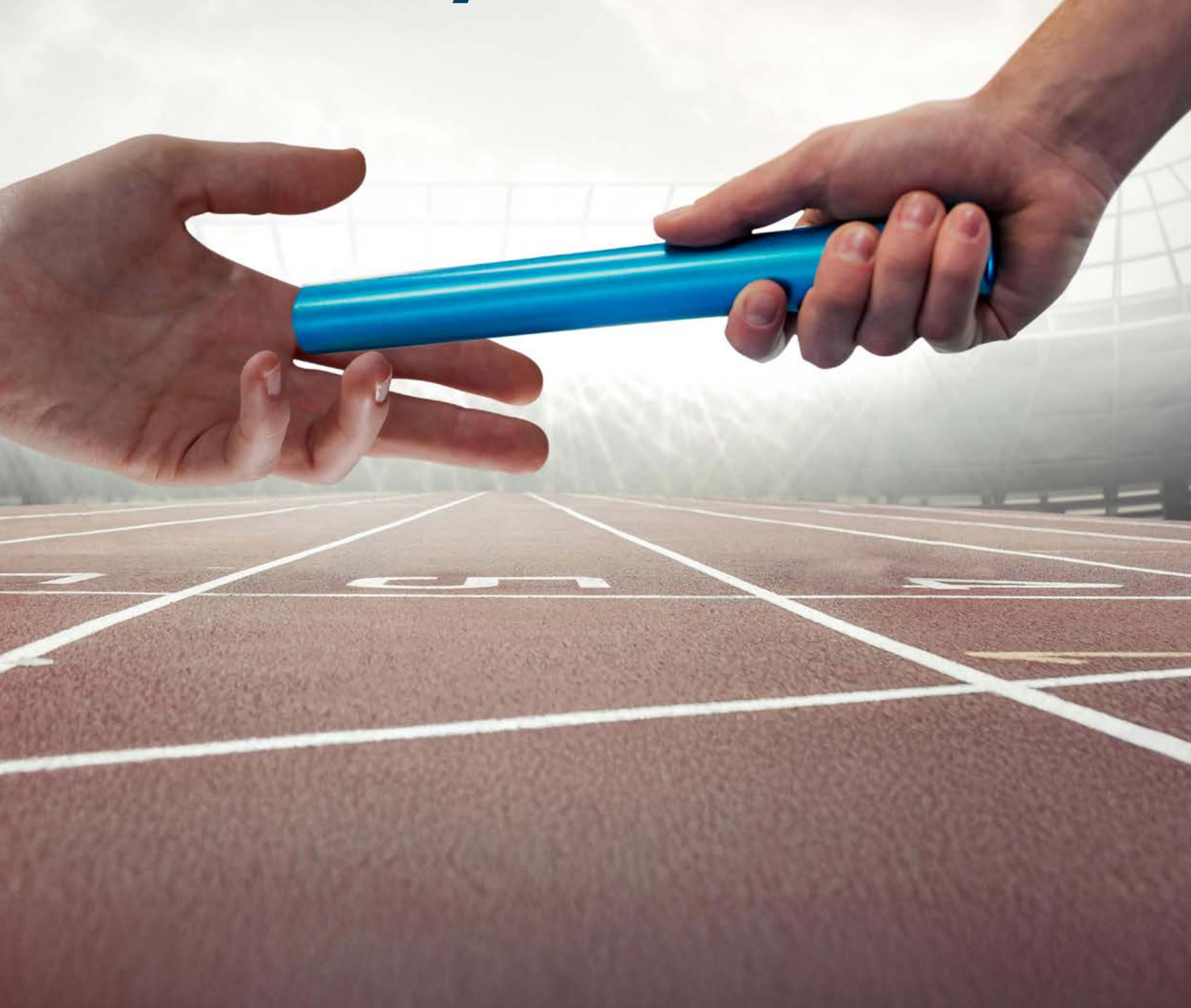
THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

Briefing

Transfer Pricing applied to Treasury



Voice from the industry

"The 2015 guidance has been hailed as a game changer expected to alter the transfer pricing outcomes in many situations and require multinational enterprises and treasurers to undertake additional analysis and documentation. But how will this guidance impact our companies and treasury more specifically is a question many treasurers haven't yet answered."

François Masquelier
Chair of the European Association of Corporate Treasurers – EACT

"International corporate tax and transfer pricing complexities are intensifying. Tax authorities worldwide are sharpening their focus on the transfer pricing outcomes of multinational corporations. Central intercompany treasury operations are clearly in the sights of tax authorities in various countries". This heightened scrutiny creates challenges for treasurers of multinational enterprises."

Sanae Maamouri
Board Member of the Luxembourg Treasury Association

"Our MNC's are increasingly challenged, and we have to justify and document our margins and intercompany operations, at the risk of them being requalified."

Fabrizio Dicembre
Infinity & Beyond / Vice-Chair of ATEL

Key Insights & Statistics

(Europe-focused)

1. TP Documentation Compliance

84% of EU-based multinationals document the treasury TP annually *(PwC TP survey, 2023)*.

>90% of companies include treasury in the master and local file setup.

2. Intercompany Loan Benchmarking

70–80% of large European MNCs use external databases (e.g., Bloomberg, Refinitiv, LoanConnector) to benchmark internal loan rates.

55% apply dual credit ratings (borrower and lender) for pricing.

3. Cash Pooling Controls

60–75% of MNCs operate physical or notional cash pools.

About 40% conduct regular benefit allocation studies to ensure arm's length compliance.

30–40% of audit challenges in treasury TP relate to cash pool leader remuneration.

4. Audit and Tax Authority Focus

Germany, France, Netherlands, and Italy are among the most active in scrutinizing treasury TP.

Tax audits often focus on:

- Inadequate credit rating support.
- Lack of comparable rates.
- Notional pool pricing is not aligned with third-party practice.
- Thin capitalization or benefit test failures.

The 3 Key Principles of Transfer Pricing

Consistency

- In accordance with new regulations
- Updated TP Documentation

Substance

- Qualified personnel
- Activity subject to tax located in the country (Group treasury Center)

Transparency

- Details about how Group Treasury handle centrally and recharge to affiliates
- Structure adopted
- How treasury management add value

Margin on financial operations dealt on behalf of affiliates

Margins apply on FX Hedging, Cash-Pooling, Funding, Guarantees issuance. Those profits are generated at HQ or Treasury Centre level and potentially low(er) taxed.

General Treasury fees

Yearly fees paid by affiliates to the Treasury Centre for treasury and corporate finance advisory and services. These fees calculation could be based on a "cost plus" margin (e.g. 6-7%).

Bank Connectivity and Treasury Management tools fees

Yearly fees paid by affiliates to Treasury Centre for implementation, maintenance and support of payment factory / in-house bank tools with user fees based on a "cost plus" margin (e.g. 6-7%).

Introduction

Corporate treasurers play a crucial role in ensuring that Transfer Pricing (TP) is managed effectively and in compliance with OECD principles to prevent tax authorities from requalifying intercompany transactions.

Definition of TP

Transfer pricing refers to the pricing of goods, services, and intangibles transferred within a multinational group, particularly between related entities (subsidiaries, branches, or affiliates). The goal is to ensure that intra-group transactions are conducted at arm's length, meaning that prices should be comparable to those that unrelated parties would agree upon in similar circumstances.

BEPS new 15 actions issued by OCDE

Under (new) BEPS (Base Erosion Profit Shifting) rules MNCs must review its Transfer Pricing (TP) methodology applied to financial intercompany transactions (i.e. margins/spreads and treasury fees). When companies have always been conservative, there is room for slightly increasing margins and generating extra net profits for the group. In terms of treasury fees, based on a "cost plus" method, they should significantly increase to off-set total budget charges of the department. Eventually, the head of treasury must review regularly documentation of all financial transactions and compile evidence of spreads applied to all affiliates, on a case-by-case basis. Such a review could lead to an all-in increase in Treasury Fees, which if non-taxed in the country of Group Treasury, could generate additional net revenue for the group. Eventually, a tax compliance issue could mean better financial efficiency opportunity.

Base Erosion and Profit Shifting is a new tax framework initiated by OECD. Its main purpose is to tax international companies in a fair-share context. BEPS has been defined by OECD in connection with G20 for the purpose of stop multinational companies' tax avoidance or/and double non-taxation. Since 2014, OECD has worked on a new framework and wanted it to be applied at the beginning of 2017 (although nothing new in TP). The targets of BEPS are multinational companies and especially transfer pricing within them. Treasury & Corporate Finance department (T&CF) through treasury fees and margin on financial services will be therefore examined carefully. "A Treasury & Corporate Finance department has to apply Treasury fees and margin on financial products & services as a third party, such as a bank, to remain compliant." Thus, a general and regular review of treasury fees and margin is requested to prevent any requalification or taxes.

"Best practices" to achieve this:

1. Establishing a Robust Transfer Pricing Policy

A clear and well-documented Transfer Pricing policy should be in place to align with the OECD Transfer Pricing Guidelines and local regulations. The policy should define:
a. Pricing methodologies (Comparable Uncontrolled Price, Cost Plus, TNMM, etc.).
b. Arm's length principle application.
c. Documentation requirements per jurisdiction.
d. Control mechanisms to ensure compliance.

2. Ensuring the Arm's Length Principle (ALP)

The OECD Guidelines require that intra-group transactions be priced as if they were between independent parties. Corporate treasurers must:
a. Conduct benchmarking studies to justify pricing structures.
b. Use external databases to validate intercompany pricing.
c. Regularly update the pricing models to reflect market conditions.
For financial transactions (loans, cash pooling, guarantees, etc.), ensure:
A. Appropriate interest rates based on market benchmarks (IBOR + risk premium).
B. Credit risk analysis using ratings from agencies or internal models.
C. Guarantee fees determined through market comparable.

3. Managing Intercompany Financing & Cash Pooling

Intercompany financing arrangements, including loans, cash pools, and guarantees, are closely scrutinized by tax authorities. To prevent requalification:
a. Clearly define the roles of participants in a cash pool (leader vs. passive participant).
b. Ensure the cash pool leader is properly remunerated (spread-based pricing).
c. Document that cash pooling rates reflect the market reality (external bank rates as benchmarks).
d. Conduct thin capitalization tests to ensure intercompany debt levels are sustainable.

4. TP Documentation & Compliance with BEPS Actions

Base Erosion and Profit Shifting (BEPS) Action 13 requires multinationals to maintain:
a. Master File (group-wide TP policies and intercompany arrangements).
b. Local Files (specific TP documentation per country).
c. Country-by-Country Reporting (CbCR) (financial data to assess profit allocation).
Ensure that:
A. Treasury transactions are properly documented.
B. Local TP reports align with OECD and national tax rules.
C. TP reports are regularly reviewed and updated.

5. Managing Tax Audits & Dispute Prevention

To minimize tax risks and prevent requalification by Inland Revenue:
a. Use Advance Pricing Agreements (APAs) where possible to agree on TP methodologies with tax authorities.
b. Maintain proper internal controls to ensure consistent application of TP police.
c. Conduct regular audits of intercompany transactions to identify and correct non-compliance before tax audits occur.
d. Keep evidence of economic substance for all treasury activities (e.g., decision-making processes, contracts, and supporting data).

6. Leverage Technology & Automation

Using a Treasury Management System (TMS) like Reval combined with automated bank connectivity solutions can:
a. Improve TP policy enforcement by automating interest rate calculations and intercompany settlements.
b. Enhance audit trails and documentation for compliance purposes.
c. Reduce manual errors in pricing and reporting.

Corporate treasurers must adopt a proactive approach to Transfer Pricing, ensuring compliance with OECD principles while optimizing financial efficiency. The key is to establish robust documentation, apply arm's length pricing, and leverage technology to maintain compliance and prevent tax disputes.

TP applied to Treasury Operations:

When applied to financial transactions, transfer pricing determines the pricing of intra-group financing arrangements, such as:

- **Intercompany Loans –** The interest rate charged on loans between related entities should reflect market conditions (credit rating, loan term, currency, etc.).
- **Cash Pooling –** Compensation for participants in a cash pool (centralized treasury structure) must be at arm's length, considering liquidity contributions and borrowing needs.
- **Intercompany Guarantees –** When a parent or related entity provides a financial guarantee, it should be compensated at a fair market rate.
- **Hedging and Derivatives Transactions –** Pricing of internal FX transactions should align with market rates (including commodity hedging, interest rates, …). Internal derivatives should be priced in accordance with market-based valuation methodologies.
- **Advisory** (including bank relationship management
- **Payment Factories –** POBO/COBO) & access to IT treasury solutions – Use and access to Central Treasury IT treasury tools for bank connectivity, Treasury Management System, and other additional solutions.

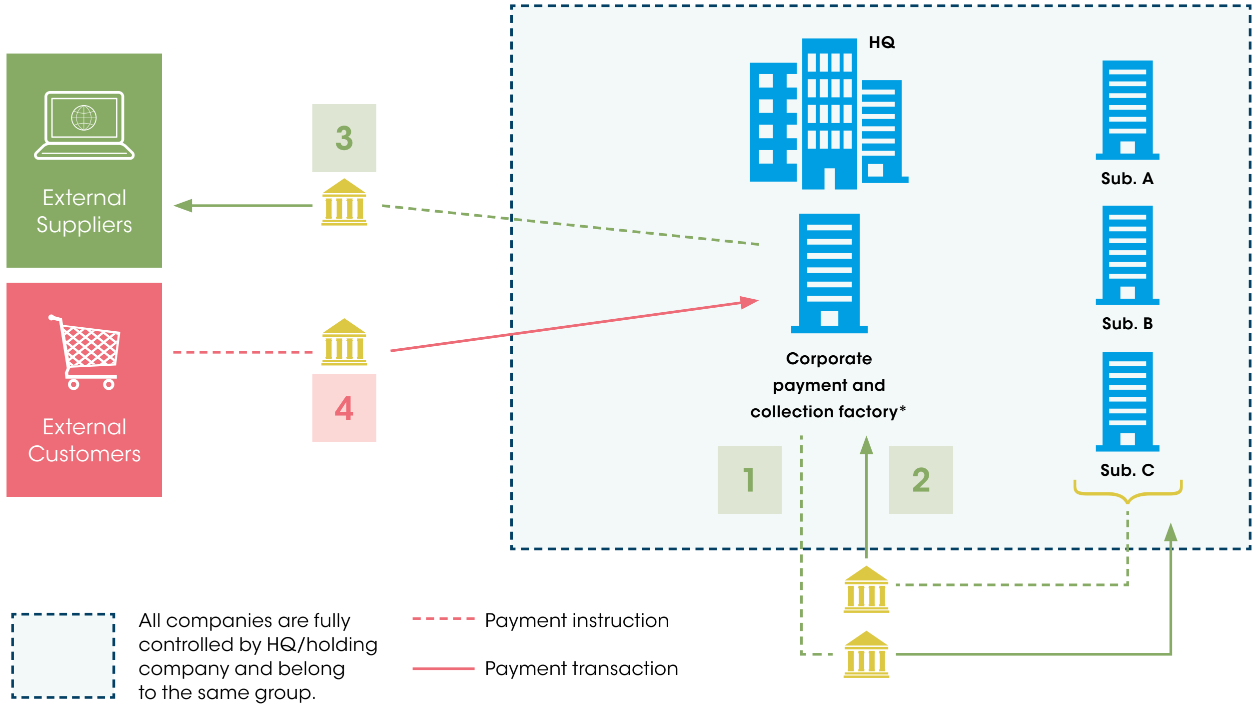
Classic treasury organization: Central Service Centre

		TYPES		
FEATURES	ROLE	Advisory	Agency	In House bank
	RISK RESPONSE	Cost Centre	Cost saving Center Service Center	Profit Centre
	AUTHORITY	Decentralized	Centralized	Balanced
	STRUCTURE	Elementary	Intermediate	Advanced

NB: grey boxes are the most classic structures applied by MNCs

Payment Factories (incl. POBO & COBO) which are not included in In-House Banks

Payment and Collection Factories for Eu Corporates



4 transaction types

1. **Intercompany payment on behalf of subs** *(e.g. multilateral netting)*
2. **Intercompany fund collections on behalf of subs** *(e.g. centralised IT services fees)*
3. **Payment to third parties on behalf of subs** *(e.g. central procurement for corporate credit cards)*
4. **Reception of funds from third parties on behalf of subs** *(e.g. central processing of royalties paid by consumers for better control of revenue)*

Payment Service Provider (PSP)

Covered by June 2023 PSR proposal

NOT covored by PSR proposal

**payment factory may be part of the headquarter itself, depending on the corporate organization; each external transaction is mirrored by internal accounting*

International standard agreed by OECD members to be used for TP for tax purposes

(article 9 of OECD model tax)

The arm's length principle of TP states that the amount charged to one related party to another for a given service/financing must be the same as if parties were not related. The price of an arm's length for a transaction is the price of the transaction on the open market.

Arm's Length Pricing – Principle

Arm's Length Related Party Price = **Independent Party Transaction's Price** + or - **Value of Differences on Conditions**

a reflection of an ideal and expected related party transaction's price

to accomodate the flexibility of related party transaction's conditions

How to assess margins and spreads to be applied to intercompany financial transactions?

For funding (i.e. short-term via cash-pooling or/and long-term via loans) the group treasury must determine spreads to be applied. For assessing the margins, the treasurer must consider several elements: the structure of the LT loan and the tenor are important elements. Each basis point is important, and the treasury must justify a term loan during its whole life. It must assess all the affiliates counterparty risk and apply a fair spread according to its (intrinsic / implied) rating. To determine the appropriate spreads to be applied to a term loan to an affiliate, treasury first needs to assess the Credit Risk and therefore the Probability of Default, which will drive the range of spreads to be used to be at arm's length and in line with market practices for similar stand-alone risk. Furthermore, it needs to document spreads applied and to give evidence for Tax Authorities in case of control a posteriori. The assessment should be done one by one. The elements to consider are the following ones: (1) financials of the affiliates, (2) sector and industry (because risk may differ) and (3) country, which may also impact spreads. Unfortunately, for assessing credit risks of each subsidiary, treasury may need appropriate tools, such as S&P IIQ Capital, Moody's Risk Calc or Bloomberg.

Credit Spread & Risk-Based Pricing Model

Components of the Model	• Risk-free rate • Credit risk premium • Loan characteristics
Risk-free Rate	• SOFR • EURIBOR • US Treasury yields
Credit Risk Premium	• Based on subsidiary's standalone credit rating
Loan Characterisctics	• Maturity

Transfer Pricing (TP) Methodologies **for Treasury Transactions**

Treasury transactions—such as intercompany loans, cash pooling, guarantees, and hedging—are subject to OECD Transfer Pricing (TP) guidelines. To prevent tax requalification risks, corporate treasurers must use appropriate TP methodologies based on the arm's length principle.

1. Intercompany Loans

When setting interest rates for intercompany loans, treasurers must ensure they reflect market conditions and credit risk. The OECD recommends:

A. Comparable Uncontrolled Price (CUP) Method (Preferred)
- Compares the interest rate between related entities to rates in comparable third-party loans.
- Requires external benchmarks (e.g., Bloomberg, Reuters, IBOR + margin, corporate bond yields).
- Adjustments may be needed for differences in maturity, currency, collateral, and borrower creditworthiness.

B. Cost of Funds + Margin Approach
- Calculates the lender's cost of funds (e.g., parents' borrowing cost) and adds an arm's length margin.
- Typically used when no exact market comparable exists (e.g. If a parent borrows at 2% from the market, it may charge its subsidiary 2.5% by adding a 50 bps credit margin).

C. Credit Rating-Based Approach
- Determines an arm's length interest rate based on the borrower's standalone credit rating.
- Ratings can be estimated using Moody's or S&P methodologies if no official rating exists (e.g. If the subsidiary has a BBB- equivalent rating, treasury compares rates for third-party BBB- corporate bonds of similar tenor).

Please note that according to OECD BEPS consideration, the interest deductibility limits (BEPS Action 4) must be considered when setting intercompany loan pricing.

2. Cash Pooling (Physical & Notional)

Cash pooling involves centralizing group liquidity, often through a cash pool leader (parent or treasury center). TP ensures participants earn or pay fair compensation based on their roles.

A. Pass-through Cost Approach (for Cash Pool Leader)
- The cash pool leader should not earn excessive profit unless it performs real treasury functions.
- It should only charge a small service fee if it acts as a mere administrator (e.g., A treasury center managing a notional pool without assuming credit risk may charge a 10–20 bps administration fee°.

B. Arm's Length Interest Spreads (for Participants)
- Deposit rates: Passive participants (net lenders) should receive an interest rate close to market deposit rates.
- Borrowing rates: Borrowers should pay rates reflecting their credit risk (e.g., CUP method using market loan rates) (e.g. if market deposit rates are 0.5%, participants lending funds should receive ~0.25%-0.3%).
- Borrowers in the pool should be charged based on their creditworthiness.
- The pool leader earns a margin of 20–50 bps for liquidity management.

Please note that according to OECD BEPS Consideration, the tax authorities scrutinize "deemed loans", where long-term net depositors are seen as financing affiliates without proper compensation.

3. Intercompany Guarantees

A parent company (or a stronger subsidiary) may issue financial guarantees for group borrowing. The TP challenge is to determine a fair guarantee fee.

A. Yield Approach (Preferred)
- Compare borrowing cost with and without a guarantee.
- The difference in interest rates represents the arm's length guarantee fee (e.g. A subsidiary borrows at 6% without a guarantee but 4.5% with a parent guarantee. The parent's guarantee reduces borrowing costs by 1.5%. A fair guarantee fee might be 50% of the benefit, or 0.75%).

B. Market Comparable Approach
- Uses third-party guarantee fees charged by banks as a benchmark.
- Fees typically range from 0.25% to 3%, depending on risk (e.g. If a bank charges 0.8% for a similar credit guarantee, an intercompany fee should be in the same range).

Please note that according to OECD BEPS Consideration, the parent must demonstrate actual risk assumption to justify charging a fee. If the guarantee is implicit (due to group ownership), some tax authorities may reject the charge.

4. Hedging & Financial Derivatives

Many multinationals centralize FX, interest rate, or commodity risk management at a treasury center. TP ensures correct pricing for risk management services.

A. Cost Plus Method
- Used when the treasury center provides hedging execution as a service (e.g., managing FX risk for subsidiaries) (e.g. charges a cost-based fee plus a margin - 5–10% of operating costs).

B. CUP Method (Market-Based Pricing)
- If the treasury center acts as a trading desk, it must price derivatives at market rates.
- Treasury cannot charge excessive spreads—pricing must align with external bank quotes (e.g. If an external FX forward spread is 0.2%, the treasury center should not charge 0.5%).

Please note that according to OECD BEPS principles, subsidiaries must bear real risk for hedging costs to be deductible. Tax authorities may challenge speculative treasury activities not aligned with business operations.

Therefore, to ensure compliance and prevent tax requalification, treasurers should:
✔ Use OECD-aligned pricing methods (CUP, yield approach, cost-plus, etc.).
✔ Document transactions thoroughly (benchmark studies, risk assessments, pricing models).
✔ Justify intercompany financing terms with external market comparable.
✔ Apply consistent methodologies across jurisdictions.

To get better guidance on how to apply TP principles, OCDE has published guidelines for Multinational companies

Whoever takes the risk is a key question to address

- **For FX hedging deals,** Group Treasury (HQ) takes the risk (i.e., non-delivery) in case of default of its affiliate. It means if counterparty defaults, HQ bears the risk of variance between current price and forward price negotiated.

- **For funding,** HQ takes the risk in case the affiliate defaults (including cash-pooling). In case of default of one of the cash-pooled affiliates, none would bear the risk of defaulting one, apart from HQ.

- **For guarantee issuances,** HQ bears the risk of default of the counterparty. It could be called as guarantor to supplement defaulting affiliates (i.e. for corporate guarantees) or be debited by the bank (i.e. for bank guarantee).

- **For IT services and access to IT solutions,** the risks of breakdowns, problems, non-access, etc… are borne by HQ (i.e. the supplier) and ruled by SLA.

- **For compliance services (e.g. EMIR),** HQ (i.e. the service provider) bears all risks related to absence or wrong reporting to Supervisors (e.g. for EMIR to TR and to ESMA), as ruled by SLA signed with affiliates.

- **For all other advisory services,** risks are relatively limited apart from risks related to financial reporting (i.e. IFRS). In case of error, delayed reporting, absence of report, etc… the consequences would be covered by HQ (i.e. service supplier).

Interview

Vanessa Ramos,
Chair of Luxembourg Transfer Pricing Association – LTPA

The treasurer's role in transfer pricing strategy

Why should treasurers be concerned about transfer pricing rules?

Treasurers should be concerned about transfer pricing rules because intra-group financial transactions are increasingly scrutinized by tax authorities worldwide. Proper transfer pricing compliance ensures that intercompany financing arrangements, cash pooling, guarantees, and other financial activities are priced at arm's length and appropriately documented. Non-compliance can lead to significant tax adjustments, double taxation, penalties, and reputational risks. Moreover, the latest policy developments, including the OECD's guidance on financial transactions, BEPS-related initiatives, and various unilateral measures introduced by countries, have heightened expectations around how financial transactions are structured and evidenced. Treasurers must not only follow international standards but also pay close attention to local requirements, which may differ significantly from jurisdiction to jurisdiction. Keeping up with these evolving regulations is critical to mitigate risk and ensure that intra-group financing strategies remain compliant and sustainable.

What (in your opinion) are the points of attention for a treasurer when it comes to transfer pricing on financial transactions?

There are several critical points of attention for treasurers regarding transfer pricing on financial transactions:

- Substance and governance: It's essential to ensure that financing decisions are supported by appropriate substance, including clearly documented decision-making processes and alignment with the group's overall treasury strategy.
- Policy framework: Treasurers should work with tax and finance teams to develop and maintain a clear intra-group financing policy. This policy should outline consistent principles for setting interest rates, determining risk profiles, managing guarantees, and applying terms and conditions across the group, all aligned with OECD and local transfer pricing standards.

- Accurate delineation of transactions: Properly characterizing each financial transaction, including the actual behavior of the parties, the contractual terms, and the economic reality, is key to defensible pricing.
- Benchmarking and pricing: Applying reliable, up-to-date market data to set arm's length interest rates or guarantee fees is critical. Methodologies must be consistent and well-supported.
- Use of technology: Leveraging treasury management systems (TMS), intercompany loan tracking tools, and centralized documentation platforms can greatly enhance compliance. Technology enables real-time monitoring of financial arrangements, better data accuracy, and timely reporting, all of which are crucial for meeting transfer pricing obligations.
- Monitoring regulatory developments: Treasurers must stay informed of updates to OECD guidance, BEPS-related initiatives, and local regulations, all of which continue to evolve, particularly around financial transactions.

What advice would you give to a treasurer or CFO wishing to ensure compliance with transfer pricing rules?

Our advice to treasurers and CFOs is to take a proactive, structured approach to transfer pricing compliance for financial transactions. This starts with:

- Establishing a clear group policy: Develop and maintain an internal transfer pricing policy specifically addressing intra-group financial transactions. This policy should define the pricing methodology, acceptable terms, governance procedures, and documentation requirements. A strong policy framework helps ensure consistency across jurisdictions and provides a solid basis for defending the group's approach in the event of an audit.
- Leveraging technology: Implement systems to track, manage, and document intercompany financial transactions in real time. Treasury management systems (TMS), intercompany loan platforms, and data management tools can enhance transparency, automate interest calculations, and support the accurate generation of reports and compliance documentation.
- Fostering collaboration: Encourage regular coordination between treasury, tax, legal, and finance teams to ensure that financial arrangements reflect commercial substance and align with the company's broader transfer pricing strategy.
- Maintaining strong documentation: Ensure that all intra-group financial transactions are well-supported by contemporaneous documentation, including benchmarking analyses and functional assessments.
- Staying informed: Continuously monitor international developments such as OECD guidelines, BEPS 2.0, and local regulatory changes. These evolving frameworks have a direct impact on how financial transactions are evaluated and taxed.

Importance of Identifying Risk Bearers in Transfer Pricing for Financial Transactions

Determining who bears the risks in financial intragroup transactions is critical for setting an appropriate transfer pricing (TP) structure. This is because risk allocation directly affects the pricing, tax treatment, and regulatory compliance of intercompany financial arrangements. Below are key reasons why identifying the risk bearer is essential:

1. Compliance with the Arm's Length Principle

OECD Guidelines and local tax laws require that related-party transactions be priced as if they were between independent entities. In third-party financial transactions, risk-bearing entities demand compensation for the risks they assume (e.g., credit risk, market risk, liquidity risk). If an entity in the group is not assuming real risks but still earns a significant return, tax authorities may challenge the TP model as profit shifting.

2. Defining Appropriate Interest Rates & Fees

Risker transactions should have higher returns:
An entity lending funds while assuming default risk should charge an interest rate reflecting the borrower's creditworthiness.
If the parent company guarantees the subsidiary's borrowing, a guarantee fee should reflect the credit enhancement value.
Risk-free vs. risk-bearing returns:
If an entity is merely a pass-through (e.g., cash pool leader with no real economic risk), it should earn a limited return.
An entity that actively manages liquidity, credit, or market risks should receive a higher return.

3. Avoiding Tax Challenges & Profit Reallocation Risks

Tax authorities scrutinize financial TP policies to prevent base erosion and profit shifting (BEPS). If an entity earns an excessive return without assuming real economic risks, authorities may reallocate profits to a higher-tax jurisdiction. OECD BEPS Actions 8-10 emphasize the need to substantiate risk-bearing capacity with supporting legal agreements and economic substance.

4. Aligning with Functional & Economic Substance Analysis

A risk-bearing entity must have the capacity to manage risks:
People & functions: Does the entity have the treasury team, expertise, and systems to assess, manage, and control financial risks?
Financial capacity: Can the entity absorb potential losses if the risk materializes?
If an entity lacks decision-making power and financial capacity but is allocated a high return, the TP policy may be challenged as artificial.

5. Structuring Intragroup Transactions Correctly

Intercompany loans:
A subsidiary with a weak credit rating should pay a higher interest rate unless a parent guarantee is provided. If a parent company guarantees the loan, it should earn a guarantee fee.
Cash pooling:
The cash pool leader should only earn a low spread if it is acting as a coordinator without assuming liquidity risk. If the leader actively manages FX, interest rate, and liquidity risks, it should earn a market-based return.
Hedging & derivatives:
If a treasury center centralizes FX hedging, it should charge fees based on the actual risk absorbed. If the subsidiary bears the risk, it should have the ability to manage exposures directly.

6. Supporting Transfer Pricing Documentation & Audits

Clear identification of risk bearers helps in TP documentation (Master File, Local File, CbCR). Legal agreements should define risk allocation (e.g., loan agreements, guarantee contracts, cash pool participation agreements). Without proper documentation, tax authorities may recharacterize the transaction, leading to tax adjustments and penalties.
Determining who bears the financial risks in intercompany transactions is fundamental to setting the correct transfer pricing. It ensures compliance with arm's length principles, helps define appropriate interest rates and fees, mitigates tax risks, and aligns with economic substance requirements.

Take-away

Implementing a robust transfer pricing (TP) structure for financial intragroup transactions (e.g., intercompany loans, cash pooling, guarantees, and hedging) requires a well-thought-out approach that balances compliance, tax efficiency, and operational feasibility. Below are a couple of key tips for a treasurer to ensure successful TP implementation:

1 Define a Clear Transfer Pricing Policy

Establish a documented TP framework that aligns with OECD guidelines and local regulations.
Clearly define methodologies for setting interest rates, fees, and other charges for financial transactions.
Ensure consistency in pricing across subsidiaries to prevent disputes with tax authorities.

2 Benchmark Transactions with Market Data

Use reliable benchmarking databases (e.g., Bloomberg, Refinitiv, LoanConnector) to determine arm's length rates for intercompany loans.
Consider credit ratings of subsidiaries and apply risk-adjusted pricing.
Regularly update benchmarks to reflect changing market conditions.

3 Align with the Company's Funding and Liquidity Strategy

The TP model should support overall liquidity management, including cash pooling structures.
Avoid artificial profit shifting pricing should reflect real economic substance.
Ensure intercompany financing terms match the group's risk appetite and borrowing policies.

4 Differentiate Pricing Based on Risk & Functional Analysis

Apply different pricing methodologies based on transaction type and risk profile:
Short-term intercompany loans > Reference to corporate bonds or commercial paper rates.
Long-term loans > Based on comparable third-party loan transactions.
Cash pooling > Differentiate between zero-balancing and notional pooling.
Financial guarantees > Charge based on actual credit enhancement value.
Hedging transactions > Use pricing methodologies based on external market rates.

5 Ensure Compliance with Documentation Requirements

Maintain proper legal agreements (e.g., loan agreements, guarantee letters).
Document TP rationale and calculations to comply with BEPS Action 13 (Master File, Local File, CbCR).
Conduct regular internal audits to check compliance with TP policies.

6 Automate TP Calculations & Reporting

Use TMS (e.g., REVAL) or specialized TP tools to standardize pricing and documentation.
Automate data collection and interest rate adjustments to reduce manual errors.
Implement a centralized repository for intercompany agreements and TP reports.

7 Manage Tax and Regulatory Risks Proactively

Engage with tax advisors to ensure the TP framework meets local tax laws.
Monitor regulatory changes (e.g., EU ATAD rules, US Section 482, OECD Guidance).
Consider APA (Advance Pricing Agreements) where TP risk is high.

8 Establish Internal Governance and Controls

Assign clear roles and responsibilities for TP implementation across Treasury, Tax, and Finance teams.
Conduct periodic reviews and audits to ensure policies remain relevant.
Train treasury staff on TP regulations and compliance best practices.

9 Address FX and Interest Rate Risks in TP Policies

Align intercompany pricing with group-wide risk management policies.
Implement hedging strategies for transactions exposed to currency or interest rate fluctuations.
Use TP mechanisms that allow for rate adjustments in volatile market conditions.

10 Regularly Review and Update the TP Framework

Conduct annual TP reviews to reflect changes in business strategy, tax laws, and market conditions.
Adjust interest rate margins and pricing models based on economic trends.
Benchmark new financial transactions to ensure ongoing compliance with arm's length principles.

Conclusion

A well-designed transfer pricing structure for financial transactions ensures regulatory compliance, tax efficiency, and operational effectiveness. By following these best practices, a corporate treasurer can mitigate tax risks, enhance transparency, and optimize intercompany funding strategies while supporting the company's broader financial objective. The (financial intragroup) price must be right and fair…

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OF
CORPORATE
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