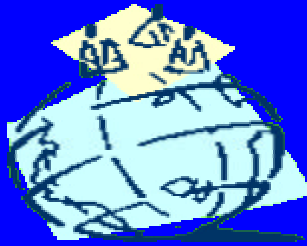


International Treasury Back to Basics - The Effect of Transfer Pricing



Susan H. Griffiths
Global Cash Management Ltd.

William J. Zink
Grant Thornton International

Objectives for Today

- **Review Treasury's interface with global business operations**
- **Describe operating and treasury transactions – issues for global treasury management**
- **Introduce and define transfer pricing concepts**
- **Explain transfer pricing procedures**



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International Treasury – Key Responsibilities

- Streamlining intercompany flows
 - Pricing
 - Currencies
 - Payment Mechanics
- Optimizing cash utilization across borders
- Providing funding/access to funding with minimal w/h tax impact
- Developing local and cross border investment strategies
- Selecting efficient bank and other vendor services regionally and globally



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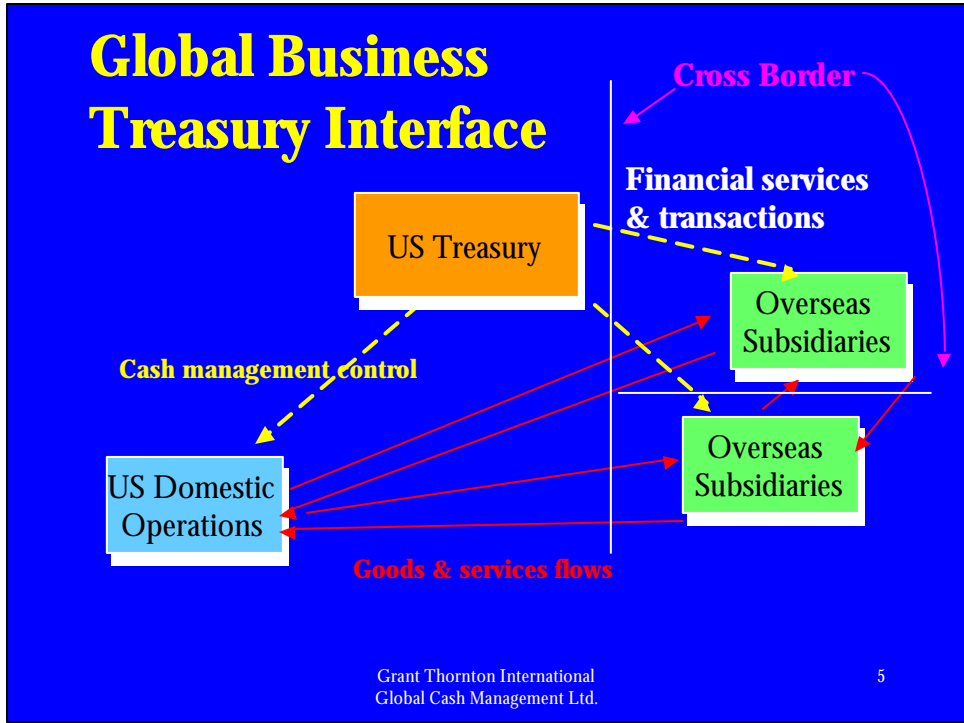
International Treasury and Transfer Pricing

- Treasury must understand the nature of all intercompany cash flows (*operating transactions*) and interface with Tax in terms of correctly pricing these related company flows
- Transfer pricing can significantly impact liquidity/risk management strategy.
- Internally provided financial/banking services (*treasury transactions*) are also subject to transfer pricing treatment.



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Operating Transactions – Major Treasury Concerns

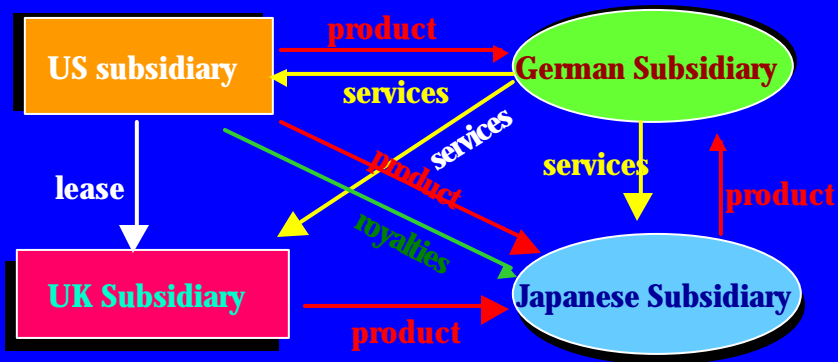
- Pricing Currency and FX Exposure
- Cash Flows and Settlement

The illustration shows a stack of blue coins on a yellow background, with a red circle containing a white dollar sign to the right. A red line with an upward-pointing arrow is on the left side of the stack.

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Operating Transactions

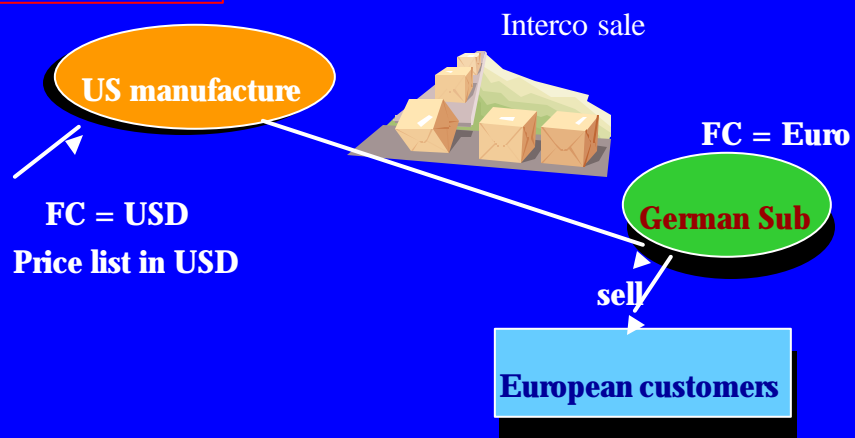


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Operating Transactions - Issues

Currencies?

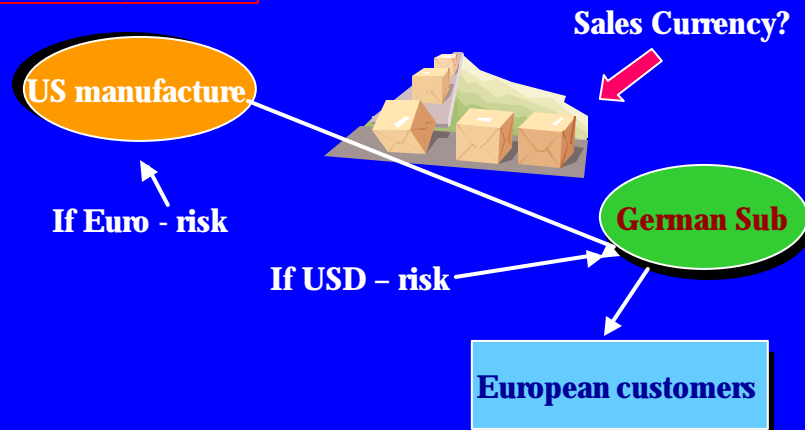


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Operating Transactions - Issues

Risk Management ?



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Pricing Currency – Impact on Purchasing Subsidiary

USD

- Creates a FX exposure for subsidiary
- Can move to local supplies sources
- Issues in pricing structure for third party sales
- Impact on profit margins
- Potential negative P/L hit

Local FC

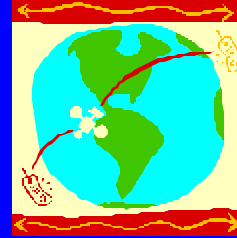
- Eliminates transaction exposure, but not underlying risk as price list is still in USD
- Centralizes risk management with US Treasury, but may create problems (price list, accounting) with US manufacturing entity

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Operating Transactions – Major Treasury Concerns

- Pricing Currency and FX exposure

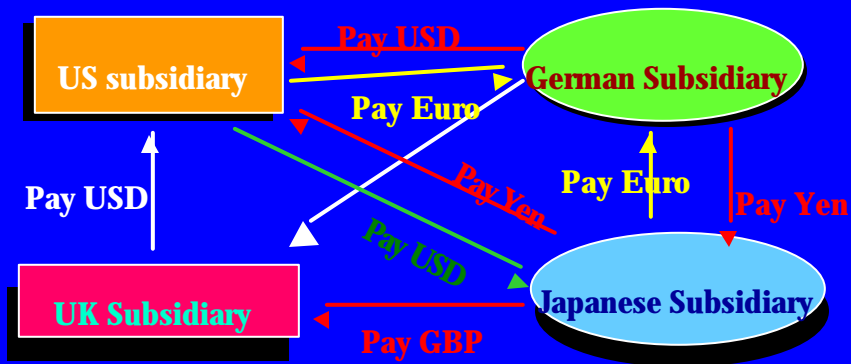


- Cash Flows and Settlement

Operating Transactions

Settlement?

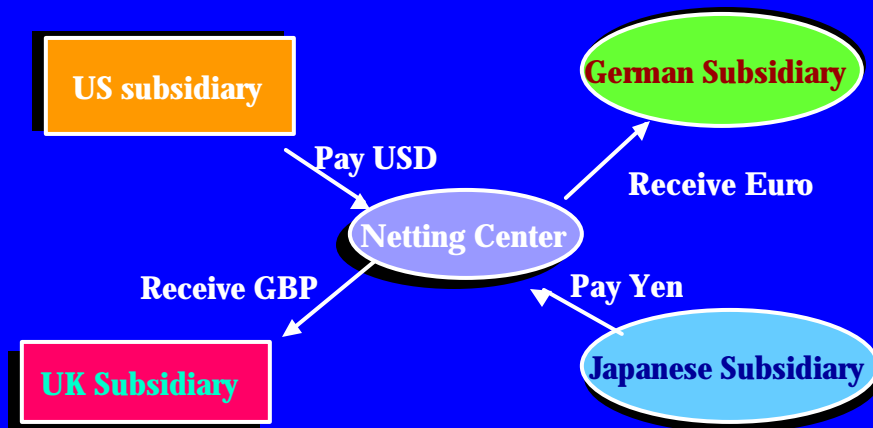
16 transactions
Multiple currencies



Operating Transactions

Solution - Netting

4 transactions



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Solution - Netting



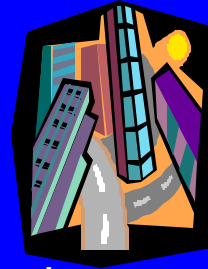
- Billing stays the same for A/R & A/P for each entity
- Netting “center” receives detail of all transactions (monthly)
- Calculates the “net” due to/from each entity in their own currency (based on USD or EUR)
- FX rates bid/fixed
- Entities notified of amounts to be received/paid
- 4 transactions monthly – fixed date

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Netting Benefits

- Streamlines intercompany flows
- Reduces transaction costs
- Simplifies procedures
- Develops internal discipline
- Centralizes (simplifies) FX risk management **but** does not eliminate underlying exposure for participating entities



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Basic Treasury Steps Operating Transactions



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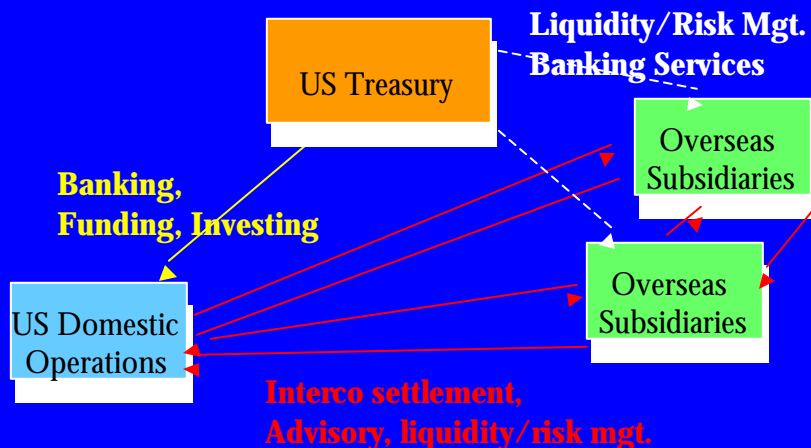
Operating Transactions - Issues

Issue	Who's Involved?
<ul style="list-style-type: none"> • Sourcing & Cost Base • List Price (Transfer Price) • Currency (Risk Mgt.) • Terms • Payment Mechanism/Locations • Timing (Liquidity Mgt.) • Settlement Mechanics 	<ul style="list-style-type: none"> • Business Ops • Business Ops & Tax • Business Ops & Treasury • Business Ops & Treasury • Business Ops, Treasury & Tax • Treasury & Tax • Treasury

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Treasury Transactions



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Treasury Transactions – Major Treasury Concerns

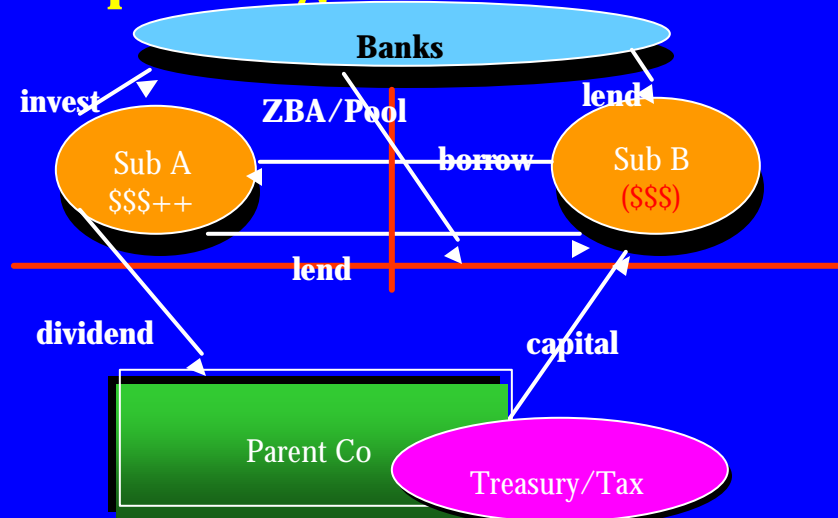
- **Effective cash utilization across borders and entity structures**
 - Tax effective solutions
 - Banking structure and services
 - Managing intercompany funds flows
- **Market access for funding and investing**
 - Withholding tax issues
 - Pricing and FX exposure impact



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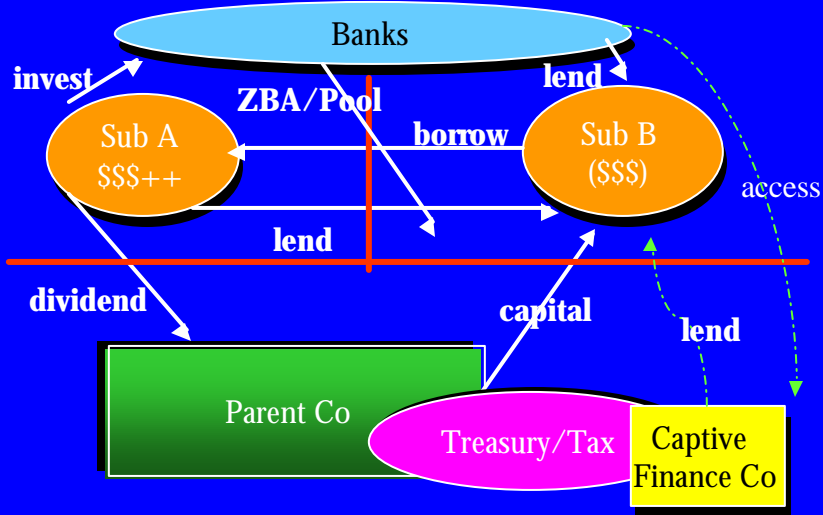
Treasury Transactions - Optimizing Cash Utilization



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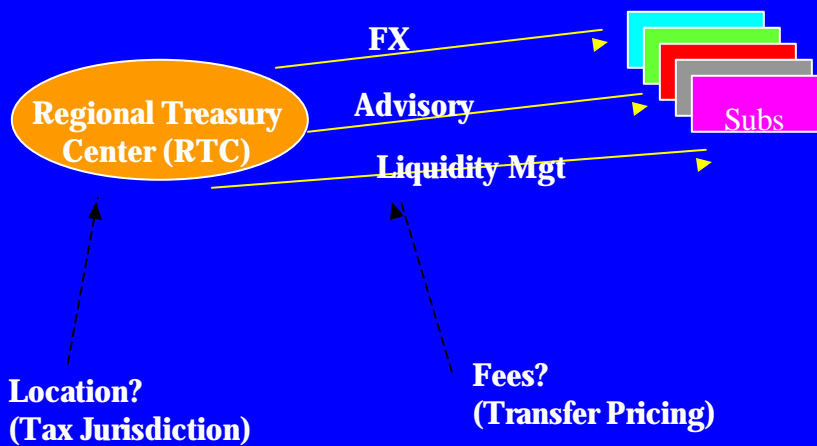
Treasury Transactions - Providing Funding Access



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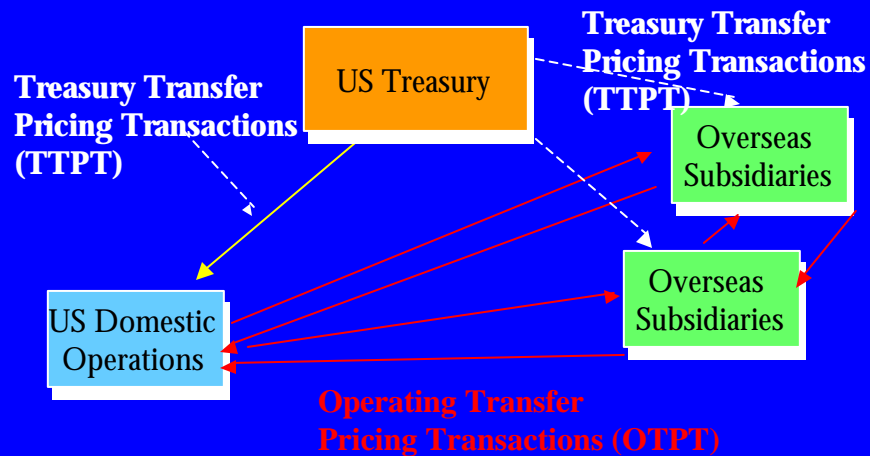
Treasury Transactions - Tax Implications



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Transactions Which Require Transfer Pricing Treatment



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Transfer Pricing

Definition:

Transfer pricing is a fair, but **arm's length** price assigned to the buying/selling of goods and services between related companies



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Transfer Pricing



- **Significance**
- **Where**
- **Identification**
- **Methodology**
- **Reporting**

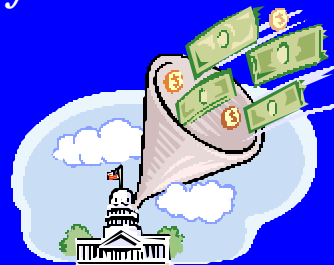


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Why is Transfer Pricing Important?

- **As a penalty protection during the tax audit**
- **For putting the tax audit on *your* terms**
- **As a planning document to improve performance**



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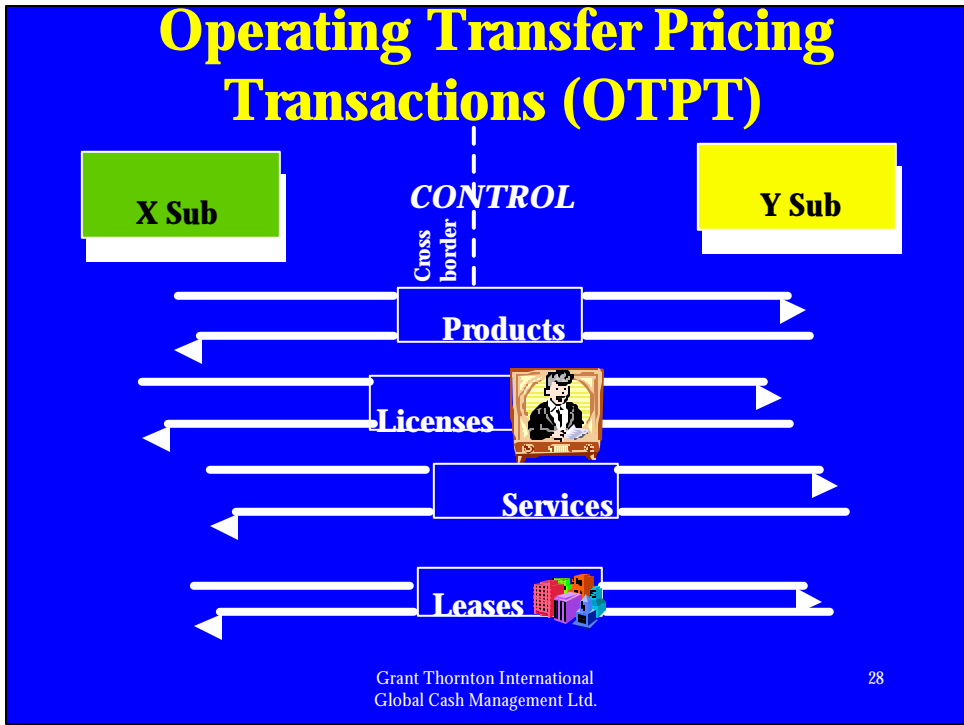
Where is Transfer Pricing Used?

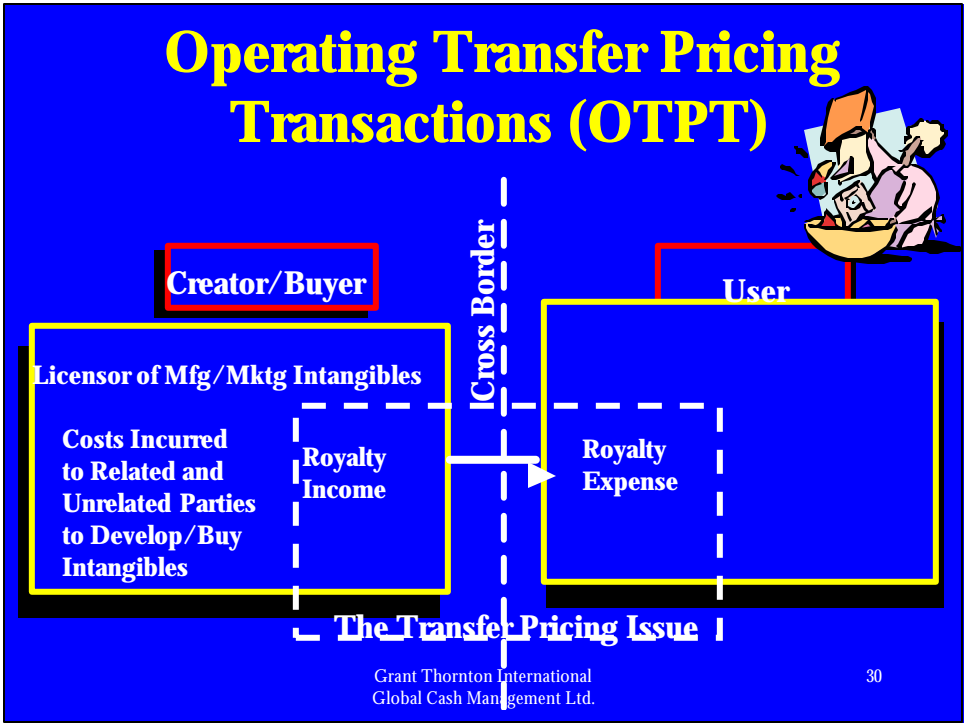
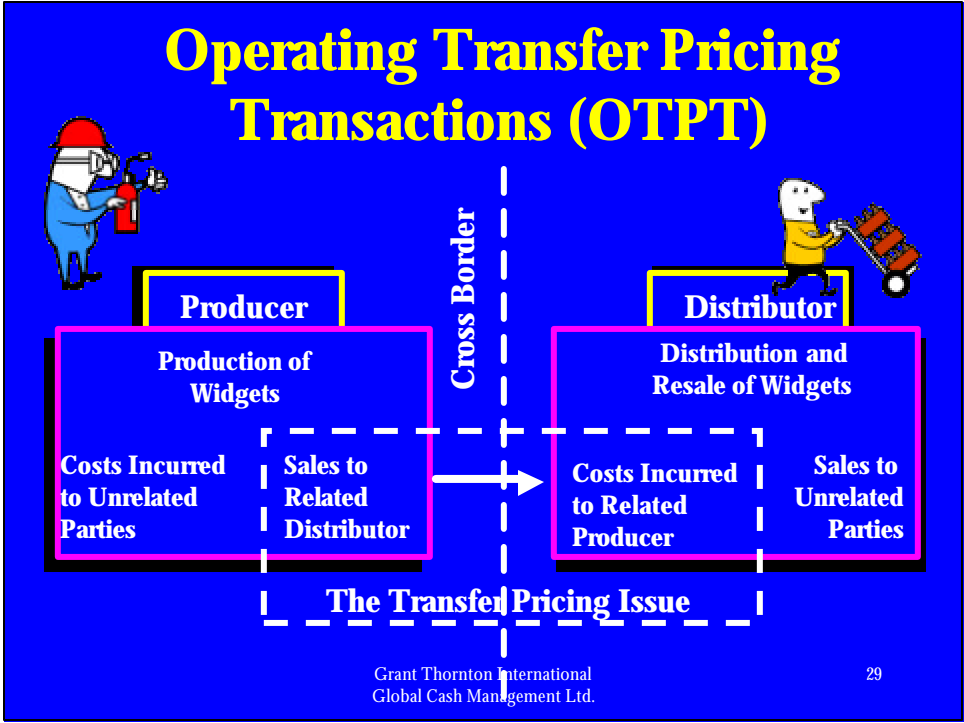


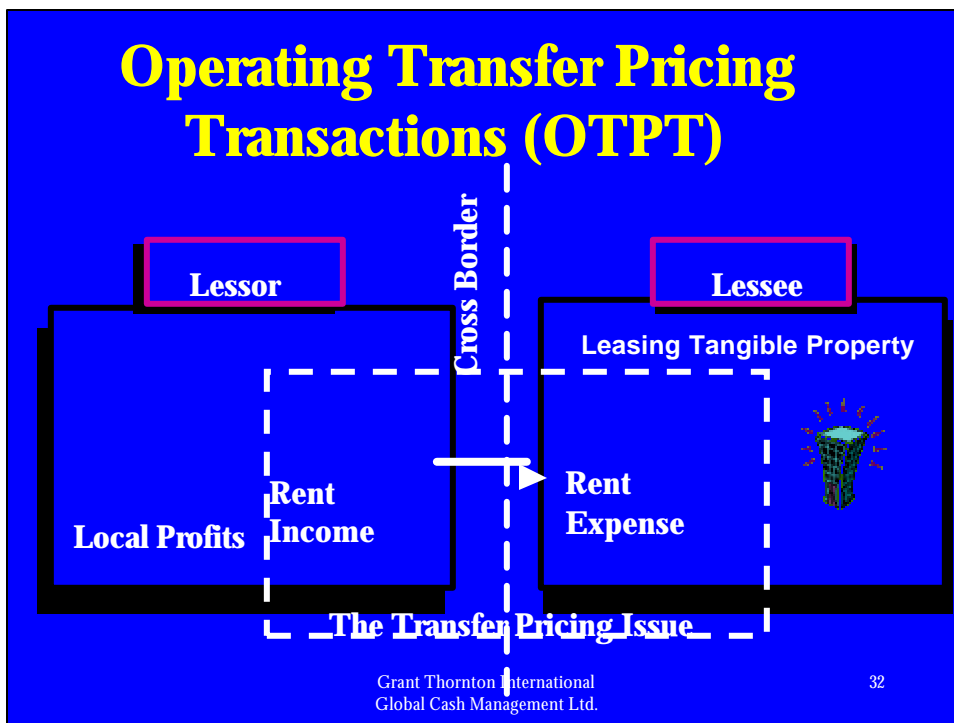
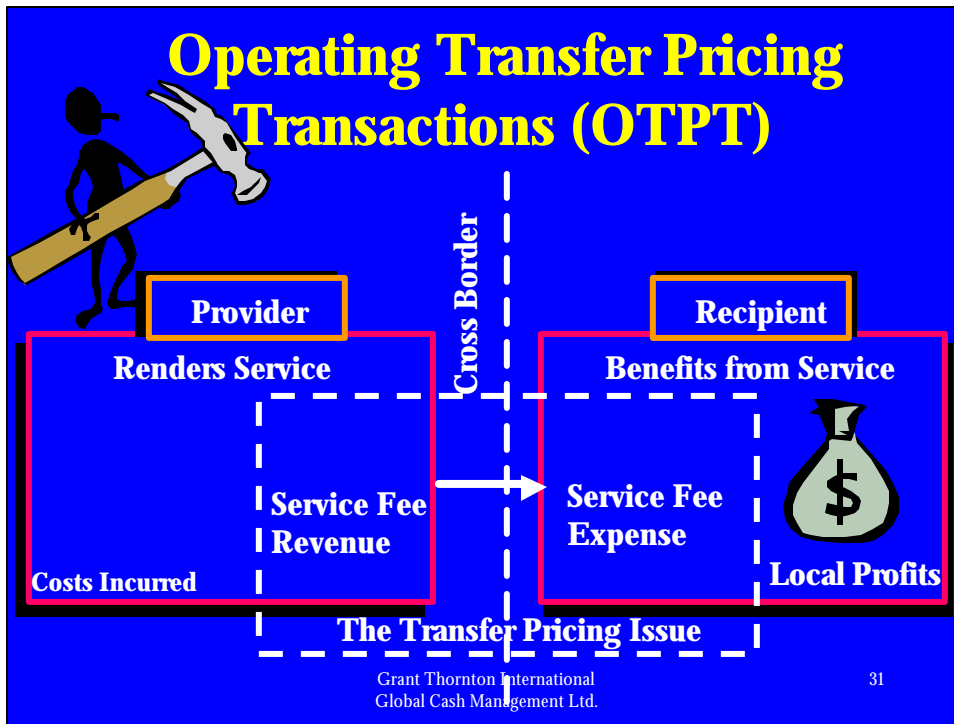
- Argentina
- Australia
- Austria
- Belgium
- Brazil
- Canada
- China
- Columbia
- Denmark
- Finland
- France
- Germany
- India
- Ireland
- Italy
- Japan
- Korea
- Luxembourg
- Mexico
- Netherlands
- New Zealand
- Norway
- Pakistan
- Portugal
- Romania
- Singapore
- South Africa
- Spain
- Sweden
- Switzerland
- United Kingdom
- United States
- Uruguay



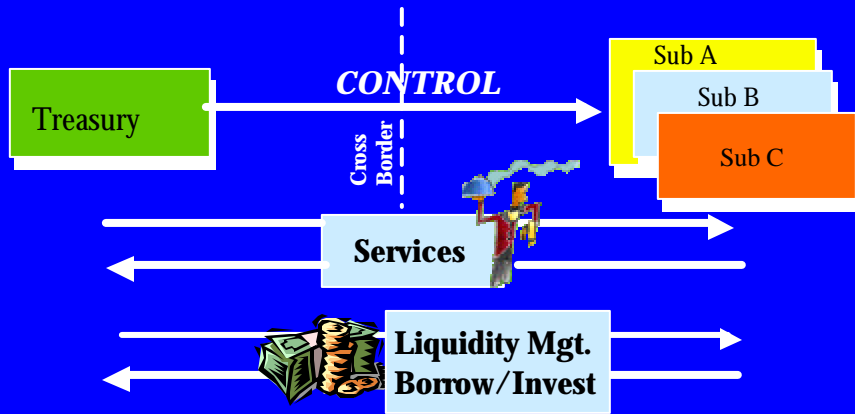
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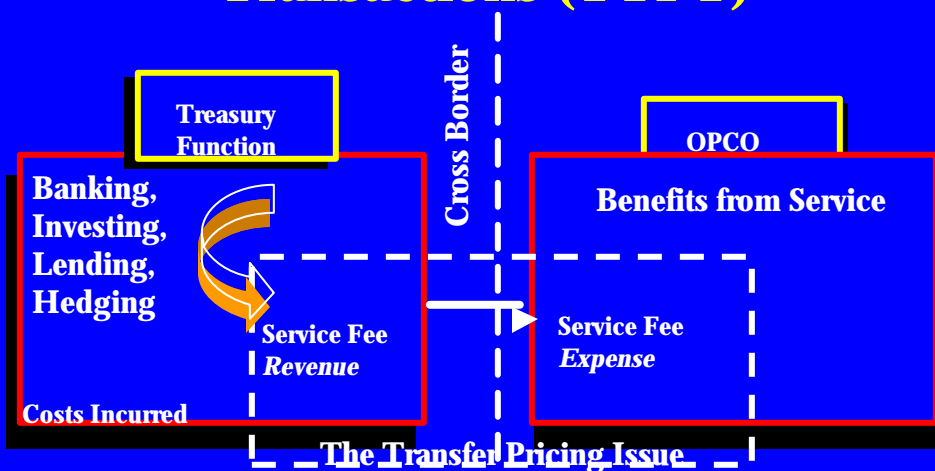
Treasury Transfer Pricing Transactions (TTPT)



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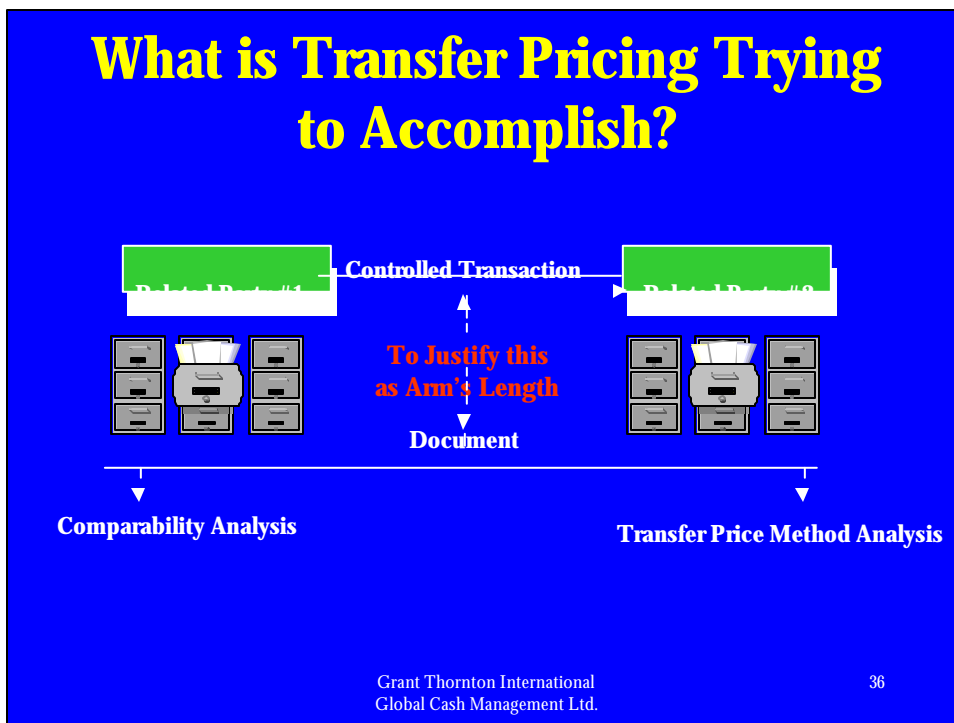
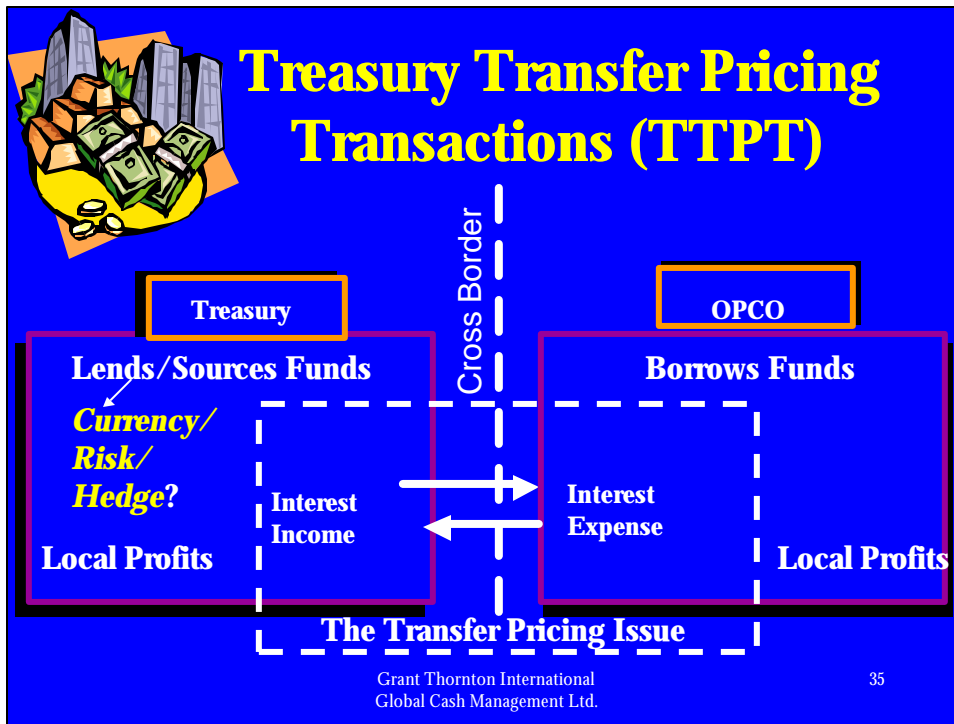
33

Treasury Transfer Pricing Transactions (TTPT)



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Comparability Analysis 1

Internal Comparables

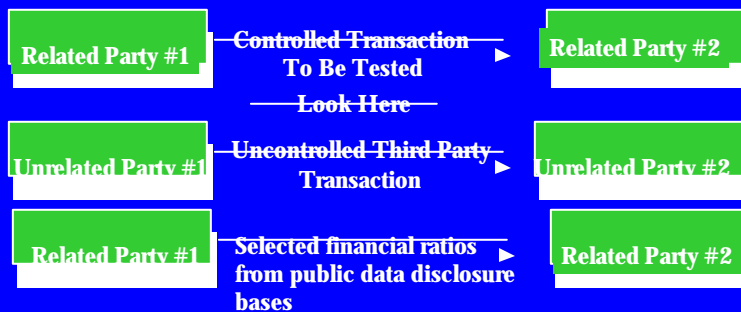


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Comparability Analysis 2

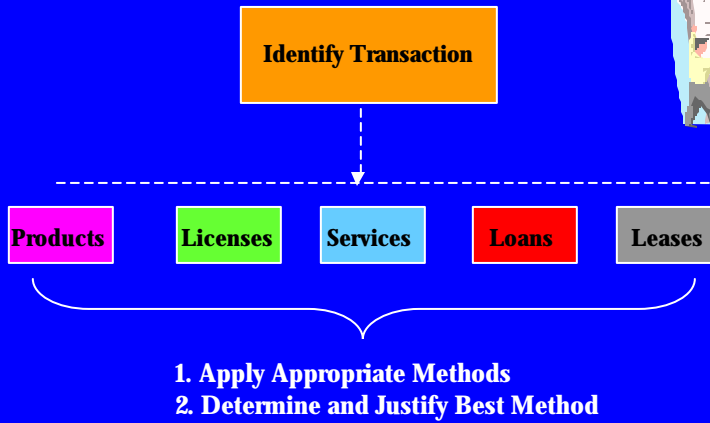
External Comparables



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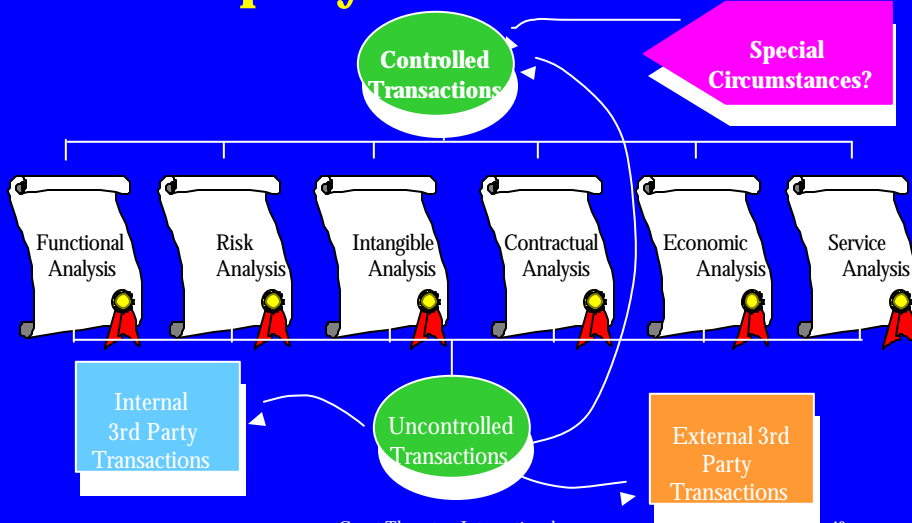
Transfer Price Method Analysis



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Functions/Risks/Intangible Property/Field Reviews



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The OTPT Methods

Tangible Property Intangible Property Services

Comparable Uncontrolled Price Method (CUP)	Comparable Uncontrolled Transactions Method (CUT)	Integral Services as Market Value
Resale Price Method (RPM)	Comparable Profits Method (CPM)	Non-integral Services at Cost
Cost Plus Method (C+)	Residual Profit Split Method (RPSM)	
Comparable Profits Method (CPM)	Comparable Profit Split Method (CPSM)	
Residual Profit Split Method (RPSM)	Other Unspecified Methods	
Comparable Profit Split Method (CPSM)		
Other Unspecified Methods		

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Treasury Transfer Pricing Transactions (TTPT) Methods

Loans

- Four month grace period for cross border related party debt
- Purchase/resale of inventory – grace period based on average collection period
- Consider principal, duration, security and credit standing
- Consider situs of borrower.
- Consider AFR.

Services

- Integral services as market value
- Non-integral services at cost

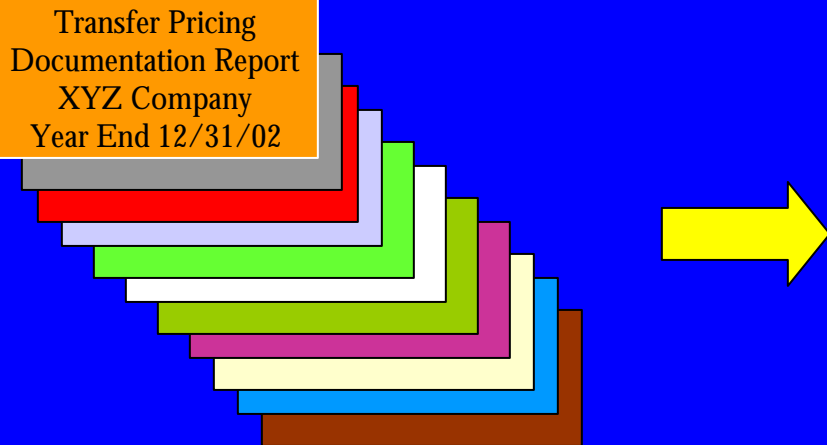


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The Transfer Pricing Documentation Report

Transfer Pricing
Documentation Report
XYZ Company
Year End 12/31/02



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Transfer Pricing Documentation Report Contains (1)

- **Business Overview**
- **Taxpayer's History & Organizational Structure**
- **Functional Analysis**
- **Risk Analysis**
- **Description of Method Selected**
- **Description of Alternative Methods Considered**

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Transfer Pricing Documentation Report Contains (2)

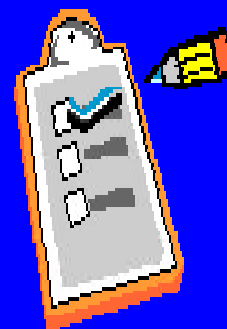
- **Description of Controlled Transactions**
- **Description of Comparables**
- **Explanation of Economic Analysis & Projections**
- **Description of Relevant Data Obtained After Year End**
- **General Index of Principal & Background Documents**

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Post Report Planning

- **Reorganization**
- **Special Purpose Vehicles**
- **Contract Manufacturing**
- **Intellectual Property Structures**
- **Commissionaire Structures**
- **Centralized Treasury Function**
- **Tax Consolidations**
- **Tax Treaty Planning**



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Post Report Planning Case Study

- Manufacturing requiring R&D
- Sales subsidiaries in multiple European countries
- Intercompany & 3rd party cross border flows (Euro & non-Euro)
- Profitable in Germany, France & UK
- Fluctuating profits in other countries
- No present Treasury focus in region



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Post Report Planning Treasury & Tax Issues

Treasury

- Treasury Structure & location
- Selling currencies
- Risk management
- Interco settlement (netting?)
- Banking requirements
- Financing arrangements
- Investment strategy
- Systems architecture

Tax

- European Tax incentives & special purpose vehicles
- Documentation for insurance & pricing range
- Tax rate arbitrage
- Limited distribution (commissionaire?)
- Intellectual property structure
- Market penetration study



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Summary



- **Treasury interface with tax – essential**
- **Intercompany operating (payables/receivables) transactions require transfer pricing treatment which Treasury needs to incorporate into liquidity/risk management planning**
- **Treasury transactions – including FX, advisory, banking, investing and financing are also subject to transfer pricing treatment, which needs to be evaluated in setting up a logical Treasury structure and the best approach to managing cash globally**

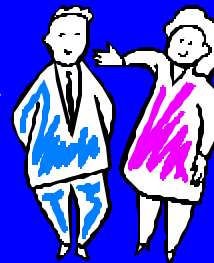
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Thank You

Questions?

Bill



Susan

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