

Credit rating model in transfer pricing analysis

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When doing a transfer pricing analysis of financial transactions, we need to assess the borrower's creditworthiness before setting an interest rate. To evaluate the risk associated with an intragroup financial transaction and determine an arm's length interest rate for taking credit risk, the lender should evaluate the likelihood of the borrower defaulting, i.e. creditworthiness, and the probability of recovering the loan. This article explores a credit rating model that multinational enterprises often create to determine the creditworthiness of particular units.

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