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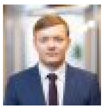
Transfer pricing aspects relating to the provision of the treasury function 3/19/25



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One of the main conditions for the successful functioning and development of the groups of companies (group) is sufficient funding. However, there is no common model for best financing the economic activities of the group.

In some cases, the lending and borrowing functions in the financing of the group companies may be performed by the same undertaking (treasury firm or holder), which attracts third party financing and allocates financial resources to the other members of a multinational group. In such circumstances, the cash company carries out a centralised treasury activity within the group. When assessing transfer pricing issues, it is essential to define the transaction boundaries accurately and to assess in detail the functions and activities implemented by the cash company.

This text message discusses the process and purpose of the treasury function and provides guidance on pricing the service provided by the treasury holder.

Financial management aspects of the group

To quote the following in the transfer pricing Guidelines developed by the Organisation for Economic Co-operation and Development: “the financial management of groups is an important and potentially complex activity in which the approach adopted by individual enterprises will depend on the company's own structure, operational strategy, industry, etc.”

In normal lending transactions, the issuer shall assess whether and to what extent to apply an additional interest rate to cover the costs and risks associated with the services provided and the commitments entered into in a given financial transaction.

In practice, it is difficult to justify that the application of the additional interest rate is in line with the market price principle and that, under equivalent conditions, such a rate would also be agreed by unrelated undertakings. Therefore, a group often has to carry out complex transfer pricing analyses, including assessing the borrower's creditworthiness to justify what interest rate and loan terms would be determined by an independent creditor.

There is also an alternative approach where an existing undertaking is created or selected within a group, the principal activity of which, or a substantial part of it, involves the raising of funds from third parties for the benefit of other undertakings within the group. In such a case, the function of the treasury undertaking and the administrative processes associated with it do not normally involve the assumption of significant financial risk, which enables the financing of the members of the group to be ensured by applying an administration fee for the performance of the treasury functions, rather than by collecting remuneration in the form of an additional interest rate. Such an approach can make it significantly easier to justify transfer prices.

In general, the treasury function is part of a process aimed at maximising the efficiency of financing the commercial activities of a multinational group.

Who is the treasury holder and what is its practice?

As mentioned above, by its very nature, any member or a dedicated company may serve as a treasury company or holder (treasury function provider) within the group. A group holding company is often chosen as the provider of this function, which is the most successful solution from a structural point of view.

In practice, the treasury company handles all tasks related to securing funding and ensuring liquidity for group members. This includes activities such as sourcing external financing on behalf of group entities or even issuing bonds.

The financing fee may be determined by the treasury entity based on its cost base, which encompasses expenses related to raising funds from third parties, administering the transactions, transferring the funds to related borrowers, monitoring loan repayments, and other administrative duties carried out by the treasury.

In such a case, the borrower's financing fee shall consist of two parts:

- The agreed interest rates applied to the treasury holder by the third party creditor (market price); and
- Administration fees (cash function fee) applied by the affiliate, further providing third party financing to the affiliated group borrower.

In such a case, the transfer pricing analysis shall be based on internal calculations, administrative activities and the determination of the cost basis. Accordingly, it is not necessary to carry out an additional complex analysis of market interest rates, as would be the case if the financing were subject to an additional interest rate.

What should be taken into account when organising the cash function?

As is always the case with TC, it is necessary to assess the nature of the transaction carried out and, in describing the transaction, it is not necessary to refer only to the general term “provision of the treasury function”.

In different company groups, this treasury function may include a different operating model and operations actually carried out by the treasury holder, from fundraising and further disbursement to members of the group, to the development and implementation of a financing strategy that already includes functions of a different materiality level and related risks.

It is therefore essential to prepare a detailed functional analysis of the transaction, which should describe all the functions performed by the treasury holder and the significant risks it assumes – operational risk, credit risk (when issuing loans), risk of underfinancing (when the treasury holder also carries out implementation of the financing strategy and financial planning), etc. based on the actions actually implemented.