

# Transfer Pricing for the Financial Services Industry



# Your Challenges

Transfer pricing raises complex issues for the financial services industry, particularly during and after a financial crisis. Tax authorities have recognised that financial services firms specialise in the assumption and transfer of risk, which creates unique challenges and opportunities for transfer pricing. Understanding this, the Organisation for Economic Co-operation and Development issued a Report on the Attribution of Profits to Permanent Establishments that specifically focuses on the transfer pricing of banking, global trading, and insurance operations to which the Swiss tax authorities refer. The U.S. Internal Revenue Service has also issued proposed global dealing regulations.

Transfer pricing issues vary from segment to segment. Global trading and funding activities conducted by banks and securities firms can be managed and executed by employees in different countries around the world and involve significant cross-border transactions. Value-generating activities – identifying customers, structuring trades, marketing, and providing capital to assume risks – also can occur in different jurisdictions.

In the asset management realm, regulatory compliance often requires separation of functions within the structure of an organisation, including advisory and subadvisory services, research, distribution, and custodial and trust services. Consequently, significant intercompany transactions may arise as asset management firms seek to provide integrated services to clients. Asset managers also assume fiduciary risk in serving clients, which must be considered in transfer pricing analyses.

Insurance companies, too, are subject to specific requirements that affect their operations. In particular, capital management and risk management functions, and the use of intercompany loans and guarantees, can impact the organisation's transfer pricing. Intercompany transactions require analyses and policies that are consistent with regulatory and economic constraints placed on insurance companies, including rating agency concerns and blocked income issues.

For their part, alternative investment advisors are also functioning in an increasingly global way as hedge funds and private equity firms expand their geographic footprint in search of profitable investment opportunities. Activities to support a fund – such as the provision of investment advisory and subadvisory services, performance of research, the structuring and execution of transactions, and the raising of capital – are increasingly being performed in different tax jurisdictions. This requires solid economic analyses to properly attribute the income and expenses associated with these functions among various tax jurisdictions.

**Deloitte can help.**

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## Do you understand the unique transfer pricing requirements facing banks asset managers, insurers, and alternative investment firms?

The financial services industry spans a broad array of companies and operations. The transfer pricing of companies in different segments of the industry will necessarily reflect the key facts and circumstances under which these companies operate. For example, banks, investment banks, asset managers, and insurance companies operate with significant regulatory oversight. As a result, there are regulatory filings that disclose information which may be useful in establishing arm's length prices for certain functions or services in the past. With new regulatory standards ahead (e.g. Basel III, Solvency II, VCITS IV), it is likely that fiscal authorities use detailed regulatory information. Alternative investment operations, such as hedge funds and private equity firms, are not as heavily regulated and may disclose less information about their transactions and profitability. This may make it more difficult to find publicly available – and verifiable – information to support the arm's length nature of certain related party transactions.

# Our Approach

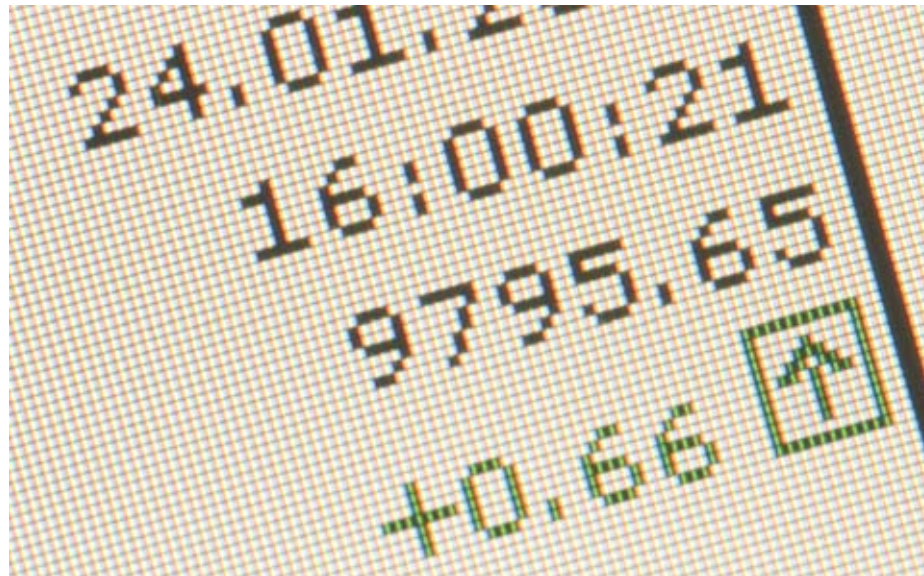
Deloitte's team of financial services transfer pricing professionals can incorporate industry-specific economic analysis to support your transfer pricing policies. We can assist you with your transfer pricing policies, support you with documenting the arm's length nature of past prices, and suggest how certain approaches to transfer pricing are likely to be viewed in different countries.

Our support for the global trading operations of banking and securities firms begins with rigorous functional and risk analyses. We can help you consider what functions are and should be performed in each location. The location in which key functions are performed can have a significant impact on the tax authorities' views regarding how income and expenses should be allocated. We can also help evaluate the assumption of risks, and examine risk transfer arrangements – for example, the provision of guarantees – so you can effectively align the functional, risk, and economic profile of each entity with the organisation's strategic goals.

Our extensive knowledge of the regulatory environment facing asset management enterprises equips us to assist in exploring and applying the well-defined distinctions among functions such as advisory, subadvisory and distribution. We can help you map the value of these services to specific functions performed and risks assumed, addressing such factors as economies of scale and the implications of a transaction-based versus profit-based approach to pricing various functions.

To assist insurers, we take a collaborative approach, teaming with Deloitte actuaries to help you craft transfer pricing policies that reflect the amount of economic risk transferred or retained by different entities in the organisation. To support asset, cash, and capital management functions, we apply our experience in serving institutional asset managers, with appropriate adjustments for functional differences, such as investment selection and asset gathering activities. Transactions involving loans and guarantees can require risk assumption, capital provision, and performance guarantees. We have developed approaches for pricing loans and guarantees that incorporate credit risk analyses to support the arm's length nature of interest rates and guarantee fees. Our approach incorporates objective estimates of operational risk capital into pricing performance guarantees.

The relative scarcity of publicly available information on the operations of alternative investment managers creates certain challenges in pricing related party transactions involving the provision of advisory, subadvisory, asset generation, and research activities. We have developed innovative techniques for pricing certain functions and devising assumptions of certain types of risk. In addition, we have a thorough understanding of the types of data that are publicly available and can be applied by analogy to price transactions in the alternative investment management industry. Our professionals build on their understanding of the critical functions performed and the risks assumed by unrelated-party service providers to help you address these issues. We can also assist in applying comparable financial data from areas such as asset management to value transactions.



# The Deloitte Difference

The Deloitte Transfer Pricing team brings a breadth of experience in helping organisations across all industries deal with the complexities of cross-border transactions. We are recognised as having one of the world's leading transfer pricing services organisations, integrating both the international tax and economic aspects of transfer pricing. The ability to team cross-functionally with specialists from the global Deloitte Touche Tohmatsu ("DTT") network as well as our Swiss based audit and financial advisory practice, valuation specialists, actuaries, and technology integration specialists, distinguishes our transfer pricing services locally in the Swiss market. In serving our clients, we draw upon:

- A global transfer pricing practice serving more than half of the Fortune 100 and Fortune Global 100.
- Access to transfer pricing specialists, including economists and tax professionals, in DTT member firms in more than 80 countries.
- Highly experienced local transfer pricing specialists, who understand both stated documentation requirements and the types of issues that authorities are likely to focus on in their examinations.
- Proven approaches and innovative ideas in developing transfer pricing strategies, methodologies, and documentation.
- A truly integrated global team of transfer pricing economists, tax specialists, accountants, lawyers, and former tax officials who work together on a daily basis.
- An award winning multilingual local transfer pricing team who serve the Swiss market directly and provide coordinated access to our global team.

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