

[XYZ] group

Master file FYE 20**[XX]**

[date, year]

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Table of contents

Table of contents	3
1. Introduction	5
1.1 <i>Background</i>	5
1.2 <i>Purpose</i>	6
1.3 <i>Scope</i>	6
1.4 <i>Structure</i>	7
2. Regulatory framework	9
2.1 <i>The at arm's length principle</i>	9
2.2 <i>Documentation</i>	10
2.2.1 <i>Introduction</i>	10
2.2.2 <i>A three-tiered approach to transfer pricing documentation</i>	10
2.2.3 <i>Compliance issues</i>	11
3. Industry Analysis	12
3.1 <i>Introduction</i>	12
3.2 <i>Industry overview</i>	12
3.3 <i>Typical value chain in the industry</i>	12
3.4 <i>Competitive landscape</i>	12
3.5 <i>Key drivers of the industry</i>	13
4. Organizational structure	14
4.1 <i>[XYZ] group's legal structure</i>	14
4.2 <i>High level description of relevant [XYZ] group companies</i>	14
4.2.1 <i>[legal name group company 1]</i>	14
4.2.2 <i>[legal name group company 2]</i>	15
4.2.3 <i>[legal name group company 3]</i>	15
4.2.4 <i>[etcetera]</i>	15
5. Description of [XYZ] group's business	16
5.1 <i>Introduction</i>	16
5.2 <i>Main drivers of the business</i>	16
5.2.1 <i>High quality product</i>	16
5.2.2 <i>Experience of management</i>	16
5.2.3 <i>Efficiency of distribution network</i>	16
5.2.4 <i>Focus on [geographical region]</i>	16
5.3 <i>Supply chain</i>	17
5.3.1 <i>Research and development</i>	17
5.3.2 <i>Procurement of raw materials</i>	17
5.3.3 <i>Manufacturing of products</i>	17
5.3.4 <i>Marketing and sales</i>	18
5.3.5 <i>After sales services</i>	18
5.4 <i>Important intercompany transactions and description of capabilities</i>	18
5.4.1 <i>Head office services</i>	19
5.4.2 <i>Manufacturing services</i>	20
5.4.3 <i>Sales services</i>	21
5.4.4 <i>Provision of intercompany loans</i>	23

1. Introduction

1.1 Background

[XYZ] group has engaged [name advisor] (also referred to as “we”, “us” or “our”) to analyze the arm’s length nature of the intercompany transactions within the [XYZ] group and to assist the company with preparing transfer pricing documentation.

[Please add information on the XYZ group introducing the company, its global footprint and the intercompany transactions it is engaged in the paragraphs below. This information should provide the reader of this Master file with a first impression of the XYZ group, consisting of, for example, a high level description of the activities, the main products it produces or services it renders, the most important markets it operates in, the turnover figure and the countries where it established group companies (or permanent establishment). Please find sample language below]

[Suggested information sources: XYZ company’s website for the activities, products, main markets and international footprint. The relevant intercompany transactions should be obtained from the tax or finance staff of XYZ group, and be validated in the functional analysis process]

[XYZ] group is engaged in [insert description of activities and main products and/or services]. Over the years, [XYZ] group’s rich experience and entrepreneurial spirit have transformed the group from a local [country] supplier into a world leader in the [industry].

[XYZ] group started its operations in [year] and currently has more than [number] employees. The [XYZ] group generated a turnover of [number, currency] in 20[XX], serving customers in [number] countries. It operates through a network of group companies in [insert countries where the group operates through its own group companies and/or permanent establishments] and with an extensive network of distributors.

Due to its international operations and involvement in various stages of the value chain, the [XYZ] group is involved in a number of intercompany transactions. International transfer pricing rules require the [XYZ] group to provide substantiation for the arm’s-length nature of the applied prices for its intercompany transactions, and to prepare relevant documentation. The purpose of the documentation is to assist the [XYZ] group in demonstrating that it has considered its intercompany transactions with due diligence and that it has reasonable grounds for concluding that these transactions are priced in accordance with the arm's-length principle.

The arm’s length principle is set out in the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations¹ (referred to in this report as ‘the OECD Guidelines’). The transfer pricing documentation is aligned with the documentation approach as recommended by the OECD in its Action 13: 2015 Final Report² (hereinafter also referred to

¹ Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, OECD, July 2010, as recently updated with various chapters.

² OECD (2015), Transfer Pricing Documentation and Country-by-Country Reporting, Action 13 - 2015 Final Report, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris.

- provision of loans;

[Please insert any other transactions]

In order to provide an indication of the relative size of the intercompany transactions, please find below the amounts of the various intercompany transactions in the financial year 20[XX] (all amounts in [currency]):

Intercompany transactions	Amount	% of group turnover
Rendering head office services	[XX]%	[XX]%
Supply of products	[XX]%	[XX]%
Provision of loans	[XX]%	[XX]%
[Please insert any other transaction]	[XX]%	[XX]%

Considering the relative size of the [Please insert relevant intercompany transaction(s)], management decided not to further elaborate on these transactions in this Master file.

This Master file is intended to assist the [XYZ] group with meeting transfer pricing documentation requirements for the intercompany transactions identified above. As far as we are aware, no other intercompany transactions than the ones described in this Master file were undertaken between or among the [XYZ] group companies.

This Master file describes the relevant facts and circumstances as per the beginning of the financial year 20[XX]. The information was obtained from interviews with [XYZ] group's management and other fact gathering work conducted in the period [month, year] up and until [month, year]. The information that [XYZ] group's management provided to us was assumed to be factually correct; we did not independently verify the data. Furthermore, we relied on commercial databases (e.g. [names of databases used]) for all items such as business and trademark descriptions, financial data, and classifications of comparable companies.

The scope of this report is limited to the transfer pricing aspects of the controlled transactions and does not consider other potential (direct and indirect) tax implications of the transactions addressed herein.

This report has been prepared solely for the purposes described above and we do not accept any responsibility for its use outside this purpose. Except in accordance with its stated purpose, no extract, quote or copy of our report, in whole or in part, may be reproduced without prior written consent and approval of [name advisor], except as required by law.

1.4 Structure

This Master file is set out in the following manner:

- Chapter 2 explains the regulatory framework relevant for transfer pricing.
- Chapter 3 describes the relevant features and characteristics of the industry in which the [XYZ] group operates.

2.2.3 Compliance issues

2.2.3.1 Contemporaneous documentation

Each taxpayer should endeavor to determine transfer prices for tax purposes in accordance with the arm's length principle, based upon information reasonably available at the time of the transaction. Thus, a taxpayer ordinarily should give consideration to whether its transfer pricing is appropriate for tax purposes before the pricing is established and should confirm the arm's length nature of its financial results at the time of filing its tax return.

2.2.3.2 Materiality

Not all transactions that occur between associated enterprises are sufficiently material to require full documentation in the local file. Tax administrations should take into account the size and the nature of the local economy, the importance of the MNE group in that economy, and the size and nature of local operating entities, in addition to the overall size and nature of the MNE group.

2.2.3.3 Frequency of documentation updates

It is recommended that transfer pricing documentation be periodically reviewed in order to determine whether functional and economic analyses are still accurate and relevant and to confirm the validity of the applied transfer pricing methodology. In general, the Master file, the Local file and the CbC report should be reviewed and updated annually. It is recognized, however, that in many situations business descriptions, functional analyses, and descriptions of comparables may not change significantly from year to year.

In order to simplify compliance burdens on taxpayers, tax administrations may determine, as long as the operating conditions remain unchanged, that the searches in databases for comparables supporting part of the local file be updated every three years rather than annually. Financial data for the comparables should nonetheless be updated every year in order to apply the arm's length principle reliably.

2.2.3.4 Language

The necessity of providing documentation in local language may constitute a complicating factor with respect to transfer pricing compliance to the extent that substantial time and cost may be involved in translating documents. The language in which transfer pricing documentation should be submitted should be established under local laws.

However, tax authorities are encouraged to permit filing of transfer pricing documentation in commonly used languages where it will not compromise the usefulness of the documents. Where tax authorities believe that translation of documents is necessary, they should make specific requests for translation and provide sufficient time to make such translation as comfortable a burden as possible.

3.5 Key drivers of the industry

[Please insert description]

DRAFT

4.2.2 [legal name group company 2]

[ManufacturingCo] is a manufacturer of [insert name] products and produces on the basis of instructions provided by Principal in terms of, for example, product specifications and production volumes. For its manufacturing activities [ManufacturingCo] uses intellectual property made available by Principal. The sole customer of [ManufacturingCo] is Principal.

4.2.3 [legal name group company 3]

[SalesCo] sells and distributes [insert name] products in [country] in its own name and for its own account. A significant amount of [insert name] products is procured from Principal. All other products are procured from third party suppliers. To the extent [SalesCo] purchases products from third party suppliers, the products are complementary to the [XYZ] group's product portfolio offered in [country].

4.2.4 [etcetera]

DRAFT

5.3 Supply chain

Please find below a high level description of the supply chain relevant for the [XYZ] group.

[Please insert a high level description of XYZ group's supply chain]

[The supply chain description focuses on the primary functions that the XYZ group conducts. Dependent on the industry, the relevant primary functions differ. For a manufacturer of products, the supply chain may comprise of, for example, research and development centers that innovate products and processes, vendors that supply raw material, producers who convert the material into products, warehouses that store, distribution centers that deliver to the retailers, and retailers who bring the product to the ultimate user.]

[The high-level description should provide a summary of the entire process from order to delivery of the product/service. Below we included some sample questions that may guide you in completing this section. The required description could also take the form of a chart or diagram]

[Suggested information sources: company website, industry information, 10K filing, interviews with key management]

5.3.1 Research and development

[Please insert description of procurement function within XYZ group]

[The following questions may provide you with guidance when writing this section:

- What research and development do you carry out?*
- Is any research and development carried out by related companies?*
- Do you commission third parties to carry out research and development?*
- How important is the development of patents in the industry?*
- Does research and development result in patents?*
- Are license agreements in existence between you and related companies or third parties?]*

5.3.2 Procurement of raw materials

[Please insert description of procurement function within XYZ group]

[The following questions may provide you with guidance when writing this section:

- What is the significance of this function?*
- Is any procurement conducted by the operating companies?*
- What materials or partly finished goods are typically purchased?*
- From whom are purchases made?*
- Are any purchases made from group companies?]*

5.3.3 Manufacturing of products

[Please insert description of manufacturing function within XYZ group]

provides the reader a total overview of the intercompany transactions and the transfer pricing policy of the group. Therefore we recommend to include this information in the Master file]

For the typical contract manufacturing services, the most appropriate transfer pricing method is the transactional net margin method (“TNMM”) with profit level indicator mark-up on total costs (“MOTC”).⁶

5.4.2.5 *Reasons for concluding that the transaction was priced at arm’s length*

- The contract manufacturing services that [ManufacturingCo] undertake have a routine character and are risk free;
- In such a situation the TNMM with profit level indicator MOTC could be considered as the most appropriate transfer pricing method;
- The benchmark study for contract manufacturing services that has been used to support the applied MOTC (please see Appendix [C-2]) shows an interquartile range of [percentage]% to [percentage]%, with a median of [percentage]%; and
- The mark-up currently applied by the [XYZ] group has been [percentage]% and is well within the indicated range.

5.4.2.6 *Copies of existing APAs and tax rulings*

[No APAs or tax rulings have been concluded in relation to the contract manufacturing services.]

[An APA/tax ruling has been concluded in relation to the contract manufacturing services in [country]. Please find a copy of the APA/tax ruling in Appendix [C-3].]

[In case there is no APA or tax ruling concluded in relation to these services, please also delete the Appendix [C-3] at the end of the report]

5.4.3 **Sales services**

5.4.3.1 *Description of intercompany transaction*

In this transaction [SalesCo] procures [insert name] products from Principal. It also procures some [percentage]% of its purchases from third party suppliers, but these products are complementary to [XYZ] group’s products.

[SalesCo] undertakes the typical operational activities required to distribute the [insert name] products for Principal in the [country] market. This includes, but is not limited to, the preparation of the marketing plan and sales budget, promoting and sales of the product and logistics. The marketing and sales activities performed by [SalesCo] are conducted under the supervision and instructions of Principal. [SalesCo] does not undertake entrepreneurial activities, which would result in intangible asset development.

⁶ Calculated as [Operating profit / (Revenue – Operating profit)] × 100%

5.5 Main geographic markets

The table below provides an overview of the main geographic markets of the [XYZ] group for the sales of largest product groups or service offerings of the [XYZ] group:

Main geographic market	Turnover in [currency]	% of group turnover
[country/region]	[XX]	[XX]%

[Please insert one or more paragraphs describing the main geographic markets for the largest product groups or service offerings of XYZ group]

[It is likely that the description of the main geographical markets is in alignment with the countries or regions where the group is represented by its own group companies]

[Suggested information sources: company website, annual report, 10K-filing, interviews with finance staff]

5.6 Important business restructurings

The [XYZ] group has [not] been involved in any important business restructurings in 20[XX].

[Please insert a brief description in case the group obtained or divested one or more companies or (intangible) assets during the fiscal year.] [Such a description should at least contain a description of the transaction(s) and the buying and selling group companies. In addition, a business restructuring could also mean a change in the supply chain, e.g., in case a group transferred its production operations to low cost countries and to implemented a central entrepreneur model. Such a change should also be described, detailing the functions, assets and risks that were transferred]

6.2 Further details relating to intangibles

6.2.1 The overall strategy for the development, ownership and exploitation of intangibles

The [XYZ] group does have an explicit strategy for the development, ownership and exploitation of intangibles. Due to various reasons, it seeks to centralize its intangible assets to the extent possible within Principal, mainly because the latter has the expertise. In addition, a centralized approach allows the group to gain efficiency benefits in terms of costs (i.e. focused development, not in more than one place) and use (i.e. a one time development that is used by many). In principle all intangible assets of the [XYZ] group are therefore and will be owned and managed by Principal.

6.2.2 A list of main intangibles that are important for transfer pricing purposes

Please refer to paragraph 6.1 above.

6.2.3 A list of main intercompany agreements related to intangibles

Please refer to Appendix [F].

6.2.4 A general description of the transfer pricing policies relating to the intangibles

As described under paragraph [5.4.5], there is no separate remuneration for the patents and know-how owned by Principal.

6.2.5 A general description of important transfers of intangibles

Within the [XYZ] group, the patents and related know-how are key to the success of the business. Due to the continuous research and development efforts of [HQ], the group is able to innovate its product portfolio and the relevant production processes of the operating group companies. It is considered that [XYZ] group's patents and related know-how allow it to meet its customers' requirements with cutting edge products.

During the FY20[XX], there were no transfers of interest in intangibles among [XYZ] group companies.

Table of Appendices

Appendix	Description
Appendix A	BEPS Action 13- Cross-reference table
Appendix B	Head office services
Appendix B-1	Example head office services agreement
Appendix B-2	Benchmark study head office services
Appendix B-3	Copy of existing APAs and tax ruling – head office services
Appendix C	Manufacturing services
Appendix C-1	Example manufacturing services agreement
Appendix C-2	Benchmark study manufacturing services
Appendix C-3	Copy of existing APAs and tax ruling – manufacturing services
Appendix D	Sales services
Appendix D-1	Example sales services agreement
Appendix D-2	Benchmark study sales services
Appendix D-3	Copy of existing APAs and tax ruling – sales services
Appendix E-1	Example intercompany loan agreement
Appendix E-2	Interest benchmark study
Appendix E-3	Copy of existing APAs and tax ruling – intercompany loans
Appendix F	List of main intercompany agreements related to intangibles
Appendix G	Consolidated financial statement