

1st International IFA Czech Branch
Transfer Pricing Conference
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TP of Financial Transactions

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Content

- OECD BEPS discussion draft
- Credit Rating
- Implicit vs. Explicit support
- Benchmarking
- And what about us?
- Closing remarks

Credit Rating (stand-alone)

- Financial data (historical)
- Soft facts
 - Financial risks such as equity/debt raising ability, FX risks, market and commodity risk, ownership risk etc.;
 - Management risk such as risk tolerance, experience and quality of top management;
 - Market risk such as market position, market development, dependency on customers or suppliers etc.;
 - Negative information such as reputation risk, compliance with regulations, overdue public debt etc.; or
 - Group support.

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Credit Rating (stand-alone)

- Ceilings
 - Group ceiling
 - Country ceiling (transfer risk)
- Group rating: group consolidated accounts
- Impact of implicit vs explicit support
 - Implicit: based on assumptions
 - Explicit: written commitment

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Benchmarking

- Are bank loans comparable?
- Internal vs external CUP
- What has influence:
 - Maturity
 - Rating
 - Currency
 - Issue date
 - Guarantee / Collateral
 - Country Risk
 - Purpose of the loan
 - Fixed / Floating interest
 - Other

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Country risk vs. sovereign risk

- Country risk – the risk of doing business in a country
 - It covers the downside of a country's business environment including:
 - Legal environment;
 - Levels of corruption;
 - Socioeconomic variables such as income disparity, etc.
- Sovereign risk – the risk that the government of a country will default on its commercial debt obligations

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Spread Matrix

- Spread matrix (illustrative example)

in EUR bp

Spread YTM / IRS in function of rating, intrapolation & extrapolation, ratings & maturities

Maturity	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-
1Y	-5	-3	-1	1	3	4	7	10	13	19	25	31	42	53	64	75
2Y	-4	-1	2	4	6	9	13	17	22	32	42	51	68	85	102	119
3Y	-4	0	3	7	10	14	20	25	31	47	63	79	104	128	152	176
4Y	-2	1	4	8	13	17	24	31	39	57	76	95	123	150	178	206
5Y	1	3	5	11	16	21	30	39	47	70	92	115	147	179	210	242
6Y	1	4	7	13	18	24	34	44	54	78	102	127	160	193	226	259
7Y	1	5	9	15	21	27	38	49	60	86	112	138	172	207	241	276
8Y	1	6	10	16	23	29	41	53	65	93	121	149	184	219	255	290
9Y	2	7	12	18	24	31	45	58	72	103	134	165	201	238	274	311
10Y	2	8	13	20	27	34	48	63	78	110	142	174	209	244	279	314

Financial transactions

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Closing Remarks

- Are banks so special?
- Complexity of financial transactions and what options do we have?
- Ex-ante vs ex-post world

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Thank you!

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