COMMENTS ON THE OECD PUBLIC CONSULTATION DOCUMENT

Revisions to Chapter VII of the OECD Transfer Pricing Guidelines – Special Considerations for Intra-Group Services

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Prepared by: The International Tax, Transfer Pricing and Customs Committee

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To: Transfer Pricing, Tax Treaties and International Agreements Division
OECD Centre for Tax Policy and Administration

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Dear Members of the OECD Secretariat,

We appreciate the opportunity to provide comments on the OECD Discussion Draft concerning the proposed revisions to Chapter VII of the OECD Transfer Pricing Guidelines ("OECD TPG") on Special Considerations for Intra-Group Services.

As an Association of Chartered Accountants and Accounting Experts, we welcome the OECD's initiative to update Chapter VII to reflect developments in global business models, the evolution of multinational enterprise ("MNE") operating structures, and the practical experience gained since the introduction of the current guidance.

We support the goal of the project, in particular the goal of improving consistency in the application of the arm's length principle to intra-group services. In our view, the revised guidance represents an important opportunity to enhance certainty for taxpayers and tax administrations by clarifying the interaction between Chapter VII and the broader transfer pricing ("TP") framework contained in Chapters I–III of the OECD TPG.

We believe, however, that certain aspects of the proposed revisions would benefit from further clarification to ensure that the guidance remains practical, proportionate and capable of consistent application across different jurisdictions. In this regard, our comments focus primarily on:

- the practical application of the benefit test;

- the delineation and identification of intra-group services;
- the determination of arm's length remuneration;
- the appropriate use of cost-based approaches;
- shareholder activities and stewardship functions;
- cost allocation mechanisms and allocation keys;
- the treatment of stock-based compensation;
- documentation expectations; and
- the opportunity to consider additional examples addressing modern MNE structures.

We hope that our comments will be helpful for the OECD in finalising guidance that provides greater certainty while preserving the flexibility required by the diversity of intra-group service arrangements observed in practice.

Yours sincerely,

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President of the International Tax, Transfer Pricing and Customs Committee

1. General comments

1.1 Overall assessment of the objectives of the revision

The proposed revisions represent an important step towards modernising Chapter VII in light of the significant evolution of MNE’s structures since the current guidance was introduced.

The increasing centralisation of support functions, the development of global business service centres and the growing reliance on technology-enabled operating models have fundamentally changed the way MNEs organise and deliver intra-group services.

Finance transformation centres, regional procurement hubs, global IT platforms, legal and tax centres of excellence, data analytics teams, and integrated shared service centres are now common features of multinational organisations.

We therefore welcome the OECD’s goal of updating Chapter VII while confirming that the revisions are intended to clarify, rather than fundamentally amend, the general principles governing intra-group services. In particular, we support the continued emphasis placed on three fundamental elements of the relevant TP analysis:

- the accurate delineation of intra-group service transactions;
- the application of the benefit test to determine whether a service exists; and
- the separate determination of arm’s length remuneration once a chargeable service has been identified.

The above appropriately align Chapter VII with the broader TP framework contained in Chapters I–III of the OECD TPG and reinforce the importance of analysing intra-group services through economically meaningful principles rather than mere mechanical cost allocation exercises.

At the same time, we believe that some areas of the proposed guidance would benefit from additional clarification in order to enhance certainty, improve consistency across jurisdictions and reduce the risk of different interpretations by taxpayers and tax administrations.

1.2 Interaction with Chapters I–III of the OECD TPG

A key strength of the proposed revisions is the closer alignment of Chapter VII with the broader analytical framework of the OECD TPG. We strongly support this approach and encourage the OECD to further emphasise that intra-group services should not be analysed in isolation but rather through the same analytical process applicable to all controlled transactions.

Accordingly, the analysis of an intra-group service should begin with the accurate delineation of the transaction, taking into account the economically relevant characteristics of the arrangement, including the functions performed, assets used, risks assumed, contractual terms, economic circumstances and the actual conduct of the parties.

This approach is important because similar descriptions of a service may hide materially different functional profiles. For example, a regional technology centre may alternatively perform routine helpdesk services, implementation and integration projects, strategic IT architecture development or activities involving the creation and exploitation of valuable intangible assets. These arrangements should not automatically attract the same TP treatment merely because they are described broadly as “IT services”.

The revised Chapter VII should therefore continue to emphasise that substance prevails over labels and that remuneration should follow the actual economically significant activities undertaken.

Equally important, the guidance should avoid creating the impression that intra-group services constitute a separate category of controlled transactions governed by autonomous principles.

Rather, Chapter VII should expressly confirm that its provisions supplement, rather than replace, the analytical framework established in Chapters I–III of the OECD TPG.

2. Identification of Intra-Group Services and application of the Benefit Test

2.1 General observations

The benefit test remains one of the cornerstones of the TP analysis of intra-group services. We therefore support the clarification that such test concerns whether an activity provides the recipient with economic or commercial value, and that this analysis is distinct from the determination of arm's length remuneration.

We particularly support the OECD's recognition that the benefit test constitutes a distinct analytical step from the determination of arm's length remuneration. Whether an activity constitutes a chargeable intra-group service should first be established by reference to the expected benefit received by the recipient, while the pricing analysis should subsequently determine the appropriate remuneration in accordance with the arm's length principle.

This conceptual distinction is fundamental and should continue to be emphasised throughout the revised Chapter VII.

At the same time, the final guidance should avoid a restrictive interpretation of the benefit test. Independent enterprises routinely acquire services whose benefits are not immediately measurable or directly linked to identifiable increase in revenue or reduction in costs.

In practice, benefits frequently consist of enhanced operational capabilities, improved governance, strengthened internal controls, higher level of compliance or risk mitigation. Such benefits may materialise gradually over several years or may never become observable through discrete financial metrics despite representing commercially rational expenditures.

Examples include enterprise-wide cybersecurity programmes, compliance support, global risk management, environmental and sustainability reporting, legal monitoring and strategic transformation initiatives. Independent enterprises commonly demand these services because they contribute to the efficient operation and long-term sustainability of the business, and not because they generate immediate measurable financial returns.

Accordingly, the final guidance should expressly clarify that the absence of a separately identifiable economic outcome should not, in itself, lead to the conclusion that no benefit has been received.

The benefit test should remain fundamentally a commercial assessment rather than a purely quantitative exercise.

2.2 Commercial expectation and prohibition of hindsight

We believe that the guidance should explicitly discourage the use of hindsight. An activity should not be regarded as failing the benefit test merely because a benefit that was reasonably expected when the activity was performed did not materialise, the recipient incurred losses, market conditions changed, or a lower-cost alternative might have been available. We consider this among the most valuable improvements in the draft and recommend it be preserved without dilution.

The assessment should be performed from the perspective of the parties at the time the relevant activity was undertaken and should reflect the information that was reasonably available when the commercial decision was made.

Accordingly, an activity should not be regarded as failing the benefit test merely because:

- the anticipated benefits did not ultimately materialise;
- the recipient subsequently incurred operating losses;
- market conditions changed unexpectedly;
- the project was discontinued for objective commercial circumstances which only emerged after the service was provided; or
- a less costly alternative might, with hindsight, have been available.

On one hand, independent enterprises routinely undertake costs based upon reasonable commercial expectations. On the other, the arm's length principle does not require independent parties to guarantee successful outcomes, but rather to make commercially rational decisions based upon information available at the relevant time.

Introducing an explicit statement to this effect would significantly improve consistency in the practical application of the benefit test and reduce disputes arising from ex post assessments by tax administrations.

2.3 Evidence supporting the benefit test

We support the OECD's objective of encouraging taxpayers to maintain appropriate contemporaneous evidence supporting intra-group service charges. Nevertheless, the final guidance should expressly recognise that documentation requirements must remain proportionate to the materiality, complexity and risk profile of the services concerned, as well as recurrence and availability of ordinary business records.

For large MNEs, centralised service providers may support several affiliates through integrated operating platforms. Requiring detailed documentary evidence for every individual service, recipient and accounting period would create disproportionate compliance burdens without necessarily improving the reliability of the overall TP analysis.

Instead, the revised Chapter VII should encourage an approach under which the nature and extent of supporting evidence varies according to the facts and circumstances.

Relevant considerations may include:

- the materiality of the services provided;
- the complexity of the arrangement;
- whether the services are recurring or exceptional; and
- the availability of contemporaneous business evidence.

Appropriate contemporaneous evidence may include service descriptions, business plans, project documentation, service tickets, internal correspondence, management reports, allocation calculations, internal policies demonstrating that the services could provide a benefit to the ordinary business operations of the recipient.

Importantly, the revised guidance should avoid implying that taxpayers are required to prepare a formal benefit analysis for every individual invoice or cost allocation. Such an expectation would exceed ordinary commercial practice between independent enterprises and would risk increasing the compliance burden on the taxpayer, moving away from the rationale of a genuine TP analysis.

2.4 Multiple recipients of centrally provided services

Modern MNEs increasingly provide services through centralised or regional shared service centres delivering integrated support across multiple jurisdictions.

Examples include global finance, shared compliance or HR functions, ERP platforms, cybersecurity infrastructure, cloud-based technology solutions, procurement systems.

In these circumstances, services are often designed and delivered as integrated group-wide capabilities rather than as separately negotiated arrangements with individual affiliates.

Consequently, the nature and extent of the benefits received by individual group entities may differ, even though participation in the shared service arrangement remains commercially rational for each participant.

The revised Chapter VII should therefore recognise that the benefit test should not require taxpayers to demonstrate perfectly measurable benefits for every individual recipient. Rather, the relevant question should be whether an independent enterprise operating under comparable circumstances would reasonably be expected to participate in such an arrangement.

A clarification of this principle would better reflect commercial reality while preserving the integrity of the benefit test.

3. Shareholder Activities

We welcome the additional discussion included in the Discussion Draft regarding shareholder activities and, in particular, the clearer distinction between shareholder activities, stewardship activities and chargeable management services.

This distinction is key and represents one of the areas giving rise to the greatest number of TP disputes.

In our view, the analysis should remain firmly grounded in the nature and purpose of the activities performed rather than in the organisational position or seniority of the individuals undertaking those activities. Senior executives frequently perform a combination of shareholder, stewardship and operational management functions, and the TP analysis should therefore focus on the characteristics of each activity rather than the title or position of the individuals involved.

In particular, we recommend that the OECD provide further clarification regarding the reference in item *(e)* of the proposed guidance to “ancillary activities to the corporate governance of the MNE as a whole”.

As currently drafted, this expression could potentially be interpreted too broadly, resulting in genuine intra-group services supporting local operations, regulatory compliance, treasury management, taxation, human resources or IT being incorrectly characterised as shareholder activities solely because they originate from headquarters or regional management.

To reduce uncertainty, the final guidance could anchor item (e) to the general definition in paragraph 7.24, by confirming that an activity falls within item (e) only where it is (i) performed solely by virtue of the parent’s ownership interest and (ii) confers no economic or commercial value on any other group member within the meaning of paragraph 7.13. Moreover, the guidance could include practical examples distinguishing activities that are inherently shareholder in nature from activities that should continue to be evaluated under the ordinary benefit test.

Examples of shareholder activities may include:

- governance activities performed exclusively for the parent company as its role of shareholder;
- maintenance of the group governance charter and board procedures serving the parent’s own role;

- preparation of shareholder communications;
- parent-only corporate governance procedures;
- ESG reporting produced solely to satisfy the parent's regulatory obligations; and
- activities undertaken solely to satisfy legal obligations arising from ownership of subsidiaries.

Conversely, activities supporting the implementation of governance policies within subsidiaries, internal audit that improves subsidiary operations, group compliance and risk-management support consumed by subsidiaries, treasury, tax administration, human resources, IT, finance or risk management should not automatically be regarded as shareholder activities. Instead, these activities should be analysed independently under the benefit test to determine whether they provide economic or commercial value to the recipient entity.

Such additional clarification would substantially improve consistency in the application of the guidance while reducing the risk of inappropriate recharacterization of genuine intra-group services.

4. Determination of Arm's Length Remuneration

4.1 General observations

We welcome the clarification that the determination of arm's length remuneration for intra-group services should not automatically default to a one-sided cost-based methodology. This clarification appropriately reinforces the principle that TP methods should be selected in accordance with the framework set out in Chapter II of the OECD TPG rather than by reference to the mere fact that the transaction involves services.

Historically, Chapter VII has sometimes been interpreted as implicitly favouring cost-plus methodologies for most intra-group services. While cost-based methods will often represent the most practical and reliable approach for routine support services, particularly where reliable market comparables are unavailable, they should not become either mandatory or presumed methodologies.

The determination of the most appropriate TP method should continue to depend on the particular facts and circumstances of each case - as assessed in the context of a proper comparability analysis - including the nature of the services performed, the functions carried out, the assets employed, the risks assumed, the availability of reliable comparables and the characteristics of the transaction.

Accordingly, the revised Chapter VII should continue to recognise that different categories of intra-group services may appropriately be remunerated using different TP methods.

For example:

Nature of the service	Considerations for method selection (illustrative only)
Routine administrative support	A cost-based method is often practical, but the choice remains fact dependent
Human resources support	A cost-based method is often practical, but the choice remains fact dependent
Procurement activities	TNMM or CUP where reliable comparables exist
Financial services	Financial TP guidance where applicable
Technology implementation	Functional analysis determining the most appropriate method
Highly specialised advisory services	Case-by-case analysis depending upon the value contributed and intangibles involved

In any case, since it can be tempting to read service categories as implying particular methods, we suggest the guidance stress that any illustration of methods by service type is indicative only and never displaces a comparability analysis.

Keeping this flexibility is essential to ensure that Chapter VII remains fully aligned with the broader OECD TP framework and avoids the creation of *de facto* method presumptions.

4.2 Composition of the Cost Base

Although cost-based methodologies frequently represent the most reliable approach for routine intra-group services, the revised guidance would benefit from additional clarification regarding the composition of the underlying cost base.

In particular, the guidance should clearly distinguish between:

- costs directly incurred in rendering the services;
- indirect costs appropriately attributable to the services;
- pass-through costs;
- shareholder costs; and
- costs already remunerated under separate controlled transactions.

Clearer guidance on these distinctions would significantly reduce the risk that the same cost is either charged multiple times within the group or excluded merely because it forms part of a broader process.

The revised Chapter VII should also recognise that certain costs incurred by headquarters (or regional centres) may simultaneously support multiple business activities. In such cases, the analysis should focus on whether the particular cost contributes to the provision of chargeable services rather than on the organisational location in which the cost arises.

Where services are genuinely rendered to associated enterprises, costs should not be excluded solely because they arise within broader management structures.

Conversely, costs attributable exclusively to shareholder activities should remain outside the cost base.

4.3 Budgeted Costs, Standard Costs and True-Up Mechanisms

Many multinational groups allocate service costs using budgeted or standard costing systems that are afterwards reconciled to actual costs.

We believe the revised Chapter VII should acknowledge that such approaches represent sound commercial practice and are compatible with the arm’s length principle, provided they are applied consistently and produce reliable outcomes over time.

Accordingly, the final guidance should recognise that reasonable true-up mechanisms may be used where necessary to reconcile estimated and actual costs.

Just as importantly, taxpayers should not be expected to perform annual recalculations solely to eliminate immaterial differences between budgeted and actual costs where the overall methodology continues to produce an arm’s length result.

An explicit statement recognising the above would reduce unnecessary compliance burdens while preserving the reliability of cost-based pricing methodologies.

4.4 Pass-Through Costs

The revised Chapter VII would also benefit from additional discussion concerning pass-through costs.

In practice, multinational groups frequently incur costs on behalf of other group entities without performing significant value-adding functions in relation to such expenditures.

Where a group entity merely acts as an intermediary and neither performs economically significant functions nor assumes material risks in relation to the relevant expenditure, the guidance should clarify that such costs may appropriately be treated as pass-through costs.

Conversely, where the service provider undertakes coordination, management, procurement, supervision or other value-creating activities, the remuneration should reflect those functions rather than merely the underlying costs.

Additional examples illustrating these distinctions would improve consistency in practical application. In particular, examples might help distinguish the case where an entity merely acts as paying entity from the case where it performs coordination, management, procurement or supervision functions for which a mark-up on its own value-adding costs is appropriate.

4.5 Allocation Keys and Indirect Charge Approaches

We support the OECD’s continued recognition that indirect charging mechanisms and allocation keys remain essential practical tools for pricing shared services within multinational groups.

However, additional guidance would be beneficial provided it remains principles-based and does not evolve into a series of *de facto* safe harbours that may prove inappropriate for particular fact patterns.

No single allocation key is capable of appropriately reflecting expected benefits across all categories of services. Rather, allocation methodologies should continue to be selected having regard to the economic characteristics of the services concerned and the expected benefits received by participating entities.

The revised Chapter VII could usefully include practical illustrations of commonly accepted allocation drivers, such as:

Service category	Possible allocation drivers
Human resources	Number of employees; workforce composition
IT infrastructure	Number of users / licenses; devices supported; service tickets, measurable system utilization
Commercial support	Revenue; gross margin; customer base
Finance and accounting	Transaction volumes; assets under management; accounting entries
Procurement	Purchasing volumes; purchase orders; transaction volumes
Project-based services	Time spent; project milestones; dedicated resources

Importantly, the guidance should expressly recognise that a single cost pool may be allocated using multiple allocation keys where doing so more accurately reflects the expected benefits received.

For example, an integrated shared service centre providing finance, HR and IT support may allocate:

- HR costs by employee headcount;

- IT costs by users, number of licences or measurable system utilisation;
- finance costs by transaction volumes; and
- procurement costs by purchasing activity.

Provided that the methodology remains consistent, avoids double counting and is appropriately documented, the use of multiple allocation keys should be recognised as fully consistent with the arm's length principle.

In addition, we suggest the guidance to clarify that the selection of the allocation key should consider the stage of market maturity in which service recipients operate. Where one recipient operates in a new market and others in mature markets, a key based on actual sales in the year may understate the benefit delivered to the new market, whereas a time- or activity-based key may better align to the actual activities performed and expected benefit.

The guidance should also make it clear that administrative simplicity, while being an important practical consideration, should not override the objective of achieving a reasonable approximation of expected benefits.

4.6 Technology-Enabled Services and Integrated Service Centres

The increasing digitalisation of multinational business models has transformed the way intra-group services are delivered.

Today, many multinational groups operate integrated service centres providing combinations of finance, procurement, IT, legal support, tax, data analytics, artificial intelligence tools, cybersecurity, process optimisation and regulatory compliance.

These centres frequently perform highly integrated activities that cannot readily be separated into discrete service categories.

Accordingly, the revised Chapter VII should recognise that TP analyses are intended to focus on the overall functional profile of the service provider rather than requiring segmentation of every individual activity.

Similarly, the increasing use of cloud computing, enterprise software, automation and AI-enabled platforms does not, in itself, warrant a different TP analysis.

The complexity of the underlying technology should not determine whether an activity constitutes a routine service. Rather, the analysis should continue to depend on the economically significant functions performed, the assets employed, the risks assumed and whether valuable intangible assets are created or exploited.

This clarification would better reflect modern business practice while remaining fully consistent with the OECD's broader analytical framework.

4.7 Stock-Based and Share-Based Compensation

We welcome the opportunity presented by the revised Chapter VII to provide additional guidance regarding the treatment of stock-based and share-based compensation in the pricing of intra-group services. This area remains subject to significant uncertainty due to (i) timing considerations - whether to measure at grant, vesting or exercise when building an annual cost base; (ii) accounting divergence - for example, IFRS 2 fair-value expensing over the vesting period versus other frameworks, producing mismatches when comparables report on a different basis; (iii) valuation - fair value at grant versus intrinsic value at exercise, and a profit-and-loss charge whose volatility bears little relation to the service actually rendered in the year; and (iv) economic incidence—the entity booking the accounting charge is frequently not the entity whose employees perform the chargeable service, and recharge or recapture arrangements complicate the picture.

In our view, such costs should be included in the service cost base only where they are economically borne by the service provider and relate to employees performing the relevant chargeable services.

Conversely, they should generally be excluded where they represent shareholder costs or costs that an independent party would not reasonably be expected to bear.

The revised Chapter VII should avoid establishing a single valuation methodology or recognition date and instead allow taxpayers to apply a consistent accounting-based approach, with appropriate comparability adjustments where necessary to ensure consistency and achieve an arm's length outcome. This would provide greater certainty while preserving the flexibility needed to address the diverse arrangements observed in practice.

5. Low Value-Adding Intra-Group Services

5.1 General observations

We welcome the OECD's decision to retain the simplified approach for low value-adding intra-group services. Since its introduction, the simplified framework has contributed significantly to reducing disputes concerning routine support services while promoting greater consistency in TP compliance across different jurisdictions.

The simplified approach continues to represent a valuable mechanism for balancing administrative efficiency with adherence to the arm's length principle, particularly where the services concerned do not form part of the core business of the MNE group, do not involve significant risks and do not require the use or development of unique and valuable intangibles.

In our view, these underlying principles remain fully valid and should continue to underpin the final version of Chapter VII.

5.2 Scope of qualifying services

While we support the existing framework, we believe that the revised guidance would benefit from additional clarification regarding the scope of qualifying activities.

Business models have evolved significantly since the simplified approach was first introduced. Many multinational groups now centralise support activities that rely on sophisticated technology but nevertheless perform routine operational functions.

Examples may include:

- data governance and master data administration;
- cybersecurity monitoring;
- sustainability reporting support;
- regulatory monitoring;
- digital workplace administration;
- cloud infrastructure support;
- automated reporting platforms;
- AI-enabled routinary administrative tools;

- enterprise workflow management.

The use of advanced technology should not, by itself, exclude an activity from qualifying as a low value-adding service.

Rather, the analysis should continue to focus on the functions performed, assets used and risks borne. Technology may constitute the means through which a routine service is delivered without fundamentally modifying its functional profile.

Providing additional examples reflecting contemporary operating models would improve consistency and reduce uncertainty for both taxpayers and tax administrations.

5.3 Mark-up consistency

We also support maintaining flexibility regarding the determination of an appropriate mark-up.

Although the simplified approach provides useful administrative certainty, the prescribed mark-up should not be interpreted as a comprehensive indicator of arm's length remuneration applicable beyond the specific simplified regime.

Where reliable comparable data indicate that a different outcome would be more consistent with the arm's length principle, taxpayers and tax administrations should retain the ability to consider those comparables where appropriate.

5.4 Withholding tax on low value-adding services

Paragraph 7.96 encourages source States to levy withholding tax only on the mark-up. In practice, gross-basis withholding on the full charge prevents the provider from recovering its costs and undermines the rationale of the simplified regime; this is a recurring difficulty for recipients in Italy and other EU jurisdictions. We recommend that paragraph 7.96 be strengthened from an encouragement to a clearer expectation, and that the interaction with treaty relief and the applicable EU framework be acknowledged.

5.5 Threshold for the simplified approach

Leaving each administration to set its own threshold reintroduces the very inconsistency the simplified regime was designed to remove and burdens groups operating across many jurisdictions with divergent tests. We recommend the OECD provide an indicative common threshold, or at least a common metric, to promote coordinated application.

6. Documentation requirements

6.1 A proportionate and risk-based approach

We strongly support transparency and robust TP documentation. At the same time, we believe that proportionality should remain one of the guiding principles of the revised Chapter VII.

Documentation expectations should reflect the materiality of the transaction, the complexity of the services provided and the associated TP risk.

In particular, the revised guidance should avoid creating an expectation that taxpayers maintain extensive operational evidence for every recurring intra-group service where such evidence would not ordinarily exist between independent enterprises.

Rather, documentation should focus on demonstrating:

- the existence and the nature of the services;
- the activities actually performed;

- the recipient's expected economic or commercial benefit;
- the methodology used to determine the cost base;
- the allocation keys applied;
- the TP method selected;
- the basis for the remuneration (e.g. mark-up), where applicable.

Appropriate contemporaneous documentation may include service agreements, service descriptions, project documentation, internal reports and correspondence, allocation calculations, business plans, and evidence demonstrating that the recipient was in a position to benefit from the services.

Such an approach would preserve the evidentiary value of documentation while avoiding disproportionate compliance burdens for low-risk arrangements.

6.2 Consistency with Chapter V

We further recommend that the revised Chapter VII explicitly clarify that documentation relating to intra-group services should be integrated within the existing TP documentation framework established under Chapter V of the OECD TPG.

The revised guidance should avoid introducing documentation expectations that duplicate the content of the Local File or require taxpayers to prepare separate documentation packages exclusively for intra-group services.

Instead, Chapter VII should complement the existing documentation framework by identifying the specific evidence relevant to service transactions without creating additional stand-alone compliance obligations.

A coordinated approach would improve efficiency for both taxpayers and tax administrations while maintaining an appropriate level of transparency.

The suggestion that, where an expected benefit does not materialise, taxpayers document "the review undertaken by the parties and the resulting commercial decision" poses the risk of inviting the inappropriate use of hindsight that other Chapters of the OECD TPG elsewhere discourage. Moreover, this requirement may be burdensome for routine or immaterial charges.

We recommend that this expectation be made expressly proportionate and be disapplied for low-value, recurring services.

7. Additional Practical Examples

We welcome the OECD's decision to expand the number of practical examples included within Chapter VII. Given the number and diversity of modern multinational operating models, additional examples would significantly enhance the practical application of the revised guidance and reduce the potential for divergent interpretations.

In particular, we recommend including examples addressing the following situations.

Example 1 – Shareholder activities versus chargeable services

An example distinguishing activities performed exclusively in the capacity of shareholder - such as parent-level corporate governance, board reporting, shareholder communications and governance obligations arising solely from ownership - from services that provide a direct benefit to group entities, including treasury, tax, HR, IT, operational compliance, would improve the practical distinction between shareholder activities and chargeable intra-group services.

Example 2 – Global ERP platform

An example involving a group entity that develops, maintains and operates a global enterprise resource planning platform used by multiple subsidiaries would be particularly valuable. The example could illustrate the application of the benefit test, the selection of appropriate cost allocation methodologies, the interaction with the ownership of valuable intangibles, and the determination of arm's length remuneration.

Example 3 – Global cybersecurity services

An example describing a central cybersecurity function that continuously monitors threats, maintains the group's security infrastructure and coordinates incident response across multiple jurisdictions would help clarify that indirect risk mitigation may itself constitute an economic benefit. It could also illustrate appropriate allocation drivers and explain the distinction between routine operational support and strategic cybersecurity activities.

Example 4 – Artificial intelligence-enabled services

An example addressing AI-based applications developed and deployed across the group to support forecasting, reporting, procurement and administrative processes would provide useful guidance. In particular, it could distinguish between routine technology support, specialised advisory services and arrangements involving valuable intangible assets.

Example 5 – Business transformation projects

An example based on a regional centre coordinating the implementation of a business transformation project affecting multiple subsidiaries would help address several practical issues. The guidance could explain the treatment of temporary project teams, the allocation of project costs, the distinction between shareholder activities and chargeable services, and the selection of the most appropriate TP method.

Example 6 – Allocation keys

An example illustrating a shared service centre providing finance, HR, procurement and IT services simultaneously would be particularly helpful in demonstrating the use of different allocation drivers for different service categories, for example, headcount for HR services, users or number of licenses for IT, transaction volumes for finance and purchasing volumes for procurement. The guidance should also confirm that the use of multiple allocation keys may be appropriate where it more accurately reflects the expected benefits received by each recipient and avoids duplication.

Example 7 – Share-based compensation

An additional example addressing the treatment of share-based compensation within the service cost base would also be particularly valuable. The guidance could distinguish between situations in which the service provider economically bears the cost and the relevant employees perform chargeable services, and cases where the expenditure represents shareholder costs that should therefore be excluded from the service charge. Given the practical uncertainty currently experienced across jurisdictions, such an example would materially improve consistency.

Example 8 – Services versus transfer of intangibles

An example distinguishing (i) a service that merely applies the provider's know-how from (ii) a service whose delivery effectively transfers that know-how to the recipient, setting out the different pricing consequences of each would help achieving a better understanding of the distinction.

Example 9 – Contingent and milestone-based remuneration

The milestone-based success-fee structure in Example 13 is a useful addition. We recommend that the final text confirm, as a matter of principle, that ex-ante contingent remuneration for services can be arm's length where it reflects the risk assumed and the intangible contribution of the provider - an approach with application well beyond the pharmaceutical sector.

Example 10 – On-call services

A modern example - such as a group cyberincident-response retainer - would usefully complement the existing illustrations and connect to the cybersecurity fact patterns elsewhere in the chapter.

7. Minor drafting and cross-reference points

For the Secretariat's tidy-up: (i) paragraph 7.45 appears to contain a formatting error, in which the heading "C.1.2 Indirect-charge approaches" has merged into the body of the paragraph, (ii) paragraph 7.12 refers to "Parent B" where "Parent Co" appears to be intended, and (iii) paragraph 81 of the Annex mentions an acronym for a net profit indicator ("ROTC"), whereas no other net profit indicators are referred to with acronyms in the rest of the OECD TPG.

8. Final Remarks

We welcome the OECD's initiative to update Chapter VII of the OECD TPG and believe that the proposed revisions represent a significant opportunity to improve certainty, consistency and administrative efficiency in the treatment of intra-group services.

In particular, we welcome the confirmation that the revised guidance is intended to clarify, rather than fundamentally amend, the established principles governing intra-group services. The emphasis on accurate delineation, the benefit test and the separate determination of arm's length remuneration appropriately reinforces the integration of Chapter VII within the broader framework of the OECD TPG.

In our view, the final guidance would be further strengthened by:

1. reaffirming that Chapter VII operates within, and does not replace, the analytical framework established in Chapters I - III of the OECD TPG;
2. confirming that the benefit test is based on a reasonable commercial expectation of economic or commercial value and should not be assessed with the benefit of hindsight;
3. recognising that documentation and evidentiary requirements should remain proportionate to the materiality of the services concerned;
4. providing additional clarification regarding the distinction between shareholder activities, stewardship activities and chargeable management services, including further practical examples;
5. expanding the guidance on allocation keys, indirect charging mechanisms and the composition of the service cost base, while recognising that multiple allocation drivers may appropriately be applied where they better reflect expected benefits;
6. providing additional guidance on the treatment of stock-based and share-based compensation, recognising that such costs should generally be included in the service cost base only where they are economically borne by the service provider and attributable to employees performing the relevant services;
7. preserving the existing simplified approach for low value-adding intra-group services while updating the accompanying examples to reflect modern technology-enabled operating models; and

8. expanding the range of practical examples throughout Chapter VII.

These refinements would significantly enhance the practical application of the revised guidance while preserving the flexibility necessary to accommodate the wide variety of intra-group service arrangements encountered in practice.

We appreciate the opportunity to contribute to this consultation and would welcome the opportunity to engage further with the OECD Secretariat during the finalisation of Chapter VII.