



# New Transfer Pricing Scrutiny Requires Transactional Resilience

June 27, 2025, 4:30 AM EDT



**Mili Diaz Colodrero**  
Exactera



*Exactera's Mili Diaz Colodrero explains how multinationals can build financial transaction frameworks that comply with increasingly strict transfer pricing requirements.*

The details of related-party loans, guarantees, and cash pools used to be rarely scrutinized. Intra-group financing attracted limited attention from tax authorities, with few exceptions, and was handled mostly through spreadsheets and basic assumptions.

That era is over. Financial transactions have become one of the most closely examined areas for multinational enterprises in today's transfer pricing landscape.

With evolving global guidance and increased emphasis on economic substance, tax authorities are re-examining terms of related-party financing and the economic rationale behind them. Companies must show that their financing transactions reflect a genuine business purpose and arm's-length behavior.

Taxpayers need to know how to structure, document, and defend intra-group financial transactions—do you have intercompany financing arrangements, for example?

Here's practical guidance on how to ensure your transfer pricing policies align with the arm's-length principle.

## **Regulatory Changes**

As part of its Base Erosion and Profit Shifting Initiative, the OECD [released](#) Chapter X of the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations in February 2020. It formalized a more structured and robust approach to assessing and documenting financial transactions.

This was a turning point in evaluating intercompany financing is evaluated, as it marked the first time the Organization for Economic Cooperation and Development provided clear guidance on how to apply the arm's-length principle to financial transactions.

Since its release, jurisdictions worldwide have adjusted their local documentation requirements and their focus to better align with these principles.

The UK [requires](#) a deeper analysis of economic substance, debt capacity, and business purpose in relation to financial transactions. Germany has explicitly referenced Chapter X in its domestic guidance, emphasizing the need for granular data on borrowing

capacity, pricing, and contractual terms. Denmark mandates substantive documentation around the functional profile and financial capacity of the parties involved.

Australia, Canada, Belgium, and many other jurisdictions also have issued updates reflecting a global shift toward more rigorous expectations.

In the context of high interest rates, growing interest deduction claims, information-sharing frameworks, and stronger emphasis on revenue collection, the current regulatory landscape sets the stage for intensified scrutiny and a heightened compliance burden.

## Substance Over Form

Pricing and documenting financial transactions historically focused on comparability analyses, assessments of creditworthiness, and assumptions of implicit support. Economic analyses often centered on building sophisticated models, applying refined adjustments, and estimating an arm's-length range of interest rates.

This is no longer enough. Even robust and technically sound analyses may fall short in securing interest deductibility, ensuring penalty protection, or avoiding debt recharacterization.

Recent court decisions across various jurisdictions have reinforced this shift. In *Danish Ministry of Taxation v. A.P. Moller-Maersk A/S*, the Danish Supreme Court [upheld](#) tax authority adjustments where guarantees were provided without sufficient economic justification or remuneration, despite extensive documentation in place.

In *BlackRock HoldCo 5, LLC v. Commissioners for HMRC*, the UK Court of Appeal [affirmed](#) disallowing interest deductions, finding the primary purpose of the intercompany loans was to secure a tax advantage.

Similarly, the Full Federal Court of Australia [upheld](#) the Australian Taxation Office's decision and disallowed interest deductions to Singapore Telecom Australia, finding that the terms of the transaction deviated from the arm's-length principle.

These rulings, and others over recent years, underscore a global trend: Economic substance and commercial rationale take precedent over form.

Transfer pricing for financial transactions no longer can be treated in isolation—it must be approached as a strategic and global endeavor. Key considerations now must include transaction characterization and purpose, the business benefits derived from the arrangement, and alignment with the functional profiles of the parties involved.

The increasing regulatory and documentation burden has raised the bar. A more comprehensive interpretation of the arm's-length principle is emerging. Taxpayers must address a broader set of questions to effectively benefit from intercompany financing:

- Does the borrower have sufficient debt capacity?
- Can the borrower service the debt under realistic business conditions?
- Is the transaction appropriately sized and structured?
- Does the arrangement serve a clear business purpose and provide measurable business or commercial advantages?
- What are the realistic options available to the parties involved?

## **Rethinking Financial Transactions**

Complying with the arm's-length principle and meeting documentation requirements has become increasingly complex. Yet intercompany financial transactions can still deliver business, tax, and financial efficiencies when appropriately structured.

The narrative and storytelling do much of the heavy lifting. Clearly articulating the business rationale and commercial advantages of intra-group financing lays the foundation for robust, defensible documentation.

Now is the time to reshape intercompany financing to meet documentation requirements and, more importantly, drive sustainable value in a more demanding transfer pricing environment. Several practical steps can help support a favorable outcome:

- Review existing intra-group financing policies to assess alignment with regulations and business reality
- Redesign arrangements to reflect genuine economic substance and strategic intent
- Embed transfer pricing into broader commercial, treasury, and risk management strategies

- Tailor documentation to local requirements, functional profiles, and jurisdictional nuances
- Leverage scenario modeling and forecasting to test debt sustainability and demonstrate financial prudence
- Regularly update agreements to ensure alignment with evolving rules and business goals

Multinationals in this new transfer pricing era must build financial transaction frameworks that are compliant and resilient, as well as grounded in commercial logic and economic substance. Those that proactively adapt their intra-group financing strategies will turn regulatory challenges into competitive advantages.

*This article does not necessarily reflect the opinion of Bloomberg Industry Group, Inc., the publisher of Bloomberg Law, Bloomberg Tax, and Bloomberg Government, or its owners.*

## Author Information

[Mili Diaz Colodrero](#) is vice president of transfer pricing at Exactera.

---

Reproduced with permission. Published [June 27, 2025]. Copyright 2025 Bloomberg Industry Group 800-372-1033. For further use, please visit <https://www.bloomberindustry.com/copyright-and-usage-guidelines-copyright/>