

# Interest Rate Benchmarking for Transfer Pricing Purposes: A Comparison between the Loan and the Bond Approach

**This article analyses how an arm's length interest rate for an intercompany loan can be determined under the two most commonly accepted approaches; the loan approach and the bond approach. In this respect, it first provides some considerations as to performing a loan benchmarking study, followed by some of the main differences and theoretical advantages and disadvantages of the two approaches. As a second step, a case study is presented, for which an arm's length interest rate is determined under both approaches. The results of the two approaches are then discussed and compared. It is argued that the bond approach yields much more reliable results.**

## 1. Introduction

Besides its frequent use as a tool for the purpose of financing group companies, intercompany debt may also be used by multinational enterprise (MNE) groups more broadly, in the context of their international tax planning. In the latter instance, by incorporating the central financing entity of the MNE group in a low-tax country<sup>1</sup> or by pushing more intercompany debt to subsidiaries located in high-tax countries, an MNE group can effectively reduce its overall tax burden.<sup>2</sup> As a result, potential inappropriate treatment or mispricing of intercompany loans can lead to significant shifting of profits from one jurisdiction to another. This potential significant tax impact, in combination with the fact that intercompany loans often involve considerable amounts and are structured in very sophisticated ways, has increased the appetite of tax authorities to target these transactions.<sup>3</sup> The increased resolve of tax authorities to tackle base erosion

and profit shifting arising from intercompany loans is also illustrated by the fact that more and more transfer pricing cases related to intercompany loan transactions have ended up in courts during the last decade.<sup>4</sup>

In an attempt to mitigate the increasing number of disputes arising from the intercompany financial transactions, the Organisation for Economic Cooperation and Development (OECD)<sup>5</sup> published a non-consensus discussion draft on financial transactions (Discussion Draft 2018)<sup>6</sup> in July 2018, which provides recommendations on how the principles included in the 2017 edition of the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (OECD Guidelines 2017)<sup>7</sup> should be applied to intercompany financial transactions. Taking into account the comments that were received in response to the discussion draft, the OECD eventually published the long-awaited Transfer Pricing Guidelines on Financial Transactions (FT Guidelines 2020)<sup>8</sup> in February 2020, which will be included in the new edition of the OECD Guidelines as a separate chapter. The FT Guidelines 2020 seek to provide guidance and build consensus on the consistent application of transfer pricing and to prevent transfer pricing disputes by directly addressing several key transfer pricing aspects of financial transactions. In the FT Guidelines 2020, significant

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1. P. Janssens et al., *The End of Intra-Group Financing... or Not Just Yet? – Part 2*, 55 Eur. Taxn. 8 (2015), Journal Articles & Opinion Pieces IBFD.
2. S. Greil & D. Schilling, *Cross-Border Intra-Group Financial Transactions: Evidence from Germany*, 24 Intl. Transfer Pricing J. 6 (2017), Journal Articles & Opinion Pieces IBFD.
3. A.J. Bakker, *Transfer Pricing and Intra-Group Financing: Low-Hanging Fruit?*, 15 Fin. & Cap. Mkts 2 (2013), Journal Articles & Opinion Pieces IBFD.

4. AU: FCA, 21 Apr. 2017, *Chevron Australia Holding Pty v. Commissioner of Taxation*, FCAFC 62, Case Law IBFD; IN: 28 Jan. 2019, *ITAT Mumbai, Tata Motors Ltd. v. DCIT*, TA No.8926/Mum/2010, Case Law IBFD; NO: 22 Jan. 2018, *ExxonMobil Production Norway Inc. v. Norwegian tax authorities*, LB-2016-160306; FR: 19 June 2017, *General Electric France v. French tax authorities*, 392543; SE: HFD, 7 June 2016, *Nobel Biocare Holding AB v. Swedish tax authorities*, 6664-6666-14, ref. 45, Case Law IBFD; ES: 2 Mar. 2017, *McDonald's v. Spanish tax authorities*, 961-2017; CL: Mar. 2021, *Chile v. Avery Dennison Chile S.A.*, RUT\*96.721.090-0.
5. The OECD is an international organization that works to build better policies that foster prosperity, equality, opportunity and well-being for all. With almost 60 years of experience, it works together with governments, policy makers and citizens on establishing evidence-based international standards and finding solutions to a range of social, economic and environmental challenges. From improving economic performance and creating jobs to cultivating good education and fighting international tax evasion, the OECD provides a unique forum and knowledge hub for data and analysis, exchange of experiences, best-practice sharing, and advice on public policies and international standard-setting. See OECD official website, <https://www.oecd.org/>.
6. OECD, *Public Discussion Draft – BEPS Actions 8-10 – Financial Transactions* (2018) [hereinafter *Discussion Draft 2018*], available at BEPS-actions-8-10-transfer-pricing-financial-transactions-discussion-draft-2018.pdf (oecd.org) (accessed 1 June 2021).
7. OECD, *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations* (2017), Primary Sources IBFD [hereinafter *OECD Guidelines 2017*].
8. OECD, *Transfer Pricing Guidance on Financial Transactions: Inclusive Framework on BEPS Actions 4, 8-10* (2020), Primary Sources IBFD [hereinafter *FT Guidelines 2020*].

emphasis is put on loan transactions, with various topics being thoroughly discussed, including the accurate delineation of the transaction,<sup>9</sup> the options realistically available to the parties involved,<sup>10</sup> the comparability factors that should be considered and the pricing of the intercompany loan. The latter is the primary focus of this article.

According to the FT Guidelines 2020, the widespread existence of markets for borrowing and lending money and the frequency of such transactions between independent borrowers and lenders, combined with the widespread availability of information and analysis of such markets makes it easier to apply the comparable uncontrolled price (CUP) method when analysing an intercompany loan.<sup>11</sup> In the search for external CUPs, two approaches are commonly used: (i) the loan approach, which utilizes comparable loan transactions; and (ii) the bond approach, which utilizes comparable bond transactions.<sup>12</sup> From a comparability perspective, the loan approach is more appropriate, since it compares the same instruments. However, the lack of sufficient data on private loans in the public databases,<sup>13</sup> in combination with the abundance of bond data, as well as other factors, which are described in detail in the section 2. of this article, have made the bond approach more preferable among transfer pricing practitioners. The difference in data availability can be illustrated by the fact that the number of all corporate loans<sup>14</sup> issued within 2020 globally, with available information on pricing, as provided by Refinitiv's LoanConnector DealScan database (LoanConnector),<sup>15</sup> is 2,890, while the respective number of all corporate bonds<sup>16</sup> issued within 2020 globally, with available information on pricing, as provided by Refinitiv's EIKON (EIKON),<sup>17</sup> is 14,469.

All aspects of the two approaches are discussed in detail in this article.

## 2. Loan Approach versus Bond Approach – Advantages and Disadvantages

### 2.1. Loan approach

Pricing an intercompany loan based on loans between third parties is the most accurate approach from a trans-

9. *FT Guidelines 2020*, sec. B.

10. *FT Guidelines 2020*, paras. 10.51-10.61.

11. *FT Guidelines 2020*, para. 10.90.

12. *FT Guidelines 2020*, para. 10.93: "Arm's length interest rates can also be based on the return of realistic alternative transactions with comparable economic characteristics. Depending on the facts and circumstances, realistic alternatives to intra-group loans could be, for instance, bond issuances, loans which are uncontrolled transactions, deposits, convertible debentures, commercial papers, etc."

13. The databases that are most commonly used by practitioners when benchmarking an intercompany loan are Refinitiv's LoanConnector, Refinitiv's EIKON, Bloomberg and S&P CapitalIQ.

14. The search excludes loans issued by banks and non-bank financials.

15. LoanConnector is a web-based loan information platform that contains deal terms and conditions for over 220,000 historical loan transactions from both primary and secondary loan markets around the world.

16. The search excludes bonds issued by financials.

17. EIKON is an industry leading online platform for analysing financial markets. Through EIKON's open technology platform, a wide array of apps can be used to access financial data. The powerful apps are tailored to specific asset classes, financial markets and/or datasets. EIKON contains 2,000 contributing sources, 99% coverage of global market cap, 3.3 million transactions and 65 years of information.

fer pricing perspective. Taking into account that both transactions involve the same instrument, the nature of the transaction is highly similar. The basic characteristics of a loan typically include:

- the borrower obtains an amount that it has to fully repay to the lender at a certain predetermined moment in time; and
- a compensation, in the form of interest, is paid by the borrower to the lender for the loan obtained.

To ensure comparability, terms and conditions of the tested transaction need to be aligned with the terms and conditions of the third-party transactions. The most important factor that needs to be considered first is the creditworthiness of the borrower. This topic is further discussed in detail in section 4.1. Other comparability factors that have direct impact on the pricing of the loan and should be considered in the context of an appropriate comparability analysis are the following:

- Type of loan: A term loan will typically have a lower interest rate than a bullet loan. This is due to the fact that the principal of a term loan is being gradually repaid in fixed predetermined installments while the principal of a bullet loan is fully repaid at the maturity date. As a result of the gradual decrease of the outstanding loan amount, the risk for the lender decreases during the term of the loan and therefore a lower interest rate is typically applied.<sup>18</sup>
- Loan purpose: A loan can be issued, for example, for working capital, refinancing, repayment of existing debt, acquisition and many other purposes. Third-party lenders would typically offer more favourable terms and conditions in cases where the loan will be used for an investment with high expected returns.<sup>19</sup>
- Issuance currency: Loans issued in weak or unstable currencies that fluctuate significantly entail higher foreign currency exchange risks for both the lender and the borrower.
- Type of interest: An interest rate can be either fixed or floating. From a lender's perspective, floating rates are perceived as less risky since they are changing in line with the prevailing market conditions. From a borrower's perspective, fixed rates are more preferable since they provide more certainty.<sup>20</sup>
- Term of the loan: Typically, long-term loans have higher interest rates than short-term loans due to the increased credit risk incurred by the lender arising from the borrower's increased probability of default in the long run.
- Seniority: In case of default, subordinated loans rank above only equity in terms of priority of claims and

18. Another example is that a revolving loan facility will typically bear a higher interest rate than a term or a bullet loan due to the fact that it offers significant flexibility to the borrower with regard to draw down amounts and timings.

19. *Discussion Draft 2018*, para. 34.

20. A. Sulejmani, *Pricing Intercompany Financial Transactions: Loans, Guarantees and Cash-Pooling Arrangements*, 26 Intl. Transfer Pricing J. 6 (2019), Journal Articles & Opinion Pieces IBFD.

repayments<sup>21</sup> and, therefore, they bear higher interest rates than senior loans, in order to compensate the lender for the additional risk that is borne.

- Collateral: Secured loans bear lower interest rates compared to unsecured loans, since they offer relative protection to the lender.<sup>22</sup>
- Other features embedded in the loan: Early repayment clauses, financial covenants, the option to convert to shares and additional fees can impact the interest rate of a loan. In general, features that are to the benefit of the lender will typically lower the interest rate, while features to the benefit of the borrower will typically increase the interest rate.

In addition, the industry where the borrower operates and the market conditions<sup>23</sup> prevailing at the issuance date of the loan should also be considered.<sup>24</sup>

Although the loan approach is the most accurate from a technical perspective, there are three main disadvantages. First, interest rates fluctuate over time. Therefore, interest rates of historical loan transactions may not reflect the interest rate that should be applied as at the start date of the intercompany loan transaction. Despite potential high comparability in the terms and conditions, timing differences in loan transactions may result in a lack of comparability. Especially in volatile markets or economic downturns, timing differences may have a significant effect on the pricing of an intercompany loan.

The second disadvantage relates to the type of the loan transactions included in the public databases. In reality, the vast majority of loan transactions are bilateral agreements that involve one borrower and one lender (“one to one”). This is not the case in the public loan databases whereby the vast majority of loan transactions with available data are syndicated loans,<sup>25</sup> which involve one borrower and various lenders (“one to many”).<sup>26</sup> Benchmarking a bilateral intercompany loan with third-party

syndicated loans may not be appropriate, since the spread of the syndicated loan will likely tend to be higher. Contrary to standard bilateral bank loan agreements, whereby the spread is determined based on the borrower’s creditworthiness and other characteristics, in a syndicated loan the spread may also incorporate a form of an additional premium,<sup>27</sup> which is not related to a borrower’s specific characteristics but compensates the participating banks for the adverse selection<sup>28</sup> and moral hazard risk<sup>29</sup> they incur.

The third disadvantage is the potential complexity of independent loan transactions. Loan transactions can be tailored to a great extent in order to align either with the preferences and/or demands of the borrower/lender or with the type of investment for which the loan will be used. It is not uncommon for third-party loan transactions to include features such as additional fees (upfront fees,<sup>30</sup> commitment fees<sup>31</sup>) and early repayment clauses, which have direct impact on the quantum of the applied coupon and can distort the results of the external CUP analysis. For example, a loan that includes an upfront fee payment will typically have a lower credit spread compared to another loan with similar terms and conditions that does not include an upfront fee. Those features, in the majority of the cases, are either not visible in the public databases or not available at all. As a result they cannot be identified or filtered upon. Therefore, for more complex loan transactions with additional embedded features, aligning the terms and conditions may be challenging.

It should also be noted that the coverage of European loan transactions in the public loan databases is relatively limited compared to the coverage of United States/Canada loan transactions.<sup>32</sup>

## 2.2. Bond approach

The bond approach uses bond transactions and compares the yield to remaining maturity (YTRM) of the bond with the interest rate of the intercompany loan transaction. Bond transactions are to a large extent comparable to loan transactions. Instead of referring to lenders and borrow-

21. P.H. Conac, *Mis-selling of Financial Products: Subordinated Debt and Self-placement*, European Parliament (2018).

22. V. Chand, *Transfer Pricing Aspects of Intra - Group Loans in Light of the Base Erosion and Profit Shifting Action Plan*, 44 *Intertax* 12, pp. 885-902 (2016).

23. A. Russo & M. Shirazi, *Transfer Pricing for Intercompany Financial Transactions: Application of the Arm’s-Length Principle in Theory and in Practice*, 19 *BNA Transfer Pricing Report* 1, p. 44 (2010).

24. For instance, a loan issued by an oil and gas company during a period when the oil prices are suppressed due to low demand will bear a higher interest rate than a loan with similar terms and conditions issued by a company operating in another industry during that period.

25. A typical syndicated loan is issued to a single borrower jointly by a group of lenders. These lenders are usually banks, but they can also include other financial institutions. Mandated by the borrower, a lead bank (or banks) promotes the loan to potential lenders that are interested in taking exposure in certain corporate borrowers. The lead arranger provides probable participants with a memorandum including borrower-specific information. Usually each participant funds the loan at identical conditions and is responsible for its particular share of the loan; it therefore has no legal responsibility for other participants’ shares. Overall, syndicated loans lie somewhere between relationship (i.e. private) loans and public debt, where the lead bank may have some form of relationship with the borrower, see Y. Altunbas, A. Kara & D. Marqués-Ibáñez, *Large debt financing: Syndicated loans versus corporate bonds*, 16 *The European Journal of Finance* 5 (2010).

26. When looking at LoanConnector, which is the most widely used database by practitioners when it comes to loans, of the 2,890 corporate

loans issued during 2020 that have available information on spread, 2,430 loans are syndicated, representing 84%.

27. V. Ivashina, *Asymmetric information effects on loan spreads*, 92 *Journal of Financial Economics* 2, pp. 300-319 (2009).

28. When participating in a syndicated loan, participant banks are highly dependent upon the information with regard to the borrower that is provided to them by the lead bank. This heavy reliance on the lead bank creates an adverse selection problem since the lead bank is incentivized to syndicate ‘bad or risky’ loans.

29. The moral hazard risk arises from the fact that, after the lead bank sells parts of the loan to the participants, its motivation to effectively continue monitoring is declined.

30. A form of upfront fee is for example the origination fee, which is occasionally charged by third-party lenders in order to compensate them for setting up a new loan agreement.

31. The commitment fee compensates the lender for his commitment to make funds available to the borrower. In most of the cases, commitment fees are charged in revolving loans, where the borrower has an available, undrawn line of credit to use whenever he needs it.

32. Data in LoanConnector show that of the 1,541 corporate loans with available information on spread and borrower’s credit rating that have been issued during the last year (15 October 2019-15 October 2020), 1,390 loans have been issued in the United States/Canada (90%), while only 151 loans have been issued in Europe (10%).

ers, the bond market refers to bond issuers (borrowers) and bond holders (lenders). Similar to loans, bond issuers obtain an amount that has to be fully repaid at a certain moment in time and pay a compensation for this amount, in the form of coupon payments. Although the compensation is a combination of the bond's face value and the bond's coupon rate, the YTRM reflects the overall return of the bondholder, expressed as an annual rate. In other words, the YTRM is the total rate of return (i.e. total interest rate) that investors would earn, assuming that they will reinvest every coupon payment received from the bond at that constant rate until the bond matures.<sup>33</sup> The YTRM can be considered a reliable measure of calculating the return of a bond since it takes into account the time value of money by accounting for the present value of a bond's future coupon payments.<sup>34</sup>

Despite the comparability between the two instruments, there are also some differences. First, although there is only one bond issuer, there are typically many bond holders. Contrary to loans, which involve only one or a few lenders (in syndicated transactions), bonds may have thousands of bond holders. When subscribing a bond, bond holders will have to rely upon information that has been made available by the bond issuer. Compared to loan transactions, whereby the lender (i.e. the bank) has access to all kind of corporate information regarding the borrower, the amount of information obtained by the bond holder is limited. In addition, a bank has the capacity to continuously monitor the activities of the borrower, for instance by including restrictive covenants in the loan agreement, a feature that is typically not common in bond issuances.<sup>35</sup> As a result, bonds offer less room for tailoring and are typically more standardized compared to loans.

Second, the yield of a bond reflects (current) market prices, i.e. demand and supply for the specific bond. Contrary to loan transactions, where the interest rate is set at the beginning of the transaction and is based on facts and circumstances as at the date of the agreement, bonds are traded instruments and thus yields fluctuate over the term of the bond. The yield mainly depends on the liquidity of the market. As a result of the above, the yield of a bond is being continuously repriced by the market.

Pricing an intercompany loan based on the bond approach offers the advantage of taking into account the prevailing market conditions and the remaining term, in contrast with the loan approach, whereby the pricing is based on historical loan transactions, which may not be representative. Therefore, the bond approach may be the appropriate approach, for instance, during economic downturns, such as the current one due to the COVID-19 pandemic, which may produce further restrictions on liquidity and a potential decrease in private bank loan issuances and, conse-

quently, a lack of interest rate benchmarks for certain credit ratings.<sup>36</sup>

However, there are some other factors to be considered when selecting the appropriate approach. For instance, when the credit rating assessment has indicated that the borrower has a poor rating, the loan approach may be more appropriate. This argument is based on the fact that companies with poor rating do not have easy access to the public bond market and will have to address the private loan market for their financing needs.<sup>37</sup> This argument is also consistent with the renegotiation and liquidation hypothesis which argues that borrowers with high probability of default in the foreseeable future are inclined to address private banks for their financing needs, since it is more challenging for them to effectively negotiate the terms and conditions of debt arrangements with thousands of bond holders compared to a single bank or a limited number of banks,<sup>38</sup> despite the fact that, in equilibrium, banks charge higher interest rates compared to publicly traded debt.<sup>39</sup> Therefore, in a stable, non-volatile economic environment, the number of comparable loan transactions will likely be greater than the number of the respective comparable bond transactions in the non-investment grade area and vice versa.

Benchmarking the interest rate using the loan approach instead of the bond approach may also be more appropriate when examining small intercompany loan amounts. According to the flotation cost theory, issuing public debt requires significant cost, hence issuing a small amount will not be efficient from a cost perspective.<sup>40</sup> Therefore, in the majority of cases, companies choose to issue bonds only for considerable amounts. As a result, the number of bond transactions with small amounts is limited in the public databases.<sup>41</sup>

As a last note, bonds are tradeable (liquid) instruments that can be relatively easily traded in secondary markets while loans are not (illiquid). Therefore, pricing an intercompany loan by using the bond approach would justify

33. P. Veronesi, *Fixed Income Securities: Valuation, Risk and Risk Management*, p.47-49, (Wiley 2010).

34. In other words, the YTRM is the discount rate that equates the net present value of a bond's future coupon payments to the bond's price.

35. C. Smith & J.B. Warner, *On financial contracting: An analysis of bond covenants*, 7 *Journal of Financial Economics* 2, at pp. 117-161 (1979).

36. M. Bonekamp & N. Schaatsbergen, *Transfer Pricing of Financial Transactions and the Impact of COVID-19*, 27 *Intl. Transfer Pricing J.* 4 (2020), *Journal Articles & Opinion Pieces IBFD*.

37. The inverse is the case for high rated companies, for which the issuance of bonds is not only easier but also more beneficial compared to the issuance of loans. This relationship between credit rating and ability/willingness to issue bonds is corroborated by various studies including S. Krishnaswami, P.A. Spindt & V. Subramaniam, *Information Asymmetry, Monitoring, and the Placement Structure of Corporate Debt*, 51 *Journal of Financial Economics* 3 (1999) and D. J. Denis & V. Mihov, *The choice among bank debt, non-bank private debt, and public debt: evidence from new corporate borrowings*, 70 *Journal of Financial Economics* 1 (2003), at pp. 3-28.

38. M. Berlin & J. Loeys, *Bond covenants and delegated monitoring*, 43 *Journal of Finance* 2, pp. 397-12 (1988).

39. T. Chemmanur & P. Fulghieri, *Reputation, renegotiation, and the choice between bank loans and publicly traded debt*, 7 *Review of Financial Studies* 3, pp. 475-506 (1994).

40. J. Houston & C. James, *Bank Information Monopolies and the Mix of Private and Public Debt Claims*, 51 *The Journal of Finance* 5 (1996); Krishnaswami, Spindt & Subramaniam, *supra* n. 37, Denis & Mihov, *supra* n. 37.

41. Data in EIKON show that of the 2,560 active corporate bonds issued in EUR with available information on YTRM and issuer's credit rating, only 156 bonds (6%) have a principal amount of less than 100 million.

a comparability adjustment,<sup>42</sup> in order to account for the lack of liquidity of loans. This topic is further analysed in section 4.3.3.

### 3. Case Study

Table 1 presents the facts and circumstances of the case study.

Table 1 – Facts and circumstances of the case study	
Facts and circumstances	Description
Lender	ABC B.V. (Netherlands)
Borrower	ABC Ltd. (United Kingdom)
Industry of borrower	Automotive parts/components
Type of loan	Term loan
Loan purpose	General corporate and operational purposes
Currency and amount	USD 500 million
Issuance date	15 October 2020
Maturity date	15 October 2025
Term	5 years
Seniority	Senior
Collateral	Unsecured
Interest type	Floating

The intercompany loan under this case study (“Loan under review”) is provided by the central financing entity of the ABC Group (“the Group”), located in the Netherlands, to one of the operating companies of the Group, located in the United Kingdom, in order to finance its corporate and operational needs. The Loan under review is a senior unsecured term loan with an amount of USD 500 million, a start date of 15 October 2020 (“pricing date”), a floating interest rate and a term of 5 years.

### 4. Determination of an Appropriate Interest Rate

Before pricing an intercompany transaction, the first step should always be the accurate delineation of the transaction, including an analysis of the contractual terms, a functional analysis, an analysis of the key characteristics of the product/service under review, the prevailing economic circumstances and the business strategies used by the parties involved.<sup>43</sup> In the context of the accurate delineation of an intercompany loan transaction, the following economically relevant characteristics may be useful indicators, depending on the facts and circumstances:<sup>44</sup>

- the presence or absence of a fixed repayment date;
- the obligation to pay interest;
- the right to enforce payment of principal and interest;
- the status of the funder in comparison to regular corporate creditors;

42. *OECD Guidelines 2017*, para. 1.40: “Where there are differences between the situations being compared that could materially affect the comparison, comparability adjustments must be made, where possible, to improve the reliability of the comparison”.

43. *OECD Guidelines 2017*, ch. I, secs. D.1 and D.2.

44. *FT Guidelines 2020*, para. 10.12.

- the existence of financial covenants and security;
- the source of interest payments;
- the ability of the recipient of the funds to obtain loans from unrelated lending institutions;
- the extent to which the advance is used to acquire capital assets; and
- the failure of the purported debtor to repay on the due date or to seek a postponement.

Once the actual transaction has been accurately delineated, arm’s length interest rates can be sought based on consideration of the credit rating of the borrower or the rating of the specific issuance taking into account all of the terms and conditions of the loan and comparability factors.<sup>45</sup> Since the primary purpose of the case study analysed in this article is to provide an economic analysis determining an arm’s length interest rate for the intercompany loan presented above, it is assumed that there are no issues in any aspect with respect to the accurate delineation of the loan transaction under review. In addition, interest limitation rules, withholding taxes and any other tax aspect are out of scope and will not be discussed.

#### 4.1. Credit rating assessment

##### 4.1.1. Introduction

The creditworthiness of the borrower is one of the main factors that independent lenders take into account when determining an interest rate to charge. Credit ratings can serve as a useful measure of creditworthiness and therefore help to identify potential comparables or to apply economic models in the context of related-party transactions.<sup>46</sup>

In order to determine the credit rating of the borrower, the following steps were performed :

- (1) determination of the stand-alone credit rating of the borrower;
- (2) determination of the credit rating of the group as a whole; and
- (3) determination of an appropriate credit rating of the borrower based on the above.

The three steps are described in sections 4.1.2.-4.1.4.

##### 4.1.2. Stand-alone credit rating

In most cases, publicly available credit ratings are only available at group level and not at each subsidiary level.<sup>47</sup> This is also the case in this case study, whereby it is assumed that the borrower does not have a publicly available stand-alone credit rating.

For the estimation of the credit rating of the borrower on a stand-alone basis, there are only two available options.<sup>48</sup>

45. *FT Guidelines 2020*, para. 10.89.

46. *FT Guidelines 2020*, para. 10.62.

47. *FT Guidelines 2020*, para. 10.71.

48. R. Fossati, *Should Transfer Pricing Practitioners Become Credit Rating Analysts? Practical Instructions Based on Final OECD Guidance on Financial Transactions*, 27 *Intl. Transfer Pricing J.* 5 (2020), *Journal Articles & Opinion Pieces IBFD*.

either through online tools<sup>49</sup> that determine a credit rating using financial ratios, macroeconomic data and other quantitative inputs, such as Moody's RiskCalc Model<sup>50</sup> and Standard and Poor's (S&P) CreditModel,<sup>51</sup> or by performing a manual exercise to replicate the independent credit rating agencies' methodologies. For the purpose of this article, it is assumed that a high-level manual exercise was performed, which resulted in a stand-alone credit rating of "BB-".

#### 4.1.3. Group credit rating

Besides a credit rating of the borrower at a stand-alone basis, a second credit rating was performed at group level. According to the FT Guidelines 2020, a group company may receive support from the group to meet its financial obligations in case it gets into financial difficulty.<sup>52</sup> The incidental benefit that a group company is assumed to receive solely by virtue of group affiliation is referred to as implicit support.<sup>53</sup> Implicit support from the group may affect the credit rating of the borrower.<sup>54</sup>

For the purpose of this article, it is assumed that the latest credit rating of the Group as a whole, as assessed and published by one of the three major rating agencies<sup>55</sup> is "BBB".<sup>56</sup>

#### 4.1.4. Selection of appropriate credit rating

Based on the credit analysis performed, the stand-alone credit rating of the borrower is "BB-", while the credit rating of the Group as a whole is "BBB". In selecting an appropriate credit rating for the purpose of determining an arm's length interest rate, the degree of potential implicit support of the group needs to be examined. The impact of an assessment of implicit support is a matter of judgement.<sup>57</sup> In this regard, the relative status of an entity within the group may help to determine what impact that potential group support has on the credit rating of a debt issuer.

In general, entities of an MNE group will be more or less likely to receive group support according to the relative importance of the entity in the MNE group as a whole and the linkages between the entity and the rest of the MNE group, either in its current form or in terms of future strategy. An MNE group member with stronger links that is integral to the group's identity or important to its future strategy, typically operating in the group's core business, would ordinarily be more likely to be supported by other MNE group members and consequently have a credit rating more closely linked to that of the MNE group. Conversely, it may be reasonable to assume that an entity would be likely to receive support from the rest of the MNE group in more limited circumstances where it does not show those same indicators or the linkages are weaker. In the case of an entity where there is evidence that no support would be provided by the MNE group, it may be appropriate to consider the entity only on the basis of its own stand-alone credit rating under the prevailing facts and circumstances.<sup>58</sup>

The criteria used to determine the status of an entity may include considerations such as legal obligations (e.g. regulatory requirements), strategic importance, operational integration and significance, shared name, potential reputational impacts, negative effects on the overall MNE group, general statement of policy or intent, and any history of support and common behaviour of the MNE group with respect to third parties. The relative relevance of those factors may vary from one industry to another.<sup>59</sup>

Practical guidance with regard to the degrees of implicit support is provided by S&P, which states that a notching adjustment of the subsidiary's rating is warranted if specific circumstances and thresholds are met.<sup>60,61</sup> Following the guidance provided by S&P, the groups of entities and the corresponding credit rating adjustments are identified in Table 2.

For the purpose of this article, it is assumed that the borrower can be considered a "strategically important" subsidiary of the Group.<sup>62</sup> As such, it can be assumed that the rest of the Group is likely to provide additional liquidity, capital, or risk transfer in most foreseeable circumstances. However, some factors raise doubts about the extent of group support.

49. According to the *FT Guidelines 2020*, paras. 10.72-10.75, those tools have two main weaknesses: they rely excessively on quantitative inputs and they lack clarity in the process of how the (implied) credit rating is determined.

50. Moody's RiskCalc produces forward-looking default probabilities (called expected default frequency, or EDFTM) by combining financial statements and equity market information into a highly predictive measurement of stand-alone credit risk. RiskCalc consists of a global network of 25 models that cover approximately 80% of the world's GDP. RiskCalc's predictive analytics are based on Moody's Credit Research Database.

51. S&P's CreditModel is a statistical tool based on credit ratings from S&P Global Ratings, which offers an automated solution to assess the credit risk of companies worldwide. The model is calibrated to generate a quantitative output to broadly align with credit ratings from S&P Global Ratings. In addition, the model achieves global coverage, via inclusion of tailored indicators/features, for developed, emerging and frontier markets. These features were designed to specifically address sovereign risk, transfer and convertibility risk, and country risk.

52. *FT Guidelines 2020*, para. 10.76.

53. *FT Guidelines 2020*, para. 10.77.

54. *FT Guidelines 2020*, para. 10.78.

55. The three major credit rating agencies are S&P, Moodys and Fitch.

56. For the purpose of this article, the credit rating of a group as a whole coincides with the credit rating of the ultimate parent entity of the group, based on consolidated financial statements.

57. *FT Guidelines 2020*, para. 10.80.

58. *FT Guidelines 2020*, para. 10.78.

59. *FT Guidelines 2020*, para. 10.79.

60. S&P Global Ratings, General Criteria: Group Ratings Methodology (July 2019).

61. Although there are similar methodologies published by Moody's and Fitch, for instance, Moody's Rating Non-Guaranteed Subsidiaries: Credit Considerations in Assigning Subsidiary Ratings In The Absence Of Legally Binding Parent Support (Dec. 2003), the S&P approach was selected as it is the most recent.

62. According to S&P, a strategically important subsidiary should have the following characteristics: it is highly unlikely to be sold, it is important to the group's long-term strategy, it has the long-term commitment of senior group management, or incentives exist to induce such commitment (for example, cross-default clauses in financing documents), it is reasonably successful at what it does or has realistic medium-term prospects of success relative to group management's specific expectations or group earnings norms.

Group status	Brief definition	Long-term credit rating
1. Core	Integral to the group's current identity and future strategy. The rest of the group is likely to support these entities under any foreseeable circumstances.	At group credit rating
2. Highly strategic	Almost integral to the group's current identity and future strategy. The rest of the group is likely to support these subsidiaries under almost all foreseeable circumstances.	One notch below the group credit rating
3. Strategically important	Less integral to the group than strategic subsidiaries. The rest of the group is likely to provide additional liquidity, capital, or risk transfer in most foreseeable circumstances. However, some factors raise doubts about the extent of group support.	Three notches above the stand-alone credit rating
4. Moderately strategic	Not important enough to warrant additional liquidity, capital, or risk transfer support from the rest of the group in some foreseeable circumstances. Nevertheless, there is potential for some support from the group.	One notch above the stand-alone credit rating
5. Non-strategic	No strategic importance to the group. These subsidiaries could be sold in the near to medium term.	At the stand-alone credit rating

Based on the previous and in line with the S&P guidance, the stand-alone credit rating of the borrower (BB-) was notched upwards with three notches resulting to a credit rating of “BBB-”. This credit rating was considered appropriate for the purpose of determining an arm's length interest rate for the Loan under review.

## 4.2. Loan approach

### 4.2.1. Base rate

The interest rate of a loan is typically expressed as a base rate<sup>63</sup> plus a credit margin (i.e. loan spread). The base rate reflects the compensation for the market risk of the loan. For loan transactions with a floating interest rate, the base rate is determined by looking at the Interbank Offered Rate (IBOR)<sup>64</sup> rate in the respective issuance currency. Those rates reflect the average interest rate applied for interbank loans with a maturity of up to 1 year. Various maturities are published ranging from 1 day to 1 year.

63. Or reference rate.

64. IBORs serve as widely accepted benchmark interest rates that represent the cost of short-term, unsecured, wholesale borrowing by large globally active banks. A group of banks submits rates on a daily basis, which are averaged and published for a variety of currencies and tenors. Over time, IBORs have grown in relevance, with some estimates suggesting they serve as interest rate benchmarks for over USD 350 trillion in financial products, including bonds, derivatives mortgages and other loans. IBORs are used by financial institutions, corporations and governments, as well as retail market participants. IBORs are used not only as benchmarks in financial contracts, but also often as the basis for valuations. See <https://www.credit-suisse.com/microsites/ibor/en.html#:~:text=IBOR%20rates%20represent%20interest%20rates,little%20or%20no%20credit%20risk.> (accessed 3 May 2021).

The Loan under review is denominated in USD and has a floating interest rate. Therefore, the USD London Interbank Offered Rate (Libor)<sup>65,66</sup> rate is applicable.

### 4.2.2. Loan spread

Besides a compensation for market risk, an interest rate also includes compensation for credit risk. To determine an arm's length compensation for the credit risk, a search was performed to identify comparable loan agreements between independent parties that include credit risk similar to the Loan under review. LoanConnector was used as the primary source to search for loan transactions. The following search criteria were applied:

- (1) Borrower's credit rating: Borrowers with an S&P long-term credit rating of BBB- as at the issuance date of their loans were selected.
- (2) Borrower's industry: Borrowers from the “Consumer Discretionary” industry were selected.<sup>67</sup>
- (3) Loan type: Revolving loan facilities were selected.
- (4) Loan purpose: Loans for general purposes were selected.

65. LIBOR is the world's most widely used benchmark for short-term rates with USD 200 to USD 300 trillion in mortgages, consumer loans, corporate debt, derivatives and other financial instruments using it as reference rate. However, it has been decided by regulators to retire LIBOR with a full phase-out by the end of 2021. At that point, all USD denominated loans, derivatives and debt will reference a new rate, the Secured Overnight Funding Rate (SOFR), which is a median of rates that market participants pay to borrow cash on an overnight basis, using Treasuries as collateral. See Morgan Stanley, *Transitioning LIBOR: What it means for investors* (29 Oct. 2019), available at <https://www.morganstanley.com/ideas/libor-its-end-transition-to-sofr#:~:text=LIBOR%20is%20the%20world's%20most,slated%20to%20end%20by%202022.> (accessed 3 May 2021).

66. Had the Loan under review been issued in EUR, the Euribor rate would have been applicable as base rate.

67. At first, the industry “Automotive” was selected but this search did not generate sufficient search results. Therefore, the industry criterion was expanded to all “Consumer Cyclical/Discretionary”.

- (5) Loan active date: Loans with a start date within 5 years prior to the pricing date were selected (i.e. between 15 October 2015 and 15 October 2020).
- (6) Loan term: Loans with a term between 4.5 and 5.5 years were selected.
- (7) Currency: Loans issued in USD were selected.
- (8) Seniority: Senior loans were selected.
- (9) Security: Unsecured loans were selected.
- (10) Base/reference rate: Loans having Libor as the base rate were selected.
- (11) Spread/margin: Loans with information on spread were selected.

The above set of criteria resulted in 22 comparable uncontrolled loan transactions. As a next step, a financial analysis needs to be performed in order to determine an arm's length loan spread. According to the OECD Guidelines 2017, the interquartile range<sup>68</sup> can be used to help enhance the reliability of a comparability analysis when the range of comparables includes a sizeable number of observations.<sup>69</sup> In this case, the number of comparables can be considered sizeable. Therefore, the interquartile range was considered appropriate. Table 3 provides the calculations.

Interquartile range	Loan spread (bps)
Lower quartile	110
Median	125
Upper quartile	138
Observations	22

An interquartile range between 110 bps and 138 bps, with a median of 125 bps was determined. This range reflects an arm's length range of spread for the Loan under review. Details on the comparable loan transactions are included in Appendix 1.

#### 4.2.3. Total interest rate

Under the loan approach, the total interest rate is determined by combining the base rate and the loan spread. Table 4 provides the calculations.

Interquartile range (bps)	Base rate	Loan spread	Total interest rate
Lower quartile	USD Libor	110	USD Libor + 102 bps
Median	USD Libor	125	USD Libor + 125 bps
Upper quartile	USD Libor	138	USD Libor + 138 bps

68. The interquartile range eliminates the influence of outliers because, in effect, the highest and lowest quarters are removed. The interquartile mean is a statistical measure of central tendency.

69. *OECD Guidelines 2017*, para. 3.57.

An interquartile range between USD Libor + 110 bps and USD Libor + 138 bps with a median of USD Libor + 125 bps was determined. This range reflects an arm's length total interest rate range for the Loan under review.

### 4.3. Bond approach

#### 4.3.1. Search for comparable bonds

A search was performed to identify comparable bond transactions, taking into account an issuer's long-term credit rating of "BBB-". The EIKON database was used as a primary source to search for comparable bond transactions. The following search criteria were applied:

- (1) Instrument: Corporates bonds and notes were selected.<sup>70</sup>
- (2) Issuer's credit rating: Issuers with an S&P long-term credit rating of BBB- were selected.
- (3) Issuer's industry: Issuers from the "Consumer Cyclicals" industry were selected.<sup>71</sup>
- (4) Currency: Bonds denominated in USD were selected.
- (5) Remaining term: Bonds that have a remaining term between 4.5 and 5.5 years as from the pricing date were selected (i.e. between 15 April 2025 and 15 April 2026).<sup>72</sup>
- (6) Seniority: Senior unsecured bonds were selected.
- (7) Coupon type: Plain vanilla fixed coupon bonds were selected.<sup>73</sup>
- (8) YTRM: Bonds with available information on YTRM were selected.

The above set of criteria resulted in 31 comparable uncontrolled bond transactions. Of the 31 bond transactions, 6 were considered as duplicates and therefore they were excluded.<sup>74</sup> As a result, 25 comparable bond transactions remained. Details on the selected comparable bond transactions are included in Appendix 2.

70. The only difference between a bond and a note is the term. Typically, notes have a short to medium term while bonds are considered as more long-term fixed income instruments.

71. At first, the industry "Auto Vehicles, Parts & Service Retailers" was selected but this search did not generate sufficient search results. Therefore, the industry criterion was expanded to all 'Consumer Cyclicals'.

72. In most of the cases it is very challenging to identify sufficient bond transactions with a remaining term exactly equal to the term of the intercompany loan. Therefore, bonds with a remaining term of +/- half year from the maturity date of the loan under review were selected.

73. A bond may include several features and additional options, such as zero coupon or conversion to shares, that have impact on its yield. By only selecting plain vanilla fixed coupon bonds, which are considered the most straightforward and simple bonds, the likelihood the sample includes bonds with embedded features and options is minimized.

74. Two bonds issued by the same issuer that have the same start date, currency, principal amount, coupon rate and maturity date are considered duplicates. Bonds are sometimes issued in various jurisdictions, for example in the United States or the Eurozone. Although they are considered as separate transactions from a legal/database perspective, they are similar from an economic perspective.



### 4.3.2. Credit spread

To arrive at the compensation equivalent to a credit spread, the implied base rate needs to be deducted from the YTRM of each comparable bond. For bonds with maturity of over 1 year, the implied base rate is determined by looking at the swap rate in the respective issuance currency with a term equivalent to the remaining term of the bond. A swap is a commonly used financial instrument where two parties owning different type of interest rates (fixed or floating) exchange interest rate cash flows between each other for a specified principal amount. This allows borrowers to construct a fixed interest rate by converting their floating interest rate.<sup>75</sup> After deducting the appropriate implied base rate, an implied credit spread is arrived at. Appendix 2 sets out the calculations.

Table 5 provides the interquartile range of the credit margin of the selected bonds.

Interquartile range	Credit margin (bps)
Lower quartile	242
Median	285
Upper quartile	302
Observations	25

An arm’s length interquartile range was determined between 242 bps and 302 bps with a median of 285 bps. This range reflects an arm’s length credit spread for the Loan under review. Details on the selected comparable bond transactions are included in Appendix 2.

### 4.3.3. Illiquidity premium

Bonds are considered to be highly tradeable instruments and, as such, they are more liquid compared to private loans, which cannot be easily traded. Therefore, an independent investor investing in a loan rather than a bond with the same terms and conditions would require a higher return, in the form of an illiquidity premium, in order to be compensated for the lack of tradability/marketability of the loan. The illiquidity premium for a given illiquid instrument can be thought of as being the price premium or excess return/yield offered by this instrument relative to some hypothetical, perfectly liquid instrument with otherwise equivalent characteristics.<sup>76</sup>

Numerous studies have been conducted around the quantification of the illiquidity premium with regard to various types of securities including corporate and government bonds, covered bonds and stocks, and for different credit ratings. For the purpose of determining an appropriate illiquidity premium for the Loan under review, the studies rendered in Table 6 were used as a basis.

75. H. Curb, *Interest Rate Swaps and Other Derivatives*, at pp. 3-4 (Columbia University Press 2012).  
 76. Hibbert et al, *Liquidity Premium: Literature review of theoretical and empirical evidence* (Barrie & Hibbert 2009).

Author(s)	Asset class	Method applied	Illiquidity premium for BBB rating
Blanco, Brennan and Marsh (2005) <sup>1</sup>	Corporate bonds	Regression	15 bps
Chen et al. (2007) <sup>2</sup>	Corporate bonds	Regression	31 bps-35 bps
Han and Zhou (2007) <sup>3</sup>	Corporate bonds	Regression	24 bps-62 bps

1. R. Blanco, S. Brennan & I.W. Marsh, *An empirical analysis of the dynamic relationship between in-vestment grade bonds and credit default swaps*, 60 *Journal of Finance* 5, (2005), at pp. 2255-2281.  
 2. L. Chen et al, *Corporate yield spreads and bond liquidity*, 62 *Journal of Finance* 1, pp. 119-149 (2007).  
 3. S. Han & H. Zhou, *Effects of liquidity on the nondefault component of corporate yield spreads: Evidence from intraday transactions data*, Finance and Economics Discussion Series, No 2008-40 (2007).

Based on the results of the studies mentioned in Table 6, an average premium for the lack of liquidity in the BBB credit rating area of 30 bps was determined, which was considered appropriate.

### 4.3.4. Total interest rate

Under the bond approach, the total interest rate is determined by combining the credit spread and the illiquidity premium. Table 7 provides the calculations.

Interquartile range (bps)	Credit spread	Illiquidity premium	Total interest rate
Lower quartile	242	30	272
Median	285	30	315
Upper quartile	302	30	332

An interquartile range between 272 bps and 332 bps, with a median of 315 bps was determined. This range reflects an arm’s length total interest rate for the Loan under review.

## 4.4. Analysis and comparison of results

When comparing the results of the two approaches, the interest rate range determined through the bond approach is significantly higher compared to the interest rate range determined through the loan approach, despite the high level of similarity between the sets of criteria used in the two searches for comparables.<sup>77</sup> There are two main explanations for this deviation between the results of the two approaches:

- (1) the potential existence of additional fees and/or other options embedded in the selected comparable loans.

77. Assuming that the USD Libor rate of between 10 bps (1-week USD Libor) and 40 bps (12-month USD Libor) used as a base rate under the loan approach is more or less neutralized by the illiquidity premium of 30 bps used under the bond approach, the main difference between the results of the two approaches relates to the credit spread.

Those fees/options, if any, are not always visible/available and therefore they cannot be filtered out or further analysed, in order to determine their exact impact on the applied spread; and

- (2) most importantly, the pricing date of the analysis, which falls into the middle of the COVID-19 pandemic crisis.

The OECD acknowledges that macroeconomic trends such as central bank lending rates or interbank reference rates, and financial market events like a credit crisis, can affect prices. In this regard, the precise timing of the issue of a financial instrument in the primary market or the selection of comparable data in the secondary market can therefore be significant in terms of comparability. For instance, it is not likely that multiple year data on loan issuances will provide useful comparables,<sup>78</sup> since the interest rate of a loan is agreed between the parties as at the start date of the loan based on facts and circumstances as at that moment. This is also the case in this case study, whereby under the loan approach, historical loan transactions with highly comparable contractual terms and conditions (legal reality), yielded a range that does not reflect the current economic environment (economic reality).

The significance of the use of current transactions for the purpose of a reliable comparability analysis is further discussed by the OECD in its Guidance on the transfer pricing implications of the COVID-19 pandemic (COVID-19 Guidance).<sup>79,80</sup> The OECD states that information relating to the conditions of comparable uncontrolled transactions undertaken during the same period as the controlled transaction ('contemporaneous uncontrolled transactions') is the most reliable information to

78. *FT Guidelines 2020*, para. 10.32.

79. OECD, *Guidance on the transfer pricing implications of the COVID-19 pandemic (2020)* [hereinafter *COVID-19 Guidance*], available at <https://www.oecd.org/coronavirus/policy-responses/guidance-on-the-transfer-pricing-implications-of-the-covid-19-pandemic-731a59b0/> (accessed 4 June 2021).

80. The *COVID-19 Guidance* represents the consensus view of the 137 members of the Inclusive Framework on BEPS regarding the application of the arm's length principle and the *OECD Guidelines* to issues that may arise or be exacerbated in the context of the COVID-19 pandemic. The guidance is helpful both for taxpayers in reporting the financial periods affected by the pandemic and for tax administrations in evaluating the implementation of taxpayers' transfer pricing policies. The *COVID-19 Guidance* provides clarifying comments on, and illustrations of, the practical application of the arm's length principle in four priority issues, identified in consultation with Business at the OECD: (i) comparability analysis; (ii) losses and the allocation of COVID-19 specific costs; (iii) government assistance programmes; and (iv) advance pricing agreements.

use in a comparability analysis. Such information reflects how independent parties behave in an economic environment that is the same as or substantially similar to the economic environment of the controlled transaction.<sup>81</sup>

One can argue that the bond approach looks at historical bond transactions rather than contemporaneous transactions. However, when matching the term of the intercompany loan with the remaining term (as from the pricing date of the analysis) of the comparable bonds, alongside with other important comparability factors of course, the YTRM can be a very reliable measure that captures the market conditions prevailing at the pricing date. The results of the bond approach in the case study of this article support this argument. Although the interest rate that was determined through the bond approach may appear to be relatively high for an investment graded company, it can be justified, taking into account that the Loan under review was provided in the middle of a global economic crisis with significant uncertainty. Therefore, in the authors' opinion, the bond approach can be proved to be more appropriate, especially during periods of uncertainty.

## 5. Conclusion

Pricing an intercompany loan is not always a straightforward procedure. There are various approaches that can lead to a wide range of different results. The selection of the most appropriate approach should always be based on the specific facts and circumstances and the availability of sufficient and reliable data. In this article, the two most commonly used approaches were discussed, namely the loan and the bond approach. From a comparability perspective, the loan approach can be perceived as more appropriate, since it compares the same instruments. However, shortcomings such as the lack of sufficient data on private loans, the timing differences in pricing and the complexity of loan transactions in terms of additional "hidden" features have led transfer pricing practitioners to be more inclined to use the bond approach. Especially in periods of economic uncertainty, the bond approach yields much more reliable results, since it incorporates the prevailing market conditions, in contrast to the loan approach, which is based on historical prices. The results of the case study analysed in this article economically support the above argument.

81. *COVID-19 Guidance*, para. 14.

Appendix 1 – Search for Comparable Loans<sup>82</sup>

	Borrower Name	Country	SIC Code	S&P LT Issuer Rating	Tranche Type	Tranche Active Date	Tranche Currency	Tranche Amount (m) (USD)	Primary Purpose	Seniority	Secured	Term (months)	Base Rate	Margin (bps)
1	Autonation Inc	United States	5511: New and used car dealers	BBB-	Revolver/Line >= 1 Yr.	26-Mar-2020	U.S. Dollar	1,800	General Purpose	Senior	No	60	LIBOR	137.5
2	Autonation Inc	United States	5511: New and used car dealers	BBB-	Revolver/Line >= 1 Yr.	19-Oct-2017	U.S. Dollar	1,800	General Purpose	Senior	No	60	LIBOR	150
3	Best Buy Co Inc	United States	5731: Radio, tv, & electronic stores	BBB-	Revolver/Line >= 1 Yr.	30-Jun-2016	U.S. Dollar	1,250	General Purpose	Senior	No	60	LIBOR	150
4	Choice Hotels International Inc	United States	7011: Hotels and motels	BBB-	Revolver/Line >= 1 Yr.	12-Aug-2020	U.S. Dollar	600	General Purpose	Senior	No	60	LIBOR	105
5	Choice Hotels International Inc	United States	7011: Hotels and motels	BBB-	Revolver/Line >= 1 Yr.	02-Jul-2019	U.S. Dollar	600	General Purpose	Senior	No	61	LIBOR	105
6	Choice Hotels International Inc	United States	7011: Hotels and motels	BBB-	Revolver/Line >= 1 Yr.	20-Aug-2018	U.S. Dollar	600	General Purpose	Senior	No	60	LIBOR	105
7	Discovery Communications	United States	4841: Cable and other pay tv services	BBB-	Revolver/Line >= 1 Yr.	11-Aug-2017	U.S. Dollar	2,500	General Purpose	Senior	No	60	LIBOR	110
8	Discovery Communications	United States	4841: Cable and other pay tv services	BBB-	Revolver/Line >= 1 Yr.	04-Feb-2016	U.S. Dollar	1,425	General Purpose	Senior	No	60	LIBOR	110
9	Discovery Communications	United States	4841: Cable and other pay tv services	BBB-	Revolver/Line >= 1 Yr.	04-Feb-2016	U.S. Dollar	575	General Purpose	Senior	No	60	LIBOR	110
10	Las Vegas Sands Corp	United States	7011: Hotels and motels	BBB-	Revolver/Line >= 1 Yr.	09-Aug-2019	U.S. Dollar	1,500	General Purpose	Senior	No	60	LIBOR	140
11	Lear Corp	United States	2396: Automotive and apparel trimmings	BBB-	Revolver/Line >= 1 Yr.	20-Feb-2020	U.S. Dollar	1,750	General Purpose	Senior	No	54	LIBOR	125
12	Lear Corp	United States	2396: Automotive and apparel trimmings	BBB-	Revolver/Line >= 1 Yr.	08-Aug-2017	U.S. Dollar	1,750	General Purpose	Senior	No	60	LIBOR	130
13	Naspers Ltd	South Africa	4833: Television broadcasting stations	BBB-	Revolver/Line >= 1 Yr.	24-Nov-2015	U.S. Dollar	2,250	General Purpose	Senior	No	60	LIBOR	175
14	PVH Corp	United States	2321: Men's and boys' shirts	BBB-	Revolver/Line >= 1 Yr.	29-Apr-2019	U.S. Dollar	675	General Purpose	Senior	No	60	LIBOR	137.5
15	PVH Corp	United States	2321: Men's and boys' shirts	BBB-	Revolver/Line >= 1 Yr.	29-Apr-2019	U.S. Dollar	50	General Purpose	Senior	No	60	LIBOR	137.5
16	Sands China Ltd	Macao	7011: Hotels and motels	BBB-	Revolver/Line >= 1 Yr.	20-Nov-2018	U.S. Dollar	237	General Purpose	Senior	No	57	LIBOR	200

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82. Source: Refinitiv's LoanConnector

	Borrower Name	Country	SIC Code	S&P LT Issuer Rating	Tranche Type	Tranche Active Date	Tranche Currency	Tranche Amount (m) (USD)	Primary Purpose	Seniority	Secured	Term (months)	Base Rate	Margin (bps)
17	Signet Jewelers Ltd	Bermuda	5944: Jewelry stores	BBB-	Revolver/Line >= 1 Yr.	14-Jul-2016	U.S. Dollar	700	General Purpose	Senior	No	60	LIBOR	125
18	Staples Inc	United States	5943: Stationery stores	BBB-	Revolver/Line >= 1 Yr.	22-Nov-2016	U.S. Dollar	1,000	General Purpose	Senior	No	60	LIBOR	110
19	Tapestry Inc	United States	3171: Women's handbags and purses	BBB-	Revolver/Line >= 1 Yr.	24-Oct-2019	U.S. Dollar	900	General Purpose	Senior	No	60	LIBOR	101.5
20	Viacom Inc	United States	4841: Cable and other pay tv services	BBB-	Revolver/Line >= 1 Yr.	11-Feb-2019	U.S. Dollar	2,500	General Purpose	Senior	No	60	LIBOR	137.5
21	Whole Foods Market	United States	5411: Grocery stores	BBB-	Revolver/Line >= 1 Yr.	22-Dec-2015	U.S. Dollar	500	General Purpose	Senior	No	60	LIBOR	112.5
22	Whole Foods Market	United States	5411: Grocery stores	BBB-	Revolver/Line >= 1 Yr.	02-Nov-2015	U.S. Dollar	500	General Purpose	Senior	No	60	LIBOR	112.5
													Interquartile range	
													Lower Q.	110
													Median	125
													Upper Q.	138
													Count	22

Appendix 2 – Search for Comparable Bonds<sup>83</sup>

	Issuer	Country of Incorporation	TRBC Sector	S&P LT Rating	Principal Currency	Amount Issued (USD)	Seniority	Maturity date	Remaining term (years) <sup>1</sup>	YTM 15/10/20 (bps)	5Y USD Libor/Swap 15/10/20 (bps)	Credit spread (bps)
1	AutoNation Inc	United States	Auto Vehicles, Parts & Service Retailers (NEC)	BBB-	US Dollar	450,000,000	Senior Unsecured	01/10/2025	5.0	216	50	166
2	Discovery Communications LLC	United States	Broadcasting (NEC)	BBB-	US Dollar	488,512,000	Senior Unsecured	15/06/2025	4.7	125	50	75
3	Discovery Communications LLC	United States	Broadcasting (NEC)	BBB-	US Dollar	488,392,000	Senior Unsecured	15/06/2025	4.7	125	50	75
4	Discovery Communications LLC	United States	Broadcasting (NEC)	BBB-	US Dollar	700,000,000	Senior Unsecured	11/03/2026	5.4	159	50	109
5	Dollar Tree Inc	United States	Discount Stores without Grocery	BBB-	US Dollar	1,000,000,000	Senior Unsecured	15/05/2025	4.6	109	50	59
6	Expedia Group Inc	United States	Travel Agents	BBB-	US Dollar	2,000,000,000	Senior Unsecured	01/05/2025	4.5	388	50	338
7	Expedia Group Inc	United States	Travel Agents	BBB-	US Dollar	750,000,000	Senior Unsecured	01/05/2025	4.5	523	50	473
8	Expedia Group Inc	United States	Travel Agents	BBB-	US Dollar	750,000,000	Senior Unsecured	01/05/2025	4.5	518	50	468
9	Expedia Group Inc	United States	Travel Agents	BBB-	US Dollar	2,000,000,000	Senior Unsecured	01/05/2025	4.5	388	50	338
10	Expedia Group Inc	United States	Travel Agents	BBB-	US Dollar	750,000,000	Senior Unsecured	15/02/2026	5.3	352	50	302
11	Expedia Group Inc	United States	Travel Agents	BBB-	US Dollar	749,707,000	Senior Unsecured	15/02/2026	5.3	352	50	302
12	Host Hotels & Resorts LP	United States	Hotels, Motels & Cruise Lines (NEC)	BBB-	US Dollar	500,000,000	Senior Unsecured	15/06/2025	4.7	314	50	264
13	Host Hotels & Resorts LP	United States	Hotels, Motels & Cruise Lines (NEC)	BBB-	US Dollar	400,000,000	Senior Unsecured	01/02/2026	5.3	344	50	294
14	Hyatt Hotels Corp	United States	Hotels, Motels & Cruise Lines (NEC)	BBB-	US Dollar	450,000,000	Senior Unsecured	23/04/2025	4.5	337	50	287
15	Hyatt Hotels Corp	United States	Hotels, Motels & Cruise Lines (NEC)	BBB-	US Dollar	400,000,000	Senior Unsecured	15/03/2026	5.4	335	50	285
16	Kohls Corp	United States	General Department Stores	BBB-	US Dollar	600,000,000	Senior Unsecured	15/05/2025	4.6	460	50	410

83. Source: Refinitiv's EIKON

