

[Local company legal name]

[Country]

**Update to the Local File for the Financial Year 20XX covering the
intercompany transactions undertaken in FY 20XX+1**

[Date, year]

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1. Executive Summary

[Name tax advisory firm] (hereinafter referred to as: “ABC Tax Advisors”, “we” or “us”) has been engaged to update the Local file covering the controlled transactions of [local company full legal name] (hereinafter referred to as: “[Local Opco]”) for FY 20XX (“last year’s Local file”). This update provides details on the controlled transactions in which [Local Opco] was involved in during FY 20XX+1 *[This should be the year subject to review]*. Due to the nature of such controlled transactions, this update should be read in conjunction with the Local file prepared for [Local Opco] for FY 20XX (please refer to *Appendix I*).

In last year’s Local file, it was established that [Local Opco] should be characterized as a contract manufacturer in the controlled transaction where it supplies [name products] to its group companies [name group company 1] and [name group company 2]. The most appropriate transfer pricing method to test the arm’s length nature of the transfer prices for the supply of [name products] was the Transactional Net Margin Method (“TNMM”) with Mark-up on Total Cost (“MOTC”) as the relevant Profit Level Indicator (“PLI”). A benchmark study was performed, with [Local Opco] as the tested party, to identify a set of independent companies that had a comparable functional and risk profile as [Local Opco]. This benchmark study resulted in an inter-quartile range of XX% [Lower quartile] to XX% [Upper quartile], with a median of XX% (please refer to *Appendix II* for the benchmark report).

Based on the functional interviews with [Local Opco]’s management held on [month, year], we understand that the relevant facts and circumstances as described in the last year’s Local file have not changed significantly in FY 20XX+1. [Local Opco] was not involved in any other controlled transactions than the ones identified in last year’s Local file. In addition, management indicated that the functions performed, assets employed and the risks assumed by [Local Opco], as well as its contribution to the value chain, have not changed significantly.

Having said that, we have concluded the following for FY 20XX+1:

- the functional characterization of [Local Opco] in the controlled transaction where it supplies [name products] to its group companies [name group company 1] and [name group company 2] remained unchanged, i.e. [Local Opco] operates as a contract manufacturer;
- the TNMM with MOTC as the relevant PLI is still applicable as the most appropriate method to test the arm’s length nature of the transfer prices for the supply of [name products] to its group companies [name group company 1] and [name group company 2];
- Based upon the financial analysis we performed, it is concluded that the actual operating margin (MOTC) of [Local Opco] for FY 20XX+1 [falls] within the financial results realised by the companies yielded in the final sample of the benchmark study undertaken in last year’s Local file. *[Relevant text in case it is decided not to conduct a new benchmark study]*

[The section below is relevant in case a new benchmark study would be undertaken. If so the final bullet mentioned above should be deleted and be replaced by the sample language below]

We conducted a benchmark study to update the set of independent companies that have a comparable functional and risk profile as [Local Opco]. This benchmark study resulted in an inter-quartile range of XX% [Lower quartile] to XX% [Upper quartile], with a median of XX%. The benchmark study is provided in *Appendix II* of this update.

[The section below is only required if local transfer pricing rules prescribe that an analysis should be made of how the actual financial results compare to the results found in the comparables search. Please see below sample language]

The actual operating margin (MOTC) of [Local Opco] for FY 20XX+1 is shown in the table below.

Actual results realized in [currency]	FY 20XX+1
Operating Income	[.....]
Operating Costs	[.....]
Operating Margin (calculated as [Operating Income / Operating Costs])	[X.X%]

From the financial analysis, it may be concluded that the actual operating margin (MOTC) of [Local Opco] for the financial year 20XX+1 [falls] within the financial results realized by the companies yielded in the final sample of the benchmark study undertaken.

[In case additional intercompany transactions have been undertaken during the current year, these should be added. It is noted that the functional characterization of [Local Opco] may change through these new transactions. Therefore, [Local Opco]'s functional and risk profile should be re-considered in its entirety in case of new intercompany transactions]

2. Background to this Update

Last year, [Local Opco] prepared an extensive transfer pricing Local file in alignment with the latest Organization for Economic Cooperation and Development (“OECD”) Transfer Pricing Guidance on Documentation¹. This Local file covered the controlled transactions in which the [Local Opco] was involved in during FY 20XX.

As per Section D.5 of Chapter V of the OECD Transfer Pricing Guidelines on Documentation, it is recommended that the Local file should be reviewed and updated on an annual basis, as is stated as follows:

“37. It is recommended that transfer pricing documentation be periodically reviewed in order to determine whether functional and economic analyses are still accurate and relevant and to confirm the validity of the applied transfer pricing methodology. In general, the master file, the local file and the Country-by-Country Report should be reviewed and updated annually. It is recognized, however, that in many situations business descriptions, functional analyses, and descriptions of comparables may not change significantly from year to year.”

The management of [Local Opco] is of the opinion that last year’s Local file was established through a robust process. In addition, it believes that the relevant facts and circumstances for [Local Opco] (in particular the identified controlled transactions, the functional and risk profile and its contribution to the value chain) have not changed significantly vis-à-vis last year’s Local file.

We have been engaged by the management to investigate and validate the above. In this context we conducted a number of interviews with the management of [Local Opco]. In addition, we investigated a number of (financial) documents.

In the remainder of this update to the last year’s Local file, we address the following:

Section 3: Controlled transactions – this section details the controlled transactions in which the [Local Opco] was involved in during FY 20XX+1, including high level characteristics of such controlled transactions, the group companies which are engaged in such transactions and the amounts involved.

Section 4: Functional analysis - this section reconfirms the division of functions, risks and intangible assets employed by [Local Opco], as well as its contribution to the value chain, in relation to the supply of [name products] to its group companies [name group company 1] and [name group company 2].

Section 5: Selection and application of method - this section re-confirms the selection of the most appropriate transfer pricing method for the controlled transactions under review, and to determine the arm’s length pricing for said transactions.

¹ OECD (2022), OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2022, OECD Publishing, Paris.

[The section below is only required if local transfer pricing rules prescribe that an analysis should be made of how the actual financial results of [Local Opco] compare to the at arm's length prices of the intercompany transactions (often based on the results found in the comparables search)]

Section 6: Financial analysis - this section of the report analyses the actual results realized by [Local Opco] on the controlled transaction under review for FY 20XX+1 and compares such results to the results realized by independent third parties.

Section 7: Specific financial and tax information - this section contains a number of specific financial and tax details of [Local Opco], inter alia, statutory accounts and arrangements with the tax authorities.

3. Controlled transactions

4. Functional analysis

5. Selection and application of method

5.1 Most appropriate transfer pricing method

In the previous Section the functional characterization of [Local Opco] as a contract manufacturer was reconfirmed by management.

Based on this conclusion, the TNMM with MOTC as the relevant PLI would still be applicable (i.e. the transfer pricing methodology applied in the last year's Local file is still relevant – please refer to Section [XX] of last year's Local file) as the most appropriate method to test the arm's length nature of the transfer prices for the supply of [name products] to its group companies [name group company 1] and [name group company 2].

[In case the functional and risk profile of [Local Opco] has changed significantly in FY 20XX+1, it is likely that the selection of the most appropriate transfer pricing method needs to be reconsidered]

5.2 Application of transfer pricing method

In last year's Local file, a benchmark study was undertaken to determine an at arm's length range for the application of the TNMM with MOTC as PLI. This benchmark study resulted in an inter-quartile range of XX% [Lower quartile] to XX% [Upper quartile], with a median of XX%. The benchmark study is provided in **Appendix II** to this update.

[The section below is relevant in case a new benchmark study would be undertaken. If so the text above should be deleted and be replaced by the sample language below]

We conducted a benchmark study to update the set of independent companies that have a comparable functional and risk profile as [Local Opco]. The benchmark study is provided in **Appendix II** to this update.

[Please solicit your advisor in case you are not able to perform a benchmark study. We can also recommend an advisor to perform a benchmark study for you: please complete the contact form on our website]

The results of the comparables search process resulted in a final sample of [XX] companies. The interquartile range calculated for the companies in the final sample are summarized in the table below.

Table 2: Summary of Interquartile Range

Results of the benchmark study	Result
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Upper-quartile	
Median	
Lower-quartile	
Number of observations	

In case [Local Opco] would realize, in the long run and under normal circumstances, a MOTC within the interquartile range of MOTCs as indicated in the table above, there is no reason to assume that the transfer prices would not be arm's length.

6. Financial analysis

7. Specific financial and tax information

7.1 Introduction

This section provides information on the financials of [Local Opco] and any tax arrangements (e.g. rulings or Advance Pricing Agreements) agreed upon by [Local Opco] with the local / foreign tax authorities.

7.2 Annual report

In *Appendix III*, the local statutory accounts of [Local Opco] are included for FY 20XX+1. These statutory accounts are [not] audited.

7.3 Tax arrangements

[Local Opco] is not a party in any unilateral or bilateral/multilateral Advance Pricing Agreement, nor has it agreed any tax rulings related to the controlled transactions that are subject to review in this update to the last year's local file. [Local Opco] has also not been subject to a transfer pricing tax audit in FY 20XX+1.

[Please insert details of any APA or tax ruling in case such arrangements have been made. Please add a copy of these documents as Appendix III to this Local Country file]

Appendix I – Local File for FY 20XX

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Appendix II – Benchmark study contract manufacturing

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Appendix III – Statutory accounts for FY 20XX+1

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