

Banking Activities

Cross-border activities	Types of revenue	Description	Key Functions	Transfer pricing and profit allocation (as guided by the OECD 2010 Report on the Attribution of Profits to Permanent Establishments)	Distribution Activities?
Loans – retail and private clients	Fee income Net interest margin	Providing loans to customers. NOTE: generally these will be provided to a customer located in the same jurisdiction that a bank operates in and is regulated within.	Origination - targeting and sourcing customers, maintaining contact with customers, negotiating contracts, on boarding, and helping customers. Credit approval – credit analysis is done on the client for suitability to repay the loan done by dedicated officers within the bank. Credit management –actively monitoring the underlying exposure and undertaking any corrective actions to maximise recovery. Funding- centralising the risk that arises from the day-to-day banking activities of the Group, including interest rate and structural FX risk, and managing those risks, using instruments such as swaps, futures and forwards, within an approved risk appetite.	Setting of interest rates by reference to: Terms and conditions of the loans (tenure, seniority, collateral), credit risk of the borrower (by reference to a credit rating) and interest rates offered by other lenders in comparable circumstances (benchmarking). Dependent on the functions performed in the origination, the location of key personnel/relationship managers in marketing and arranging the funding.	Not a limited risk distribution activity. Loans are advanced to clients in jurisdictions where banks are licenced to operate and hold appropriate levels of capital at risk. Generally restrictions apply in-market which relate to retail lending. Online providers are required to be regulated and licenced to operate in that jurisdiction, therefore have a taxable presence.
Loans – institutional/wholesale banking	Fee income Net interest margin	Providing loans to customers, and arranging loan syndicates of participant lenders.	As above for loans to retail banking. Local and global relationship managers may service multinational corporate groups facilitating lending within different markets. Loan origination and syndication – negotiations between issuer and underwriting syndicate or selling group.	As above for retail banking, however corporate credit ratings are important. Value of value of risks associated with implicit guarantees or group support may need to be factored into credit analysis. A profit allocation of fees may be based on key entrepreneurial risk taking (KERT) principles (ie taking into account where each of the following took place – customer relationship, sales function, origination, credit, documentation/execution, funding, supervision, loan servicing, managing loan risk and location of booking (loss of default)). Participants will typically earn interest on principal loaned and other functions e.g. Relationship Managers contribution recognised through transfer pricing.	Not a limited risk distribution activity. Relationship management functions can facilitate the accessing of funding offshore however the lender located offshore will be the risk taking entity.
Trade finance services – institutional/wholesale banking Custody services, clearing, foreign exchange	Fee income , net interest margin	Facilitating trade finance and other services to clients in relation to transactions entered into offshore or by offshore clients. For example, providing letters of credit, guarantees.	Origination - targeting and sourcing customers, maintaining contact with customers, negotiating contracts, on boarding, and helping customers. Access to support services for processing transactions. Relationship managers may service multinational corporate groups facilitating transactions within different markets.	Fees and margins will be dependent on whether the risk associated with providing the credit or services arises. A profit allocation of fees may be based on KERT principles (i.e. taking into account where each of the following took place – customer relationship, sales function, origination, credit, documentation/execution, funding, supervision, loan servicing, managing risk and location of booking (loss of default)). Depending on the function performed in the origination the located of key personnel in marketing and arranging the funding.	Not a limited risk distribution activity. Relationship management functions can facilitate the accessing of services/funding offshore. Provisions of services offshore would generally require a banking licence to operate in that offshore jurisdiction.

Investment banking advisory services	Fee income Net interest margin	Advisory services both ongoing and in relation to specific deals or transactions.	Front office advisory services such as: Deal advisory, execution and negotiations with underwriters. Structuring of issuances for various debt and equity products.	Method adopted will depend on the structure of the bank, and be heavily focused on location of key personnel advising on the transaction/deal. Investment banking personnel are key value drivers in deriving income. Deal teams are generally located in where the bank's operations are located and service clients in those locations. In some cases deal teams could comprise staff based in various locations.	Not a limited risk distribution activity. Income is determined from office where the advice is being provided. Fees will be earned by the teams who are advising on the deal based on their contribution.
Global Trading	Gains/losses on trading and derivative positions Fee income Net interest margin	Banks global markets risks for its trading books is managed by reference to trading and risk management activities.	Origination - targeting and sourcing customers, maintaining contact with customers, negotiating contracts, on boarding, and helping customers. Product development – responsible for reviewing and approving all new products and transactions within the market trading, derivative and bond business. Market risk trading – market risk traders take currency, commodity and interest rate risk positions and manage them on a global basis with the market often in more than one jurisdiction.	Will depend based on the functions performed in the various locations, and the model adopted (e.g. integrated trading (multiple locations managing same book), centralised product management (market risk and hedging separately managed) or separate enterprise (standalone books for each locations managed separately). Place of location of management by key personnel undertaking KERT functions, e.g. location of traders and key management, including active day-to-day operational risk management activities rather than strategic policy settings. Location of capital within the jurisdictions and the level of risk that the capital is exposed to is also taken into account. Fee income from general sales and marketing function should reward those functions on arm's length terms.	Not a limited risk distribution activity. Profit arising in jurisdiction where the positions are actively managed. Where online platforms are provided to customers in a jurisdiction where the bank does not have operations, the amount of profit attributable to the market where the customer is based will need to be determined under arm's length pricing.
Treasury	Gains/losses on managing trading and derivative positions Net interest margin		Funding for the bank Balance sheet management Cash and liquidity management Support functions	Place of location of management by key personnel undertaking KERT functions. e.g. location of traders and key management that make decisions and execute balance sheet management, debt and equity capital raisings. Support functions recharged on arm's length basis.	Not a limited risk distribution activity. Treasury functions not expected to give rise to distribution activities.