

### III Functional analysis

A	Goal of functional analysis	1 Point
B	Analysis of functions, assets and risks (FAR)	3 Points
C	Relating functional analysis to selection of transfer pricing method	3 Points
D	Entity characterisation (e.g. characterisation as “entrepreneur”, stripped risk manufacturer, commissionaire, etc.)	2 Points
E	Practical approach to undertaking functional analysis	3 Points



# III – Functional analysis - introduction

TPG & I.D Guidance for the ALP

1. Identify commercial and financial relations

2. Recognise accurately delineated transaction

3. Losses

4. Government policies

5. Customs valuations

6. Location savings, etc.

7. Assembled workforce

8. MNE Group synergies

1.2 Functional analysis

1.1 Contractual terms

1.3 Product characteristics

1.4 Economic circumstances

1.5 Business strategies

1.2.1 Risk analysis

Functions performed

Assets used

1. Identify economically significant risks with specificity

2. Contractual assumption of risk

3. Functional analysis in relation to risk

4. Interpreting steps 1-3

5. Allocation of risk

6. Pricing of the transaction

