

2014

Transfer pricing in International Bank sector and its influence on economic of Cyprus

Niftiev, Vadim

Business Administration Program, School of Economics Sciences and Business, Neapolis
University Paphos

<http://hdl.handle.net/11728/6747>

Downloaded from HEPHAESTUS Repository, Neapolis University institutional repository



**Transfer pricing in International Bank sector
and its influence on economic of Cyprus**

By

Vadim Niftiev

Master in Business Administration

Neapolis University Pafos

Pafos, Cyprus

September 2014

A thesis

Submitted to the Faculty of MBA

in partial fulfilment of

the requirements for

the Degree of

MBA

**Transfer pricing in International Bank sector
and its influence on economic of Cyprus**

Dissertation

Committee Member

Professor Andreas Kakouris

.....

.....

Dean/Program Director

Name Surname / John Politis

I. ABSTRACT

Purpose – The thesis aims to investigate the preconditions of transfer pricing, its methodology, application and use in relation to international banking groups (IBGs), relating to transfer pricing manipulation and discuss on pricing strategies IBGs at various aspects of transfer pricing in Cyprus.

Design/methodology/approach – The thesis conducts literature reviews regarding a concerning the motives of transfer pricing application in banking, bank integration into the process, and then conducts expert interviews to select and summarize the methods of transfer pricing decision-making.

Findings – The thesis finds that decentralization and redistribution of profit centers by international regions with the greatest interest in funding, it becomes more and more in the spotlight in the field of transfer pricing strategy of IBG's presence in Cyprus, and their real concerns are winning maximum economic profits, enhancing the competitiveness of the enterprise, and effectively repatriating profits to parent companies in order to facilitate greater economic profits.

Research limitations/implications – It is found from the model that most of the transfer pricing methods are based on strategies of differentiation's attraction and placement margin, which circumvent the possible risks of low quotes. A possible reason is that current business operational patterns that have been limited to the market share of branches adopt the quantity-based pricing strategy of "narrow volume margin and large profit". However, the transfer pricing in IBGs branches has great influence on the financial structures of the banks. The banks, as a result, must understand and reinforce the working of pricing transfer in the business development of branches and representatives.

Originality/value – The thesis collects questionnaires and investigation results from experts and scholars and uses a survey of experts to build a complete model of strategic pricing decisions that may be taken under actual IBG different methods in order to provide a link to IBG in making transfer pricing strategy and its use in branches and representative offices.

TABLE OF CONTENTS

Abstract	4
Introduction	10
1 Literature review	12
2 Bank’s General Framework	14
2.1 General framework for Banking and financial risk	14
2.2 Financial Intermediaries	14
Transaction costs	14
Information asymmetry	14
2.3 Definition of a bank.....	15
Access to payment system and financial liquidity	15
Asset transformation.....	15
2.4 Types of banks.....	16
Investment banks.....	16
Universal banks	17
Commercial banks.....	17
Para-banks	17
2.5 Central Bank.....	18
Monetary policy	18
3 Financial markets and risks	21
3.1 Financial markets.....	21
Interbank deposit market.....	21
Government debt markets	24
3.2 Managing risks	24
Credit risk.....	25
Liquidity risk.....	26
Interest rate risk.....	27
Currency risk.....	28
4 Multiple pool method	30
4.1 Market transfer prices.....	30
4.2 Building pools of transactions	30
Long term fixed rate products	31
Float and internal rate products	31
Blended term for indeterminate maturity products	32
4.3 Calculating transfer rates	33
Price period length	33

Ex post or ex ante prices.....	33
Weighted moving average methodology.....	34
4.4 Adjusting prices for liabilities	35
Deposit curve.....	35
Reserve ratio adjustment	36
4.5 TPs for other assets and liabilities	36
4.6 Spread components in FTP portfolio.....	37
4.7 Corrective margins	38
4.8 Pros and cons of multiple pools.....	39
4.9 Historical multiple pool variation.....	40
5 Matched rate method.....	41
5.1 Benefits of MRM.....	41
5.2 Business unit results	41
Credit risk.....	42
5.3 Transfer price calculation	42
Float rate transactions.....	43
Internal rates	43
Transactions of indeterminate maturity.....	44
Fixed rate transactions.....	44
Prepayment option adjustment	45
5.4 FTP portfolio management.....	45
5.5 Variations of matched rate methodology.....	47
6 Introduction to Transfer Pricing.....	48
6.1 What is Transfer Pricing?.....	48
6.2 Transfer pricing in the EU context	50
7 Introduction in TP Bank's Sector.....	52
7.1 Transfer Pricing Methods in the banking sector.....	52
7.2 Market pricing methods.....	52
7.3 The costs method.....	53
7.4 Transfer pricing	54
8 Basic transfer pricing theory.....	57
8.1 Introduction to fund transfer pricing.....	57
The need for fund transfer pricing.....	57
Definition and objectives of a FTP system.....	59
Defining transfer prices	59
Bank products.....	60
8.2 Single pool method.....	60
Advantages and drawbacks of single pool	61

Calculating internal transfer price	62
Net or gross balance	62
Double pool method	62
9 Bankers TP Ethics.....	64
9.1 Introduction.	64
9.2 Transfer Pricing Methods against the ethics of their application for national economies.	64
9.3 Is ethics is the driver we should have in mind?	66
10 TP and Funding.....	68
10.1 Transfer pricing and Funding.	68
10.2 Transfer Pricing Methods	68
10.3 Procedure for calculating the transfer price.....	70
10.4 Funding - a method of internal (or transfer) pricing to the banking business.....	70
10.5 Internal functions (transfer) pricing (of Treasury):.....	71
10.6 Stages of building a system of funding in the bank:.....	72
10.7 Overview of banking sector in Cyprus	72
International banking groups and their branches and offices in the territory of the Republic of Cyprus.	73
10.8 Use of transfer pricing schemes offices and branches of European international banking groups ..	74
10.9 Use of transfer pricing schemes offices and branches of international banking groups located outside the territory of the European Union	74
10.10 Effectiveness of the use of transfer pricing schemes by different banking groups	76
Specificity of transfer pricing in banks with extensive branch structure	76
11 Results	79
12 Discussion and conclusion	83
13 Recommendations	86
14 Future Work	87
The Ethic aspects of TP.....	87
Bibliography	88