

Checklist – Intercompany Agreements for Transfer Pricing Compliance

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Intellectual Property Licences (including franchise-type arrangements)

1. **IP and contracting model:** Ensure you have an accurate understanding of the relevant IP flow and contracting model within the group, including (a) which types of IP are relevant (see also para 5 below), (b) which entities hold the legal / beneficial interest or act as licensees (as regards third parties) in relation to that IP, and (c) which entities act as principal in the licensing of intellectual property or the supply of associated goods or services to third party customers. Consider which parties (if any) are required to hold regulatory approvals or licences, and for which the licence and associated services may be regarded as ‘outsourcing’ from a regulatory perspective.
2. **Parties:** Identify legal entities correctly with company registration numbers and tax ID numbers etc. Identify whether any parties are acting through a branch / P.E. For arrangements between an entity and its own branch / P.E., include a recital explaining the status of the document (not a contract) and appropriate corresponding provisions.
3. **Bilateral / multilateral format:** If there are multiple licensees / franchisees or multiple licensors to the same licensee(s), consider the relative merits of using a series of bilateral agreements or a single multilateral agreement.
4. **Commencement date / effective date:** Consider carefully any attempt at retrospective economic effect, especially as regards allocation of risk. Where appropriate, refer to availability of evidence that the parties’ historic conduct is consistent with the terms of the agreement.
5. **Scope of intellectual property licenced:** Define appropriately. Allow for flexibility to modify services without unnecessary revision of the agreement. This may include:
 - Trade marks and trade names
 - Patents and designs
 - Copyright works
 - Know-how
 - Business operating systems
 - Software
 - Customer lists
 - User data
 - Other confidential information

Note that it may not be necessary to itemise individual items such as registrations, although information as regards expiry dates (of e.g. patents) may be relevant to value.

6. **Permitted use, exclusivity and territory:** Define the scope of the permitted use of the IP appropriately. Consider whether it is meaningful and appropriate to grant exclusivity to the licensee(s), and to limit the licence by reference to a particular territory.
7. **Ability to sublicense:** Consider whether the licensee requires the ability to grant sublicense of the IP, whether to related entities or to third parties.

8. **Development of IP, and ownership of improvements:** Define which party has responsibility for / controls activities regarding the development and maintenance of IP, and ensure consistency with TP analysis. Define which party holds the IP rights in any improvements, and include appropriate IP assignment and further assurance provisions.
9. **Maintenance and protection of IP:** Allocate appropriately the responsibility for protecting and enforcing the relevant IP (e.g. maintaining registrations, monitoring third party use and prosecuting third party infringements), and specify which party should bear the relevant costs.
10. **Other associated services to be provided by licensor** (e.g. strategic support): Ensure consistency with intended functional analysis. Consider whether such services should be governed by a separate agreement.
11. **Control over other functions to be performed by licensee(s):** Define appropriately. For franchise-type arrangements, this may include an obligation to comply with such guidelines and directions as the licensor may issue from time to time (similar to compliance with operating procedures which may be specified in a franchise manual).
12. **Allocation of IP and liability risks:** Consider what warranties, indemnities and covenants should apply as regards the performance of the IP where applicable, and as regards allocation of liability risks e.g. arising from claims that the use of the IP infringes third party rights. This may include any duty to comply with 'back-to-back' obligations of the licensee. Reflect the intended allocation of risk and avoid unnecessarily prescriptive terms.
13. **Market risk:** Where applicable, consider carefully any obligation on the licensee to maximise sales or to achieve specified volumes.
14. **Associated transactions involving goods or services:** Consider whether there are any associated controlled transactions involving goods or services, and if so how the legal relationship between the parties regarding those transactions should be defined. Consider any impact on e.g. customs duties or withholding taxes.
15. **Regulatory risks:** Ensure consistency with the regulatory structure and the intended risk allocation. Consider whether any 'boilerplate' provisions regarding compliance with laws etc are appropriate.
16. **Limitation of liability / caps on claims:** Ensure consistency with intended allocation of risk, and that they do not conflict with the intended effect of any contractual warranties or indemnities.
17. **Pricing of royalty / licence fees / fees for services:** Ensure framework for pricing of the transactions are expressed with 'legal certainty' and is consistent with intended allocation of economic risks. As part of this, consider:
 - Method of calculation e.g. royalty percentage, profit split etc, payment of such charges as will result in the licensee(s) achieving a specified outcome (e.g. net margin or cost plus)
 - Whether a distinction should be made between different types of charge (e.g. royalties vs fees for services), and if so whether a 'waterfall' type methodology should apply to define how those charges are calculated
 - Whether the TP analysis states or implies that the licensee(s) should be guaranteed a minimum return, or whether its return should be capped at a specified level
18. **Payment provisions:** Ensure consistency with intended risk allocation. Relevant provisions include due dates for payment, VAT treatment, provisions for default interest. Grossing up provisions are unlikely to be appropriate, unless it is intended to allocate tax risks to the recipient. Consider interaction with documentation of intercompany loans / balances.

19. **Currency risks:** Ensure consistency with intended risk allocation, e.g. through definition of currency of payments.
20. **Term and termination:** Ensure that they make commercial / economic sense from the perspective of each participating entity. Especially relevant for a service provider which depends on this agreement to recoup set-up costs or ongoing overheads. Consider any provisions for termination on occurrence of events of defaults or force majeure events, and whether they reflect an arrangement which the directors of each participating entity can properly approve.
21. **Obligations on termination:** Ensure consistency with the intended commercial nature of the transaction. Includes treatment of customer / user data and inclusion / exclusion of rights to compensation or indemnity on expiry or termination of the agreement. Post-termination restrictive covenants are unlikely to be appropriate in most cases.
22. **General provisions:** Avoid unnecessary 'boilerplate' provisions which may undermine the clarity of the document and which may inadvertently contradict the intended risk allocation or functional analysis.
23. **Applicable law:** Include a clear and legally binding choice of applicable law and jurisdiction.
24. **Translations:** Consider whether notarised, certified or simple translations may be required. Specify which language version of the agreement prevails if there is any conflict.
25. **Other formalities:** Consider what (if any) additional formalities apply, e.g. execution as a deed, requirements to comply with mandatory local laws etc.
26. **Due execution, dating and archiving:** Ensure that the resulting agreement(s) are duly signed / executed and dated, and that signed copies are archived appropriately and are available when needed to respond to enquiries and tax audits.

Comments welcome

Resources can always be improved. Please send any comments or suggestions to LCN legal at info@lcnlegal.com.

For specialist legal assistance with intercompany agreements and the legal structuring of multinational groups

To arrange a free, no obligation and confidential consultation with one of our senior lawyers regarding the review, updating or creating of intercompany agreements for your group or for a client you represent, call us on one of the numbers shown above, email us at info@lcnlegal.com, or contact us at www.lcnlegal.com.