for replacing a web of separate intra- s with streamlined net~~ted~~ payments based on aggregated benefits and aggregated costs associated with the services. Similarly, a CCA for ~~the~~ sharing ~~of~~in intangible development can eliminate the need for complicated cross-licensing payments and replace it with a more streamlined sharing of contributions and risks, with effectively joint ownership of the resulting intangible.

B.6.4. CCAs are used to develop future benefits such as tangible assets, intangibles or to provide intra-group services. MNE groups use CCAs to share the costs and risks of developing intangibles. These activities involve risk as the expected benefits may not be realized. For example, it is uncertain whether research and development will result in the creation of an intangible which can be exploited by the participants. Given the degree of risk involved, the sharing of costs and the expected benefits may be a preferred approach. Moreover, a single associated enterprise may not have the resources or the capacity to individually carry out the development by itself. Another advantage of a CCA is the flexibility to make contributions in the form of tangible assets, intangibles and services. A CCA may provide that the participants are allowed the exclusive right to exploit the intangible in specific countries or regions. A participant ~~to~~in a CCA must be able to use its interest in the intangibles and thus the~~y~~ participants cannot be required to pay royalties for the use of intangibles developed under the CCA.

B.6.5. Broadly, there are two distinct categories of CCAs: arrangements for sharing in the costs and benefits of intercompany services (service sharing arrangements), and arrangements established for the development, production, or obtaining of intangibles or tangible assets (development arrangements, most typically intangible development arrangements). Both types of arrangements involve the sharing of contributions and the sharing of anticipated benefits. Contributions may be in the form of cash, tangible assets, intangibles, and services. While both types of CCAs derive from the same underlying framework of sharing relative contributions in proportion to relative benefits, the motivation for these arrangements~~,~~ and some of the practical issues of implementing the

B.6.6. In service sharing arrangements, for example, an MNE may decide to centralize its human resources operations or information technology (IT) function in an associated enterprise so the participants will share the costs of providing these services. The advantage of intra-group service CCAs is that they provide for economies of scale to the participants, resulting in a lower proportional cost for these services than if each participant were providing the~~se~~ services in-house. For example, an MNE group may decide to have its IT services provided by a participant in a low-cost country which has an established history of being an international leader in IT. The centralization of IT provides the group with access to high quality IT services provided at a lower cost through economies of scale and potential location savings.

B.6.7. Some of the savings from centralizing functions may arise from preventing unnecessary duplication of functions within an MNE group. The savings that arise from centralizing services provided in an associated enterprise will usually be immediate. The services that may be the subject of a CCA include management, administrative and technical services, marketing and purchasing of raw materials or products.

B.6.8. On the other hand, for example in an intangible development CCA, participants within an MNE may decide to share in the costs, risks and potential benefits from undertaking a project to develop a new product such as a pharmaceutical product. Contributions may include patents and other existing intangibles relevant to the development, research and development services, and use of laboratories. Potential benefits might include the exclusive rights for each of the participants to exploit the intangible in its own market. There may be a significant time lag between development activities and the creation and exploitation of intangibles.

CCA features

B.6.9. The key feature of CCAs is that the participants agree to share the proportionate costs of creating or acquiring tangible assets, creating or acquiring intangibles or providing services and accordingly, agree that they will have a

each participant should have a reasonable expectation of benefitting from length principle it will require consideration for the work it engages in and it will not, for example, have an interest in any resulting intangibles or tangible assets. The consideration would be determined using a functional analysis and applying the appropriate transfer pricing methods in the Manual.

The value of CCA contributions

B.6.16.

All contributions must be identified and valued generally at the time the contributions are made. contributions may be in the form of cash, tangible assets, intangibles or services. The Guidance provided in this Manual is to be used in valuing contributions and taking into account the mutual sharing of risks by the participants and the expected benefits that will be derived by the participants.

B.6.17. Contributions to a CCA may take many forms. For service sharing arrangements, contributions primarily consist of the performance of the services. For development CCAs, contributions typically include the performance of development activities (e.g., research and development~~,~~ or marketing) and often include additional contributions relevant to ~~the~~a development CCA such as other pre-existing intangibles that will contribute to the development of a CCA intangible.

B.6.18. There is a difference between current contributions and pre-existing contributions. Examples of pre-existing contributions would include the contribution of patented technology with pre-existing value ~~which~~that is useful towards the development of the intangible which is the subject of the CCA, or the contribution of a tangible asset that had been acquired by one of the participants some time before the commencement of a CCA. Contributions of the pre-existing value of tangible assets and intangibles should be valued u in this Manual (#Insert new chapter numbers.).

B.6.19. Current contributions, on the other hand, are ongoing contributions that should be valued at market value. An example would be the performance of research and development services directed to the objective of the CCA. Such services would be

valued on the basis of the functions performed by the participants. The current value of contributions should be determined in accordanc
this Manual (#Insert new chapter numbers).

B.6.20. ~~,~~ all contributions should be measured at value, it may be easier for participants to measure current contributions at cost. If this approach is adopted, the value attributed to the pre-existing contributions should recover the opportunity cost of the ex ante commitment to contribute at cost resources to the CCA. For example, a contractual arrangement (i.e. the CCA) that commits an existing workforce to undertake work for the benefit of the CCA should reflect the opportunity cost of alternative R&D endeavours (e.g. the difference between the value of the next most valuable use of the research and development staff over anticipated research and development costs) if the research and development performed by the CCA is to be valued at cost. In making this determination it is important not to double count different contributions of value (e.g. the value of the workforce and the value of the intangible contributions).

B.6.21. In certain situations, current contributions may be valued at cost as a practical method of valuing the relative value of the current contributions, e.g. if the difference between value and costs is insignificant. However, if contributions involve a combination of tangible assets, intangibles and services measuring the current contributions at cost may be unreliable for valuing relative contributions and may result in non- results. If it is claimed that the conditions of a CCA reflect those in comparable uncontrolled transactions, and the uncontrolled transactions use cost for valuing contributions, then the comparability of all the significant economic features of the controlled and uncontrolled transactions must be examined to ensure that the CCA and the uncontrolled transactions are comparable. Another issue that needs to be considered in comparing a CCA to uncontrolled transactions is whether other payments are made in the uncontrolled transactions such as milestone payments.

B.6.22. In some situations budgeted costs may be used for valuing contributions. Budgeted costs may be justified on the basis that contributions to a CCA will reflect expected benefits. There are usually differences between budgeted costs and actual

should make balancing payments to Company A equal to 75 (the difference between 25 per cent and 50 per cent of the costs incurred in Years 1, 2 and 3). This balancing payment should be made in Year 4. Also in Year 4 and Year 5, based on the new benefit ratio calculation, Company A and Company B should each pay 50 of the current annual CCA related costs. Thus, at the end of the development period, both Company A and Company B would have paid 50 per cent of the CCA development costs and each would anticipate receiving 50 per cent of the benefits of exploiting the new technology, as follows:

Year 1	Year 2	Year 3	Balancing Payment Year 4	Year 4	Year 5	Total
75	75	75	(75)	50	50	250
25	25	25	75	50	50	250

Non-

B.6.

contributions of at least one other participant will be inadequate. In this situation,

whose contributions are inadequate. The balancing payment will increase the value of contributions of the payer and decrease the value of contributions by the payee.

B.6.31. Participants may also make an additional contribution to a CCA if the

benefits. Adjustments may be the result of a

contributions and its relative share of the expected benefits. In some cases, the need for periodic adjustments is anticipated at the commencement of the CCA.

B.6.32. Balancing payments may also be required by tax authorities. A tax authority may make an adjustment to remedy an identified imbalance in contributions to the

B.6.41. When new participants join a CCA, or when existing participants leave a CCA, an adjustment to the contributions ~~shares~~ of the continuing participants may be required to reflect the changes in their proportionate share~~s~~ of future anticipated benefits.

Termination of a CCA

B.6.42. On the termination of a CCA the participants must receive their respective shares in the tangible assets, intangibles and rights acquired and developed under the CCA. If a participant surrenders its entitlements under the CCA, the other participants would be required to make a payment following the requirements for a buy-out set out above.

CCA Guidelines

B.6.43. CCAs should list the participants and their respective interests in order to minimize the risk of disputes over the ownership of the fruits of the CCA and disputes with tax authorities. Under a CCA the legal owner of tangible~~s~~ assets and intangibles may be one associated enterprise, but the CCA participants have joint interests in the tangible assets and intangibles. A feature of CCAs is that the participants must have

balancing payments and adjustments to the terms of the CCA to reflect changes in economic circumstances of the participants.

B.6.46. In addition, the OECD Transfer Pricing Guidelines encourage participants to monitor the operation of a CCA and record:

changes to the arrangement;

comparing projections on expected benefits and realized benefits; and

the annual expenditure of the participants to the CCA, the form of cash contribution and the valuation methods used, and the consistent application of accounting principles to the participants.

Example 2

Company A and Company B are members of a multinational group. Each company performs different services (Company A performs Service 1 and Company B performs Service 2), and Company A and Company B each

is 3600. Company B should bear the costs associated with 50% of the total value of contributions, or 2850. The value of Compa -kind contribution is 2100. Accordingly, Company B should make a balancing payment to Company A of 750.

Appendix

Differences between CCAs and service arrangements

. It is difficult to distinguish between a CCA and intra-group services allocated through an allocation key. The following differences between CCAs and services arrangements within an MNE group have been identified:[3]

CCAs	Intra-group service arrangements

para.B.6.45.	
The contributions of the participants are measured on a contribution basis.	The service recipient will be charged a service fETBT5 fwhi-9(a)4(hmwil)l includ