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Debt pricing studies and automation: benefits and risks

Dinko Dinev of Deloitte Luxembourg explores how automation is transforming debt pricing studies in transfer pricing, highlighting efficiency gains but also analytical risks that can arise if technology is misapplied

Debt pricing studies are transfer pricing documentation that prove arm's-length pricing of intragroup loans, and are carefully reviewed by the tax authorities during tax audits. Because the work is computationally heavy and relies on widely accepted approaches that lend themselves to standardisation, automation has quickly become a crucial tool for transfer pricing professionals.

In fact, it goes without question that today's digital tools tangibly benefit the preparation of a debt pricing study. However, we must also acknowledge the risks they introduce if their limits are misunderstood or allowed to shape the analysis. This article reviews the benefits and risks of automating debt pricing studies and underscores how to use technology to strengthen quality rather than compromise it.

The benefits of automation

When deployed thoughtfully, automation improves the reliability of debt pricing work by eliminating manual errors. Computations are consistently executed, reducing spreadsheet mistakes that can undermine conclusions, and data is transferred straight from source databases into models and onward into write-ups, avoiding transcription errors.

Automation also shortens the time devoted to repetitive processes. That efficiency matters when teams must produce multiple studies across entities and jurisdictions. As scaling becomes feasible, consistency is improved as transfer pricing policies are applied uniformly.

Documentation quality is another practical gain. Typos and formatting discrepancies are reduced, producing clearer narratives with a structure that addresses statutory requirements. Language becomes more consistent, and formatting improvements make reports easier to read and review.

The risks of automation

The central risk, however, is the temptation to simplify, allowing technology's limitations to define the nature and quality of the analysis. Over-standardisation can smooth away essential detail. This risk is higher in the case of self-service online platforms that produce debt pricing studies with a few clicks and limited input. These platforms often rely on shortcuts that weaken quality and credibility.

A key example is credit rating determination. Rating is the cornerstone of debt pricing, and credible studies align with the established analytical frameworks of the three major rating agencies: S&P, Moody's, and Fitch. This alignment is not only about using trusted approaches; it also ensures comparability, because the bonds typically used as benchmarks in the debt pricing studies are rated by those agencies.

Due to licensing constraints, self-service tools frequently rely on proprietary or lesser-known rating methods. Such models tend to overly rely on quantitative inputs, while downplaying or omitting qualitative factors such as market positioning, asset quality, and regulatory exposure. The OECD transfer pricing guidelines explicitly require qualitative assessment alongside quantitative analysis. If a self-service platform's rating logic is opaque, not aligned to accepted frameworks, or cannot be explained in terms familiar to tax authorities, the results are less likely to be accepted.

Another common shortcut is reliance on aggregated data, such as yield curves. These aggregates are convenient but often fail to deliver the instrument-level comparability required in many jurisdictions. Transaction-by-transaction comparability against clearly identified independent party transactions remains a central requirement. In addition, different financial data providers can render materially different yield curves for the same rating and economic sector because of distinct and sometimes non-transparent construction methods, further reducing reliability.

One of the subtler risks of automation is that it can create the wrong impression that the transfer pricing of intragroup loans is only about the arm's-length interest rate. In reality, tax authorities evaluate the full context of a financing: its complete terms and conditions, purpose, economic rationale, and substance, as well as the decision-making process of the parties and its alignment with other intragroup arrangements. They also expect consistency between the transfer pricing analysis and the broader legal and tax documentation of the company. A defensive transfer pricing position requires addressing all these multiple aspects of the tested loan transactions.

Final thoughts on automating debt pricing studies

While automation brings undeniable gains in efficiency and coherence, it cannot, on its own, ensure that a debt pricing study is technically robust. A proper arm's-length interest rate analysis is not merely an exercise in calculations; it is an analysis rooted in context, requiring an expert's evaluation of the economics of the tested transaction, rigorous credit risk and comparability assessments, as well as a nuanced understanding of jurisprudence and tax audit practice in the relevant jurisdictions.

Self-service tools embedding a number of simplifications may produce fast outputs, yes, but they might not provide the level of protection required to defend material loan transactions before the tax authorities. The mere appearance of sophistication – clean formatting, complex formulas, technical language – will not persuade the tax authorities, which have repeatedly shown they are not swayed by surface gloss.

As automation continues to shape transfer pricing, the most credible analyses will take place at the convergence of technology and professional judgment, where precise data meets the informed understanding of context, purpose, and economic rationale.

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