Indicative List of PSM Splitting Factors identified by JTPF Members				
Categories	**Indicative Splitting Factors**	**Description and Circumstances for Applying the Splitting Factor**	**Pros**	**Cons**
People based splitting factors	Remuneration of Key Employees (e.g. executive and strategic management, employees related to DEMPE functions, traders)	This splitting factor may be taken in consideration when the value creation is driven by the workforce and personnel knowledge and skills. In order to apply the factor it is important: A: to map the employees; B: to describe the functions carried out by the employees and identify those related to DEMPE functions; C: calculate the remuneration of the key employees.	Linkage to functions performed and risk assumption. Ties in with the Significant People Functions concept of the OECD guidance on attribution of profits to permanent establishments. Current year compensation expenses of employees is relatively easy to identify. - Implementation may be relatively simple with a homogeneous pool of key employees (e.g. traders in global trading business).	Difficulty to decide whether to use current or cumulative values and whether to use the remuneration or the headcount criteria. Selection of key employees is subjective and may be hard to verify. The total amount of the remuneration could be affected by efficiency issues cost of living and other market difference across jurisdictions. - Can be very sensitive to the movement of a small number of executives between entities. Bonus and stock options are difficult to be considered. Finally, considering the different cost of life among the various EU countries, adjustments should be considered on the basis of public data.
	Headcount of Key Employees (e.g. executive and strategic management, employees related to DEMPE functions, traders)	Similar to the splitting factors based on the remuneration of the key empoyees, this splitting factor may be taken into consideration when the value creation is driven by the workforce and personnel knowledge and skills. In order to apply the factor it is important: A: to map the employees; B: to describe the functions carried out by the key employes and identify those related to DEMPE functions; C: to calculate the number of the key employees and (eventually) weigh it based on the importance of the functions performed or seniority. In general, the splitting factor based on remuneration is preferable compared to the headcount, since it takes into account how much the MNE values the contribution of various employees. Headcount may be preferable where differences in the cost of living and other factors make it difficult to use remuneration.	Link to functions performed and risk assumption. It ties in with the Significant People Functions concept of the OECD guidance on attribution of profits to permanent establishments. Current year headcounts are easy to identify.	Difficulty in deciding whether to use current or cumulative values; whether to use the remuneration or headcount criteria. The selection of key employees is subjective and may be hard to verify. The total number of the key employees could be affected by efficiency issues, the cost of living and other market difference across jurisdictions. It can be very sensitive to the movement of a small number of executives between entities. Using only headcount numbers potentially ignores value contribution derived from relative employee experience or expertise.

Cost based splitting factors (other or broader than people costs)	Operating expenses - OPEX	OPEX are expenses that a business incurs in carrying out an organization's day-to-day activities but these are not directly associated with production. OPEX include rent, equipment, inventory costs, marketing, payroll, insurance and funds allocated for research and development. OPEX may be used as a splitting factor when the value creation is driven by the intensity of the activities performed by the entities.	Costs are in general an objective indicator. Current year costs are relatively easy to obtain.	OPEX could be difficult to identify as they are usually spread through different budget lines. Organizational inefficiencies are not taken into consideration. Some costs (e.g. marketing and advertising) may have effects across multiple periods, whereas others only have current period effects. - Difficulty deciding whether to use current or cumulative values. - Need to consider whether only cash costs or also non-cash costs (e.g. depreciation and amortization) are included in the calculation. OPEX includes sometimes also passthrough costs (e.g., advertising paid by local LRD but totally managed by the principal).
	Cost of Goods Sold - COGS	COGS is the accumulated total of all costs used to create a product or service, which has been sold. COGS generally includes the cost of the materials used in creating the good, along with the direct labor costs used to produce the good or service. It may be used as splitting factor when the value creation is driven by the production activity.	Costs are an objective indicator. Current year costs are relatively easy to obtain. Suitable in case of transactions between manufacturers.	Organizational inefficiencies are not taken into consideration. It does not take into account non-COGS related costs (e.g., R&D) that may impact on productivity, scale, etc. which would influence COGS and profit. Not applicable in case of manufacturer-distributor transactions.
	Marketing Costs /Commercial Expenses	The marketing costs are associated with the delivering of goods or services to customers. The marketing cost may include either the expenses associated with transferring the title of goods to a customer and the cost of promoting the goods or of the services being sold. Marketing costs may be used as a splitting factor where the value creation is driven by the marketing activity.	Costs are an objective indicator. Current year costs are relatively easy to obtain. Marketing costs are directly associated with a common intangible/ profit driver.	Difficulty in deciding whether to use current or cumulative values. Potential need for distinguishing "routine" from "excess" marketing spending. - There may be a difference between where spending is incurred vs. where decision-making functions reside.
	Brand Development Expenses	The brand expenses are costs specifically linked to the brand. They may be used as a splitting factor when the value creation is driven by the brand.	Costs are an objective indicator. Current year costs are relatively easy to obtain. Brand development costs are directly associated with a common intangible/ profit driver.	Historical brand-related costs may be difficult to obtain. Difficulty in deciding which cumulative values to include, as brands are typically built over a number of years. It may be difficult to separate brand building costs from ordinary marketing expenses. There may be a difference between where expenses are incurred vs. where decision-making functions are taken.

	R&D Costs	The R&D expenses are costs a company incurs in the process of developing new goods and services to best suit the company's and consumers' needs. They may be used as splitting factors especially where two or more entities concur to the development of an intangible.	Costs are an objective indicator. Current year costs are relatively easy to obtain. R&D costs are directly associated with a common intangible/ profit driver.	Historical R&D costs may be difficult to obtain. Difficulty in deciding the amount of cumulative values for inclusion, as intangibles are typically built and maintained over a number of years. - Risk factors related to R&D spending may also vary over time with early stage spending being riskier than spending in later years. It may be difficult to separate R&D costs from routine development, industrialization, and other ordinary expenses. There may be a difference between where expenses are incurred vs. where decision-making functions take place.
Sales or volume based splitting factors	Turnover/ Revenue	Turnover viewed as a market measure of value realized or created in a particular jurisdiction. It may be used where the level of sales is an indicator of contribution to the overall group profits.	This is objective if it is determined on the basis of uncontrolled transactions. It could potentially be applied in cases where soft intangibles are relevant, i.e. customer goodwill etc.	The turnover is not necessarily aligned with DEMPE functions. The turnover per se may not be a good measure for profit generation. Turnover may be affected by market/economic differences across countries (local inflation, exchange rates, etc.). It ignores contributions of the business (e.g. R&D) made outside of the market jurisdiction.
	Volume of Trade	Used to reflect efforts in sales/ distribution/ marketing	It is objective if determined on the basis of uncontrolled transactions.	This is similar to Turnover. Also, different trades may have very different market values.
	Value of Key Business Assets (incl. Intangibles)	Assets are predominantly the driver for the returns; One should consider owned, leased or licensed assets.	It can be a solution to complicated cases that involve unique intangibles	The book value of assets may not reflect their market value. In-house developed intangibles may not be included in the financial accounts. It may need to involve valuation techniques. Assets are not necessarily located in the same jurisdiction as where DEMPE functions take place.
	Assets under Management	Assets are predominantly the driver for the returns. Asset values are determined by external market transactions/ valuations as they refer to the market value of financial assets managed for investors.	It can be a solution to complicated cases that involve financial assets.	It may have to be limited to the particular case of asset management

Asset based splitting factors (tangible or intangible assets)	Royalty Rates	In circumstances where different intangibles contribute to the creation of value, the residual profit is split among the various types of IP using royalty rates as splitting factors. Alternatively, if one of the value drivers is IP for which CUPs may be available, a part of the residual profit can be attributed to the IP using the CUP.	It can be a solution to complicated cases that involve unique intangibles. No historical costs are needed.	It may be difficult to find comparables for the royalty rates. If CUPs exist, it is arguable whether it be preferable to use the CUP method or a profit split.
	Franchise Agreements	The combined profit is split between the intangible developer/ owner and the intangible user, based on comparable splits from franchise agreements. In circumstances where different intangibles in combination with services contribute to the creation of value, the residual profit is split among the various types of combined IP and business services using franchise fees as splitting factors.	It can be a solution to complicated cases that involve unique intangibles and valuable services or business ideas/ models. Franchise agreements may be found between unrelated parties. In such cases, they can be readily (and objectively) used as a splitting factor based on market conditions (CUPs). No historical costs needed.	It may be difficult to find comparables for the franchise fees as they capture unique combinations of IP and services and/or business methods/ideas.
Other factors	Weights assigned on the value chain/ basis of functional analysis	It breaks down the integrated business into its distinct, value-creating activities by way of a value chain/ functional analysis.	It is likely to better reflect the true value creation across the business.	It is perceived as more subjective because it is based on a qualitative analysis.
	External Benchmarks	Provide external or market-based measures of value across the enterprise, by looking at external comparable companies that perform the different steps of the value chain.	Use of external comparable data. If there are no clear drivers for residual profit whilst there is residual profit after providing for returns on the basis of the external benchmarks, the external benchmarks may provide an objective way for splitting the residual profit.	The circumstances are usually highly case-specific, so external comparables might not be readily available. Although they are available on the market and accepted globally, external benchmarks are (mainly) used to remunerate limited risk functions. As the contributions should be unique and valuable or point out to a highly integrated business, it might be impossible to delineate the transactions in such a way as to come up with an arm's length comparable.
	Hedge Fund Model	Joint contribution of capital at risk and trading/ investment know-how. Business model where one party provides capital and strategic directions and the other party provides valuable investment/ trading know-how and day-to-day decisions.	Existence of third-party agreements with similar characteristics. Possibility of defining how to split the profit by using direct or indirect evidence from third-party agreements.	A hedge fund model may not be suitable for describing the particular situation of intra-group relations. It is highly industry/ market specific.