

# **THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION**

December 2023

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## **MODULE 3.04 – ENERGY RESOURCES OPTION**

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### **SUGGESTED SOLUTIONS**

## PART A

### Question 1

#### Part 1

Developing countries with newly discovered oil and gas reserves typically have several options for structuring their petroleum fiscal regimes. These regimes determine how the government collects revenue from oil and gas production. The main types of petroleum fiscal regime are as follows:

##### Production Sharing Agreements (PSAs)

Under a PSA, the government and the oil company share production from the field, with the company bearing the exploration and production costs. The government typically receives a share of the production, known as "profit oil," after the company recovers its costs. The government also receives a share of the revenue in the form of taxes and royalties.

##### Service contracts

Service contracts involve the government hiring a private company to explore for and produce oil and gas on its behalf. The company is paid a fee or a combination of fee and a share of the production, but the government retains ownership of the oil and gas reserves.

##### Royalty/tax systems

In this system, the government grants licenses to oil and gas companies to explore, develop, and produce oil and gas reserves in exchange for the payment of royalties and taxes on production. Royalties are typically paid as a percentage of the value of the production, while taxes may be based on profits or production volumes.

##### Concession agreements

Concession agreements grant exclusive rights to explore, develop, and produce oil and gas in a specific area to a private company. In return, the company pays the government bonuses, rents, royalties, and taxes based on the production or profits generated from the concession.

##### Profit sharing agreements

Profit-sharing agreements involve the government and the oil company sharing profits from the production of oil and gas. The terms of the agreement determine how profits are shared between the government and the company after accounting for production costs.

##### Hybrid systems

Many countries use a combination of the above systems to optimise revenue collection and attract investment while ensuring the government retains a fair share of the profits from oil and gas production.

#### Part 2

Given the circumstances of a relatively poor country without significant pre-existing resources or expertise in the oil and gas exploration field, when it comes to selecting a petroleum fiscal regime one potentially good option would be a concession regime.

A concession regime offers the following advantages:

- Attracting investment, as concession regimes offer a clear legal framework for private companies to invest in oil exploration and production. By granting exclusive rights to explore and exploit oil reserves within an area, the government can attract international oil companies with the technical expertise and finances to develop the resources.
- Transfer of risk, as the risks associated with exploration, development, and production are primarily borne by the private company holding the concession. This can be advantageous for the government, especially in the early stages of oil exploration when geological uncertainty and exploration costs are high.
- Technology transfer and expertise, as international oil companies often bring advanced technology, expertise, and best practices to the host country, which can contribute to the development of the local oil and gas industry.

This transfer of knowledge can help build local capacity and enhance the skills of the workforce in the oil and gas sector.

- Predictable government revenue, as the government can expect to receive defined signature bonuses, royalties and taxes. These revenues can be significant sources of much-needed income for the government. As the terms of the concession are agreed upon upfront, the government can expect a degree of fiscal stability and predictability from the arrangement.

## Question 2

Transfer pricing in the context of multinational energy companies involves ensuring that transactions between related entities are priced in a manner consistent with arm's length principles. A comprehensive economic analysis should be conducted to justify the chosen transfer pricing method and demonstrate that the related parties payments are consistent with market conditions. This analysis should consider the unique characteristics of the energy resources, such as reserves, quality, and market demand.

Transfer Pricing principles, rules and methods are today inevitable for oil and gas companies. Most countries in the world have adopted transfer pricing local rules, normally based on the OECD principles. These rules apply to transactions on goods and services between related parties. Under the transfer pricing principles, a transaction between related parties should occur at "arm's length", meaning what would have been paid if the parties had not been related.

Adequate documentation and record-keeping are critical to demonstrate compliance with transfer pricing regulations. This includes maintaining contemporaneous documentation that outlines the analysis, assumptions, and methodologies used to determine the royalty payments.

Countries objective is to prevent profit shifting to lower tax rate jurisdictions. Where a company established in a high tax rate jurisdiction tries to reduce tax by paying above-market prices for goods and services purchased from a related company in a low tax rate jurisdiction, the transfer pricing provisions prevent excessive tax deductions by limiting tax costs to levels that an independent company would have paid for the same goods and services. This could lead to a double tax scenario if a corresponding adjustment is not made.

For countries with an oil and gas activity, the sum of government take in oil and gas is normally higher than in other areas of the economy. This drives companies to look at optimisation opportunities for shifting profits from high tax jurisdictions. The transfer pricing rules also look at avoiding excessive tax deductions for highly leveraged debt finance at above-market interest rates, claiming of excessive management fees, group costs, or consultancy charges paid between related entities.

Oil and gas services are an essential part of the oil and gas activity. These include exploration services by way of seismic surveys, geological and geophysical studies. It also includes drilling services where an oil and gas company provides technical services to a subsidiary. The key transfer pricing consideration for oil and gas services the deducting these costs under the PSC or Petroleum Agreement in the host country. The services charged between related parties must be at arm's length prices when compared with similar services provided by independent parties. Each company charges different types of markups on services provided by their staff. Companies should aim to have a transfer pricing file evidencing that the mark up charged is within market range when compared to similar services hired by independent parties.

Other types of intercompany services include administration and commercial functions like accounting, payroll, human resources, training, tax and legal, marketing and insurance services. The OECD principles state these intercompany services should be directly charged (paragraph 7.23 of the OECD Transfer pricing guidelines). In examples like Norway, the country may artificially fix what is the maximum mark-up chargeable in intragroup service transaction. This could be a challenging where the market price is above the maximum acceptable tax deduction by the tax authorities.

Because of the long lead times and high risk of oil and gas operations, companies normally enter Joint Ventures with other oil and gas companies. This can also lead to service charges between JV partners who need to be comparable to charges between unrelated parties and auditable by Governments and JV parties.

Guarantees are another area where transfer pricing provisions can be relevant. Oil-producing countries require oil and gas companies to provide financial and environmental guarantees. Where a parent group company is providing a guarantee in the name of one of its subsidiaries, charged fees will come under scrutiny. It can be argued that in this situation there is no comparable, as no third party would incur such risk. The fee may also be subject to reductions as implicit "free" support by the parent company is also expected in a group relationship. see case The Queen vs. General electric capital Canada 2010 for the relevant jurisprudence.

Oil and gas project financing are highly impacted by transfer pricing rules and guidelines. Generally, oil and gas companies secure a centralised loan based on their proven reserves. The companies then distribute those funds throughout the projects of the company and the different subsidiaries. Transfer pricing rules may deny the deduction of interest paid to related parties if the interest rates are agreed on an arm's length basis. The determination of an arm's length interest rate takes into consideration several factors. These factors include the repayment terms of the loans, the loan duration, any loan covenants, type of guarantees offered, credit risk of the borrower and the operation country, market conditions, foreign exchange risk and risk of the investment.

Exploration phase loans and whether interest should be charged is another area of group financing whether transfer pricing guidelines may have an impact. The problem is whether it can be argued the loan should bear no interest and be considered equity as no third party would lend the company funds for such a risky operation. Grossing up of the withholding tax is also something that has been discussed concerning intragroup loans. In a normal loan between unrelated parties, any withholding tax applicable in the host country would be expected to be grossed up.

Other transfer pricing relevant challenges for oil and gas include the use by some PSCs or agreements with official sale prices for corporate income tax purposes. These fixed prices may differ from market price and create a tax issue. Another potential issue is the use of group trading companies to trade oil where the trading company does not have enough third party comparable on fees and margin charged. Given the complexity of transfer pricing in the energy sector, companies should be prepared for potential disputes with tax authorities. Strategies for resolving disputes through negotiation or, if necessary, through tax litigation, should be part of the overall compliance plan.

## PART B

### Question 3

#### Part 1

Emission Trading Schemes (ETS) work on the principle of setting a cap on the total allowable emissions from a particular industry or sector. This cap is typically gradually reduced over time to achieve emissions reduction targets. Companies within the covered sectors are allocated or required to purchase permits, also known as allowances, equivalent to their emissions. The total number of permits corresponds to the emissions cap.

Potential benefits of ETS include:

- Companies that can reduce emissions at a lower cost than the market price of permits can sell their excess allowances to those unable to meet their targets economically.
- ETS provides flexibility for companies to choose how they reduce emissions, whether through investing in cleaner technologies, improving energy efficiency, or purchasing permits.
- ETS harnesses market forces to allocate emissions reductions to where they can be achieved most cost-effectively. This theoretically promotes innovation and investment in cleaner technologies.

Potential drawbacks of ETS include:

- ETS markets can be susceptible to speculation and market manipulation, which can lead to volatile permit prices and undermine the effectiveness of the scheme.
- Implementing and managing an ETS requires significant administrative capacity and regulatory oversight to monitor emissions, allocate permits, and ensure compliance, which can be challenging for some countries and industries.

Carbon pricing involves putting a price on carbon emissions to internalise the social and environmental costs associated with climate change. There are two primary methods of carbon pricing:

#### Carbon taxes

Governments set a price per ton of CO<sub>2</sub> emitted, either directly through taxation or through a fee on fossil fuels at the point of extraction or importation. Companies and consumers then face a financial incentive to reduce emissions.

#### Cap-and-trade systems

Similar to ETS, cap-and-trade systems cap emissions and allow for trading of permits, effectively putting a price on carbon emissions.

Potential benefits of carbon pricing include:

- Revenue generation, as carbon pricing mechanisms (especially carbon taxes) can generate significant revenue for governments, which can be used to fund clean energy initiatives, climate adaptation measures, or other public programmes.
- Carbon taxes offer a straightforward and predictable cost of emissions, providing clarity for businesses and consumers in their decision-making processes.

Potential drawbacks include:

- The potential that carbon pricing can be regressive, disproportionately affecting low-income households and vulnerable industries unless accompanied by measures to mitigate the impact on these groups.
- The possibility that carbon pricing may lead to 'carbon leakage,' where industries relocate to countries with laxer emissions regulations, resulting in a net increase in global emissions.

#### Part 2

ETS and carbon pricing may be considered useful tools in combating climate change, for a number of reasons:

- By putting a price on carbon, these mechanisms create financial incentives for industries and individuals to reduce their emissions and invest in cleaner technologies, improve energy efficiency and transition away from fossil fuels towards renewable energy sources. By imposing a direct financial cost on carbon emissions, companies and industries are incentivised to develop and adopt low-carbon technologies in order to remain competitive with their rivals.
- The mechanisms also indirectly drive market transformation by internalising the social and environmental costs of carbon emissions. They create a level playing field for low-carbon technologies and renewable energy sources, making them more economically viable alternatives to fossil fuels.
- The mechanisms, if imposed on a sufficient scale, can generate significant revenue for governments. This revenue can be reinvested in climate change mitigation and adaptation measures, as well as in further promoting the adoption of low-carbon technologies and energy sources (potentially through green technology subsidies).
- The mechanisms are expected to play a crucial role in achieving international climate goals such as those contained in the Paris Agreement. By incentivising emissions reductions and promoting the transition to a low-carbon economy, the mechanisms can help countries meet their emissions reduction targets.
- The mechanisms can also encourage behavioural change on the part of consumers and businesses. Higher carbon prices incentivise individuals to reduce unnecessary energy consumption and even make environmentally conscious purchasing decisions.
- Carbon pricing mechanisms can be designed to address environmental justice and equity concerns by ensuring that the costs and benefits of climate action are distributed fairly across society. Revenue generated from carbon pricing can be used to support vulnerable communities disproportionately affected by climate change and transition to a more sustainable economy.

#### Question 4

Tax treaties typically contain a definition of PE that determines when a foreign entity's activities in a host country give rise to a taxable presence. The definition can vary between treaties but often includes elements such as a fixed place of business, construction sites, or service PE. The company must carefully analyse each treaty to assess whether its activities trigger a PE in a particular host country. For a definition of PE, we should look to article 5 of the 2017 OECD Model Convention and provisions in the domestic tax law of the jurisdiction where the Contractor is carrying out its works. Article 5(1) includes the jurisdictional threshold test, Article 5(2) and (3) lists examples of typical PE and building site temporary threshold, Article 5(4) includes exclusions to the definition of PE and Article 5(5) and (6) discuss the dependent and independent agent situations.

The OECD defines permanent establishment as a “fixed place of business through which the business of an enterprise is carried on”. This can include a place of management, branch, office, factory, workshop, a mine, an oil and gas well, a quarry or any other place of extraction of natural resources. This concept could also include a building site or construction or installation project that last for more than 12 months.

A dependant agent can also be, in some situations, be considered as a permanent establishment of an enterprise when the agent exercises authority to conclude contracts on behalf of the enterprise. This would however exclude an independent agent working on a general commission or a broker.

Generally, the concept of permanent establishment excludes places of business solely for activities or a preparatory or auxiliary nature (e.g. representative office). For the exclusion to apply the representative office may not have authority to negotiate or conclude contracts on behalf of the enterprise (e.g. subjecting approval to home office approval) and should not be a taxpayer in the host jurisdiction.

When a PE is deemed to exist, the tax treaty provides rules for attributing profits to that PE. These rules aim to allocate the appropriate portion of the company's income to the host country. The company must understand the specific attribution methods prescribed by each treaty and apply them accurately.

Tax authorities are increasingly vigilant about treaty shopping, where companies structure their operations to take advantage of favourable treaty provisions. Many treaties include anti-avoidance provisions to prevent abuse. The company should ensure that its structure and activities are not seen as tax avoidance schemes.

To minimise tax exposure, the company may consider structuring its operations to avoid creating a PE or optimising the use of exemptions or thresholds provided in tax treaties. This may involve careful planning of the duration and nature of activities in a host country. Tax treaties should also be considered as potential ways to avoid the existence of a permanent establishment, particularly where the domestic provision on permanent establishment are more stringent than the tax treaty definition. Recent OECD BEPS Action 7 should be taken into consideration as it addresses several strategies used for the artificial avoidance of a PE status (e.g. Commissionaire arrangements, Fragmented Contracts and splitting of contracts).

Certain structures can be used to prevent the risk of having a permanent establishment. An example of this is the set-up of local joint venture, fully registered and taxable in country, together with a local company or another oil and gas service company. This would avoid a potential issue of the oil and gas service company being considered to have a permanent establishment in the host country and exposing their profits to local taxation. The oil and gas service company can also agree to establish a consortium including local or foreign company.

For oil and gas service companies one of the biggest concerns with respect to their operations is how permanent establishment rules interact with local content rules. The local content rules in the jurisdiction could require the oil and gas service company to register or establish a specific presence in country which could lead to a permanent establishment taxation of profits in said country.

The oil and gas company should also pay attention to the potential existence of rules that allow a foreign company to be taxed in their jurisdiction for work done overseas and the risk those rules could apply if there is not a double tax treaty in place to override said rules but also the application of the attraction principle, as present in the United Nation Model Convention that allows certain source income to be taxed in country even if a permanent establishment is considered not to exist.

**PART C**Question 5Part 1

The decommissioning of oil and gas assets presents significant tax implications for oil and gas companies and governments. Such implications can include tax benefits paid to oil and gas companies to encourage the early closure of oil and gas fields by governments seeking to make the net zero transition:

- Oil and gas companies incur substantial costs when decommissioning assets, including well abandonment, platform removal, and site remediation. These costs may be deductible for tax purposes, either in the year they are incurred or over the useful life of the asset, depending on the tax laws and accounting standards in the host country.
- Some jurisdictions also allow oil and gas companies to accelerate the depreciation or amortisation of decommissioning costs for tax purposes. This means that companies can deduct a larger portion of the decommissioning costs in the earlier years of the asset's life, reducing their taxable income and current tax liabilities.
- Governments may even offer tax credits or incentives to encourage oil and gas companies to decommission assets in an environmentally responsible manner. These incentives could include tax credits for certain types of decommissioning activities, such as site restoration or pollution control measures.
- In some jurisdictions, oil and gas companies may be able to transfer or sell unused tax credits associated with decommissioning activities to other taxpayers or entities. This provides companies with additional flexibility in managing their tax liabilities and can incentivise the timely decommissioning of assets.

Other potential tax implications relate to asset retirement obligations (AROs), which oil and gas companies are required to recognise on their balance sheets for the estimated future costs of decommissioning assets. The tax treatment of AROs varies depending on the jurisdiction, but in some cases, tax deductions may be available for the accrual of AROs.

Oil and gas companies are likely to engage in tax planning and structuring strategies to optimize their tax positions related to decommissioning activities. This may involve structuring decommissioning transactions in a tax-efficient manner, utilising tax treaties, or establishing special-purpose entities for decommissioning purposes.

Finally, compliance with tax laws and reporting requirements is essential for oil and gas companies engaging in decommissioning activities. Failure to comply with tax regulations related to decommissioning can result in penalties, fines, and reputational damage for companies.

Part 2

The early decommissioning of oil and gas assets in order to meet states' net zero targets is likely to present the following implications for oil and gas companies, which will be magnified if the decommissioning takes place far earlier than would otherwise be the case:

- Stranding of assets, resulting in significant financial losses for oil and gas companies. The companies may have invested substantial capital in developing these assets, expecting returns over many years. If demand for oil and gas decreases faster than anticipated due to the transition to net zero, these assets may become uneconomical to operate.
- Write-downs, as oil and gas companies may be required to write off the value of their assets if they become stranded or obsolete. Write-downs could negatively impact the financial health and creditworthiness of these companies, potentially leading to reduced access to capital and higher borrowing costs.
- Concerns about stranded assets and the financial risks associated with the transition to net zero may erode investor confidence in the oil and gas sector. This could result in lower share prices, reduced shareholder returns, and increased volatility in financial markets.

Implications for host governments of early decommissioning are likely to include the following:

- Significant revenue losses, which could create fiscal challenges for governments in meeting their budget obligations and funding essential public services.

- Tax policy adjustments, as governments may as a result need to review and adjust their tax policies to account for changes in the oil and gas industry resulting from the transition to net zero. This could involve implementing new taxes, incentives, or regulatory measures to encourage investment in clean energy technologies and support the transition to a low-carbon economy.
- Macroeconomic costs, as the early closure of oil and gas fields and the decommissioning of assets could have significant implications for employment and economic activity in regions heavily reliant on the oil and gas industry. Job losses and reduced economic output may occur, requiring government intervention to support affected workers and communities.

### Question 6

Essential tax applying to the proposed investment, including rules for recovery of exploration expenses, treatment of capital expenditure, carry-forward losses, repatriation of profits, capital gains, transfer taxes, and indirect taxes such as VAT.

Hydrocarbon tax ring fence issues, such as restriction on interest deductions against ring fence income.

Determination of the holding structure, including election of a branch, single company or double company holding structure, consideration of taxation on income flows, withholding taxes, potential capital gains taxes on exit, and the funding structure of the investment.

The holding structure used if there are local or foreign partners.

Whether an intermediate holding country should be used for dividends, capital gains tax and related tax treaties.

Preparing a tax leakage calculation for the preferred structure, eg calculation from 100% of oil and gas income, reduction for taxes including any profit oil sharing under PSC regimes, calculating back to the net after tax cash to be received in the parent country.

Determining whether the seller is taxable in its own country of residence or the country where its assets are located, and estimating the amount of tax.

Reviewing transfer taxes or stamp duty applying to the sale and related asset or share transfers, including the estimated amount, and whether these amounts are payable by the seller, the buyer, or are shared.

Determining any carry-forward tax losses under a tax and concession regime, or allowable costs under a PSC regime, in the transferred company or licence asset, and reviewing whether these amounts are preserved by the transfer, and whether there is any group relief, tax consolidation, or tax loss contribution available in the new holding structure.

Reviewing what related party and external funding requirements apply for the acquisition and anticipated future expenses.

Reviewing whether any interest payments on funds to acquire the company or asset is deductible under local country rules. Some countries limit deductions based on purpose of the loan, or if related party. Reviewing whether the debt and interest deductions have been pushed down to the profitable company.

Consideration whether required loans are within thin capitalisation rules in the borrowing country. These rules can generally disallow interest deductions on related party loans where a company's debt exceeds certain levels.

Reviewing whether there is an opportunity to increase the value of transferred assets to their market values to allow increased future depreciation deductions as an asset step up for tax purposes, for example by using an asset transfer rather than acquiring the company, or an asset transfer after the acquisition.

Consideration of any Goodwill in the transferred company, or asset such as a licence, and whether any tax relief available for the goodwill such as goodwill tax amortisation.

Consideration of transfer pricing issues in the new structure, particularly whether any intra group asset transfers or payments will be at arm's length prices.

Source: *Tolley's International Taxation of Upstream Oil and Gas, 3rd edition*

### Question 7

Thin capitalisation rules are designed to prevent multinational companies from excessively leveraging their operations in a host country by restricting the deductibility of interest expenses on related-party debt. The thin capitalisation restrictions are domestic provisions introduced by different States to avoid a company with a small amount of capital or equity to contract big amounts of debt from a group or related company and accumulate tax deductible interest expense which reduce the amount of tax collected by that State.

Thin capitalisation rules vary widely between countries and often involve a debt-to-equity ratio threshold beyond which interest expenses are disallowed or limited. Some countries complement their thin capitalisation rules with an earning stripping rule. In this case a lower debt to equity ratio (e.g. 1.5:1) is put in place where the company receiving the interest payment is not subject to tax in the same Country as the company paying the interest (e.g. USA). Other companies use the transfer pricing provisions as criteria for the analysis of acceptable amounts of debts. Where the amount of debt exceeds what would be authorised to an independent party the corresponding interest expense will be disallowed as a tax deduction (e.g. UK).

The thin capitalisation analysis can also in some cases consider the worldwide situation of the group by comparing the amount of debt obtained by all the companies in a certain jurisdiction exceeds a determined percentage of the overall group worldwide gross external debt and disallows any interest expense exceeding this percentage (e.g. UK).

Other criteria used by some jurisdictions to kick-in thin capitalisation provisions is the debt to EBITDA (earnings before interest, tax, depreciation and amortisation) ratio or the debt to assets ratio. In these countries the net interest expenditure in excess of a determined percentage of a company's EBITDA or total assets will be disallowed. This can apply to third parties or related companies' loans (e.g. Germany and Denmark).

The effect of the thin capitalisation provisions applying is that the company will see denied the tax deduction for any interest expense which exceeds a certain threshold or does not comply with the requirements of the provisions. Generally, any disallowed interest can be carried forward for the following years.

To maximise interest deductibility, the company should consider an appropriate mix of debt and equity in its financing structure. This mix should balance the need for financing with compliance with thin capitalisation rules. Exploring alternative financing instruments, such as hybrid instruments, mezzanine financing, or convertible debt, may provide financing while reducing the impact of thin capitalisation rules as a sale and lease back agreements where the group company buys an asset from its subsidiary and then leases the asset back to the seller. This is normally qualified as an operating lease which generally will not be considered debt under the thin capitalisation provisions.

The group company may increase the equity portion of its subsidiary either through cash or assets contributions so that it can comply with any debt-to-equity ratios applicable under the thin capitalisation provisions. The parent company and subsidiary may agree on fees due for financial services as cash pooling treasury management, foreign spot transactions, currency purchase agreements, swap transactions which will not as general rule be qualified as interest expense. However, some jurisdictions may include these fees in the definition of interest for thin capitalisation purposes.

In some jurisdictions, it may be possible to obtain advance rulings or agreements with tax authorities to confirm the acceptability of the company's financing structures and interest deductibility.

### Question 8

The main items to consider on the tax treatment and financial model are:

- Any documentation that would be available with respect to the opportunity, as any model licence or PSC agreement, and other contracts or minutes available where information could be taken on the tax regime applicable.
- Consideration on whether there are any relevant recent changes to the applicable tax regime and how these would apply to the new venture opportunity.
- The taxes applicable to the opportunity and proposed investment, such as corporate income tax or special petroleum tax, royalties and signature bonus, rents, technology transfer, etc.
- Rules for the recovery of exploration expenses, treatment of capital expenditure, carry-forward of losses, repatriation of profits and transfer pricing rules applicable to any intra-group services or loan transactions and other anti-abuse provisions with possible impact on the structure and taxation of the opportunity.
- Indirect taxation as VAT or sales tax applicable on services and goods and potential refund mechanisms in place in country for the reimbursement of any VAT paid (as normally the sale of hydrocarbons is zero rate in most countries and allows for the recovery of the any VAT paid).
- Possible capital gains tax, transfer taxes or corporate income tax due on future transfers of the assets, licences or agreement to third parties or group companies.
- Customs duties applicable to the importation of the machinery, equipment and vessels necessary for the exploration, development and production work.
- Withholding tax applicable on service payments made to non-resident service providers as a final liability tax, as these are normally grossed up and increase the cost of the investment.
- Tax deductibility restrictions and any taxation or withholding tax applicable on the interest payments from any financing of the project, either by internal group financing or third-party independent loans, as well as potential applicable thin capitalisation rules applicable to the financing.
- Whether all the different taxes are correctly reflected in the model and main risks identified with correct sensitivities (e.g. consideration of ring fencing provisions).