



December 8, 2005

Reference number: IFA 2005-0007

XXX

Dear XXX:

Re: XXX

Thank you for your letter dated XXX, requesting a technical interpretation on behalf of XXX, with respect to the provisions of the *International Financial Activity Act* ("IFA Act"). I regret the delay in responding.

Section 2(2)(e) of the IFA Act provides that an international financial activity includes "guaranteeing the payment of a debt if all of the debtors or creditors are non-resident persons". Guaranteeing the payment of a debt will qualify as an international financial activity only if either all of the debtors of each debt or all of the creditors of each debt are non-residents.

Section 20 provides that in determining IFB income, transactions between related parties and affiliated corporations must be valued at fair market value. If the transaction is not at fair market value the Commissioner may set the transaction price to reflect fair market value.

It is our view that documentation required by section 247(4) of the *Income Tax Act* (Canada) (federal Act) will be accepted for the purposes of applying section 20 of the IFA Act to non-arm's length transactions between residents and non-residents of Canada where that documentation has been accepted and agreed to by the Canada Revenue Agency. In any other case, transfer pricing documentation prepared in accordance with section 247 of the federal Act would be one of the factors considered in determining the transaction price for the purpose of section 20 of the IFA Act.

We trust that the above comments are of assistance to you. This letter is not a ruling and consequently is not binding on the Ministry of Small Business and Revenue.

Yours truly,

Jeffrey S. Krasnick, CA
A/Director
Provincial-Federal Management Issues
Income Taxation Branch