

Part 29 of 32

International Considerations: Cross-Border PE/VC, FX, and Multi-Jurisdiction Cap Tables

Multi-currency financial reporting, cross-border transfer pricing, tax structuring of international PE transactions, multi-jurisdiction cap table governance, and managing a private capital-backed business across legal jurisdictions

WHAT YOU WILL LEARN AND WHY IT MATTERS

The private capital universe is increasingly global — US-based VC funds invest in European and Asian startups, PE funds acquire companies with international operations, and growth equity investors back companies that are rapidly expanding beyond their home markets. For the CFO of a private capital-backed company with international operations, the financial management complexity multiplies: multiple currencies, multiple tax jurisdictions, multiple legal entity structures, and multiple regulatory environments all create financial governance obligations that must be managed alongside the already demanding financial governance requirements of the private capital relationship.

This part covers the international financial management topics most frequently encountered by private capital-backed CFOs: the multi-currency financial reporting discipline, the transfer pricing governance required for intercompany transactions, the tax structuring considerations that affect the economics of international PE transactions, and the multi-jurisdiction cap table governance that ensures equity ownership is properly documented and governed across multiple legal systems.

MULTI-CURRENCY FINANCIAL REPORTING

When a private capital-backed company generates revenue and incurs expenses in multiple currencies, the financial reporting process must translate these multi-currency results into the single reporting currency of the consolidated financial statements. The translation process — governed by ASC 830 (Foreign Currency Matters) for US GAAP companies — creates financial statement effects that can significantly affect the reported results and that must be clearly communicated to investors and the board.

THE FUNCTIONAL CURRENCY DETERMINATION: The first step in multi-currency accounting is the determination of the functional currency for each foreign entity — the currency of the primary economic environment in which the entity operates. For most international subsidiaries of US-based companies, the functional currency is the local currency (the currency in which the subsidiary generates revenue and incurs expenses). The functional currency determination must be documented and reviewed at least annually, because changes in the entity's economic environment can require a change in the functional currency.

THE TRANSLATION ADJUSTMENTS: When a foreign entity's financial statements are translated from its functional currency to the US dollar reporting currency of the consolidated entity, the translation produces a cumulative translation adjustment (CTA) that is recorded in other comprehensive income rather than in the income statement. The CTA represents the unrealized gain or loss from the change in the exchange rate between the entity's functional currency and the US dollar since the entity was established or acquired. For a company with significant foreign operations, the CTA can be a material balance sheet item that affects the company's book equity — and that can produce a significant income statement impact when a foreign entity is sold (because the CTA is released into the income statement at the time of the sale).

THE FX RISK MANAGEMENT DISCIPLINE: For companies with significant revenue or expense in foreign currencies, the fluctuation in exchange rates creates financial risk — the actual US dollar value of the foreign currency revenue or expense will differ from the budget assumption depending on how exchange rates move. The CFO must establish an FX risk management policy that defines the company's approach to this risk: whether to hedge certain exposures (entering into forward contracts or options that lock in exchange rates for specified future transactions), whether to accept the FX risk as a natural part of operating internationally, or whether to price products and contracts in US dollars to eliminate the revenue-side FX exposure.

TRANSFER PRICING: THE GOVERNANCE IMPERATIVE

Transfer pricing — the pricing of transactions between related entities within the same corporate group (intercompany transactions) — is one of the most significant tax and legal governance obligations for private capital-backed companies with international operations. Every intercompany transaction — the sale of goods between a US parent and a foreign subsidiary, the provision of management services from the parent to the subsidiary, the licensing of intellectual property, the intercompany loans — must be priced at arm's length under both the US transfer pricing rules (Treasury Regulations Section 482) and the transfer pricing rules of the foreign jurisdiction.

THE ARM'S LENGTH STANDARD: The arm's length standard requires that intercompany transactions be priced as if they were between unrelated parties — at the price that an independent buyer would pay to an independent seller in the same or similar circumstances. Demonstrating compliance with the arm's length standard requires the preparation of transfer pricing documentation that identifies the intercompany transactions, describes the pricing methodology used for each transaction, and provides the economic analysis and comparable transaction data that supports the arm's length nature of the price.

THE TRANSFER PRICING DOCUMENTATION REQUIREMENT: Most major tax jurisdictions require taxpayers with significant intercompany transactions to maintain contemporaneous transfer pricing documentation — documentation prepared at the time of the transaction, not retroactively. Failure to maintain adequate transfer pricing documentation can result in penalties, even if the intercompany prices are ultimately determined to be at arm's length. The CFO must ensure that the transfer pricing documentation is prepared annually for every significant intercompany transaction and that the documentation is retained in a form accessible for tax audit purposes.

THE BEPS IMPLICATIONS: The OECD's Base Erosion and Profit Shifting (BEPS) framework — adopted by most major economies — has significantly increased the compliance requirements and the enforcement risk for intercompany transactions. The BEPS country-by-country reporting requirements, which apply to multinational groups above a specified revenue threshold, require the disclosure of revenue, profit, taxes paid, and number of employees by jurisdiction — a disclosure that enables tax authorities to identify potential profit-shifting concerns and to target audit resources more effectively. The CFO must determine whether the company is subject to country-by-country reporting and must ensure that the required reports are filed on the required timeline in each applicable jurisdiction.

TAX STRUCTURING IN INTERNATIONAL PE TRANSACTIONS

International PE transactions involve complex tax structuring that can significantly affect the economics of the transaction for both the PE fund and the management team. The CFO must understand the basic framework of the tax structuring decisions, both to engage effectively with the tax advisors and to assess the financial impact of the structuring choices on the company's ongoing tax obligations.

THE HOLDING COMPANY STRUCTURE: Most international PE transactions are structured with one or more offshore or non-US holding companies interposed between the PE fund and the operating entities. The holding company structure is designed to optimize the tax efficiency of the equity return to the PE fund — ensuring that the capital gain on the exit is recognized in a jurisdiction with favorable capital gains tax treatment. Common holding company jurisdictions include Luxembourg, the Netherlands, the Cayman Islands, and Singapore, each chosen for its specific combination of favorable tax treaties, participation exemptions, and regulatory environment.

THE DEBT PUSH-DOWN: In many international PE transactions, the acquisition debt is pushed down from the holding company level to the operating company level — making the operating entities directly liable for the acquisition debt rather than the holding companies. The debt push-down creates tax deductions for interest expense at the operating company level, where the company is generating taxable income, rather than at the holding company level, where there may be limited taxable income. The CFO must understand the interplay between the debt push-down and the transfer pricing requirements — the interest rate on the intercompany debt between the holding company and the operating company must be at arm's length, and the total interest deduction must be within the limits imposed by the thin capitalization rules and the BEPS interest limitation rules of the applicable jurisdictions.

MULTI-JURISDICTION CAP TABLE GOVERNANCE

When a private capital-backed company has legal entities in multiple jurisdictions, the cap table governance becomes substantially more complex: the equity of each entity must be documented in accordance with the legal requirements of its jurisdiction, the intercompany equity relationships must be properly documented and maintained, and the equity compensation grants must comply with the tax and securities laws of each jurisdiction in which employees are located.

THE INTERNATIONAL EMPLOYEE EQUITY COMPLIANCE: Equity compensation grants to employees in jurisdictions outside the United States are subject to the specific tax rules, securities law requirements, and employment law constraints of each jurisdiction. Options that are tax-efficient in the United States — such as ISOs — typically do not receive the same tax treatment in other jurisdictions; the equivalent local instrument (such as the Enterprise Management Incentive scheme in the UK or the BSPCE in France) may be available in the local jurisdiction and may provide more favorable tax treatment for local employees. The CFO must work with local employment counsel in each jurisdiction to design the equity compensation program for local employees in a way that is both legally compliant and tax-efficient for the

employees.

THE CORPORATE SECRETARIAL OBLIGATIONS: Each legal entity in the corporate structure has ongoing corporate secretarial obligations — the maintenance of the share register, the filing of annual returns, the convening and documentation of board meetings, and the compliance with the corporate governance requirements of the jurisdiction. For a company with many international entities, these corporate secretarial obligations can create significant administrative burden if they are not managed systematically. The CFO should ensure that the company has a corporate secretarial service or a local counsel relationship in each significant jurisdiction and that the corporate secretarial obligations are tracked and managed with the same rigor applied to the financial reporting and tax compliance obligations.

ACTIONS TO TAKE BEFORE PART THIRTY

Conduct the intercompany transaction inventory: identify every significant transaction between related entities in the corporate group (goods sales, service agreements, IP licenses, intercompany loans), document the current pricing methodology for each transaction, and assess whether the current pricing is supported by contemporaneous transfer pricing documentation. For any transactions that are not currently supported by adequate documentation, commission the preparation of the documentation from the company's transfer pricing advisors.

Build the multi-currency financial reporting model: a consolidated financial model that converts each foreign entity's local currency financial results to the US dollar reporting currency using the correct translation methodology (assets and liabilities at the closing rate, income statement at the average rate for the period), calculates the cumulative translation adjustment, and presents the consolidated results in a format that clearly identifies the FX impact on the period's performance. This model should be incorporated into the monthly board reporting package for any company with significant foreign currency operations.

CLOSING PERSPECTIVE

International financial management is where the technical complexity of private capital finance intersects with the legal and regulatory complexity of operating across multiple jurisdictions. The CFO who manages this intersection with the analytical rigor, the documentation discipline, and the specialist advisor relationships required — who maintains compliant transfer pricing, manages FX risk with a defined policy, maintains the multi-jurisdiction cap table with legal precision, and ensures the corporate secretarial obligations are met in every jurisdiction — is providing the financial governance that protects the company from the specific risks that international operations create.

COMING NEXT IN THE SERIES

Part 30 — ESG in Private Capital: Reporting Requirements, LP Expectations, and Financial Integration

Part Thirty covers the growing ESG requirements in private capital — LP reporting expectations, the major ESG frameworks (SASB, GRI, TCFD), the financial integration of ESG metrics into the management reporting and board governance, the ESG due diligence in M&A; transactions, and the CFO's role in building the ESG financial infrastructure.