

The structure of a trading group

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The legal structure of a commodity trading group headquartered in Zug often follows a pattern along the following lines. At the top stands a holding company, which may be incorporated in Switzerland or abroad, as in the case of Glencore plc in Jersey. Below it, a principal trading company in Zug carries on the trading business: it concludes the purchase and sale contracts, bears the price and credit risks, holds the hedging positions and receives the trading profits. Offices in other trading centres, such as London, Singapore, Dubai, Houston or Geneva, are organised as branches or subsidiaries of the principal company and perform marketing, origination and operations functions for which they receive a remuneration determined by transfer pricing. Production assets, such as mines, refineries, terminals and ships, are held by separate subsidiaries in the countries where they are located. Financing is raised at the level of the holding company, the principal company or specialised finance subsidiaries.

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The principal company in Zug is the heart of this structure. Its tax treatment, once governed by the status regime for mixed companies, is now determined by the ordinary cantonal rate and the global minimum tax. Its substance, the presence in Zug of the traders and managers who take the decisions and control the risks, determines whether the profits allocated to it will be respected by the tax authorities of the other countries. Its governance determines whether it can meet the compliance obligations that the regulators and prosecutors of several states impose on it. The practitioner who structures or reviews a trading group must therefore begin with the principal company in Zug and ask whether its functions, its staff and its controls correspond to the profits and the risks that the group attributes to it.

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