TRANSFER PRICES AND MARKET VALUE OF REINSURANCE TRANSACTIONS

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Abstract: As a result of the increasingly sustainable economic and financial crisis, which is characterized by the diminishing of the sums due to the state budget, the interest of more and more countries, including Romania, for the legalization and control over the transfer prices increases. Transfer pricing is an activity involving the execution of client related actions for a specific financial product through multiple intermediaries and / or tax jurisdictions. These transfer prices are used in different industries and, in the last period, have been used, in particular, by reinsurance companies as a result of difficult economic conditions and increasing competitiveness. Under these circumstances, insurers need to be aware that they will carry out tax inspections whose role is to verify using the market value principle, the compliance of their prices with the affiliated reinsurers in order to avoid misuse of those prices, by exaggerating costs and artificially reducing potential profits. This study emphasizes that reinsurance contracts made by affiliated companies are not the issue, but the way in which transactions are carried out that do not accurately reflect the risks transferred, their costs and the respect of the market value principle. If they are not carefully controlled, these reinsurance companies have every reason to use transfer pricing to move the profit between tax jurisdictions with differentiated rates of taxation, thus minimizing total corporate tax.

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Key words: transfer prices, the notion of reinsurance, the principle of market value; methods of transfer pricing

1. INTRODUCTION

In recent years, transfer prices have been a sensitive issue of national and international interest. These have occurred in the context of groups of companies with presence in several states, carrying out economic activities in these states, thus representing a complex end point. The evolution of transfer prices is fully in line with the phenomenon of globalization, the development of trade relations between states and the emergence of the first multinational groups with operations in different states. From the perspective of transfer pricing, when we talk about the insurance and reinsurance industry, it may be possible in the near future to make the reinsurance operation one of the most carefully analyzed transactions.

Taking into account the mergers and restructurings in recent years on the insurance market in Romania and beyond, as well as the increased interest of tax authorities in investigating transfer pricing in multinational companies, we expect the companies in the industry to do so soon subject to tax inspections. It is important that the study of transfer pricing compliance of reinsurance services with the market value principle also takes into account the risks of these transactions. This study is a difficult operation, which involves analyzing transactions between companies belonging to the same group (affiliated companies).

Over the years, transfer prices have undoubtedly become an important international business issue for multinationals and a problem for tax authorities that multinationals could use these transfer pricing to change profits between affiliated parties through the cost of the goods sold. Tax administrations require multinationals to demonstrate that their intra-firm transactions respect the market value principle.

2. OBJECTIVES

The purpose of this article is to point out the approaches that can be used to justify the market value of transfer pricing corresponding to transactions that consist of providing reinsurance services. I also wanted to include a presentation of the specifics of transfer pricing and reinsurance, of the technical approaches that can be used to analyze transfer pricing compliance with the market value principle. This transfer pricing study used in the reinsurance industry is a difficult operation, which involves a thorough analysis of the transactions between the companies belonging to the same group, also called affiliated companies.

3. SPECIFICS OF TRANSFER PRICING AND REINSURANCE

3.1 INFLUENCE OF TRANSFER PRICES ON THE ECONOMIC ENVIRONMENT

The object of this investigation is the transfer price and the market value of reinsurance transactions. As a method of investigation, I used research literature, laws, logical analysis and generalization. As a method of research, we have approached the deductive method (drawing conclusions on the basis of available data), and research is fundamental; the usefulness of such research, although it does not identify a problem in order to solve it, is reflected in its contribution to the future developments of this research, providing prerequisites for future studies.

Transfer pricing is a phenomenon studied in developed countries since the second half of the 20th century (in the UK - in 1915 and in the US - in 1917), and in Romania it is an area that is important at a relatively recent date 21st century, in 2004). They have existed since antiquity since the emergence of the first multinational groups, starting in the 1600s, by the establishment of the British East Indies Company.

The subject of transfer pricing is extremely complex, these are the prices at which the tangible or intangible goods are sold / purchased and services provided, with the indication that both the seller and the buyer are controlled by the same joint entity or entities. These transfer prices have occurred in the context in which groups of companies with presence in several states carry out economic activities in these countries. Their evolution is related to the emergence of multinational groups and the development of trade relations.

Tax administrations require multinationals to demonstrate that their intra-company transactions respect the market value principle. Recently, controlling transfer pricing is being pursued to effectively manage the fiscal and financial risks that this implies.

Lately, there is a growing interest in the transfer pricing phenomenon, both from transnational companies, which seek to optimize tax and obtain optimal circulating capital, as well as from international tax authorities, which aim at optimizing cash flow. Tax optimization methods used by multinational companies in the countries in which they operate are often at the legal and illegal border as they seek to exploit certain weaknesses in the tax legislative system.

With the expansion of economic globalization, there is an increase in inter-state financial flows generated by transfer pricing, and implicitly, the internationalization of economic crime has new valences. Addressing such prices can benefit companies through operational advantages such as knowing affiliate transactions and identifying revenue and spending opportunities, profound understanding of the business model, and optimization opportunities that, under other conditions, could be overlooked. However, the use of transfer pricing that does not comply with the market value principle can result in tax base adjustments and double economic taxation when companies from several countries are involved in transactions. Transfer pricing is an area with great potential for conflict between subsidiaries, and there is often a need for mediation through headquarters. If inter-branch transactions are to be carried out on a long-term basis, formal negotiations between subsidiaries, facilitated by headquarters, would work best. However, in the case of transactions between two subsidiaries, the relationship must be negotiated with both sides by the corporate arbitrator, who have imperfect information. Both subsidiaries are moving to a different point of equilibrium, and informational asymmetries in ad hoc transactions can often be so great that corporate interests are best served by decentralized decision-making at a subsidiary level. Therefore, the headquarters of a multinational company should mediate the process of transfer pricing only when there are large, multiple or long-term orders and are in the process of negotiation. Transfer pricing also poses a problem for global operations involving the execution of client actions (including marketing, pricing, risk, etc.) related to a particular financial product or financial product line in more tax jurisdictions and / or more than one participant. As every good is sold / bought at a certain price between a buyer and a seller, it is equally necessary to set a price, even when the two are affiliated.

Transfer pricing is important for both taxpayers and tax administrations as it helps determine revenue and expense and, implicitly, determine the taxable profits of associated companies. In order to achieve a fair balance between the interests of taxpayers and tax authorities, it is necessary to analyze all aspects of the system that are important in a transfer pricing case. In practice, transfer prices are analyzed from different perspectives.

The two perspectives deal with different transfer prices:

- the economic approach - this perspective involves a price analysis from a technical point of view, distinguishing them from the political and economic sector in which they are used;
- the fiscal approach - the tax perspective wants to create tools that allow transfer pricing not to deviate from market values in order not to inflate competition and the level of taxation in the various jurisdictions where the multinational company operates.

Multinationals need to understand how profits are earned to make valid business decisions. For fiscal reasons, the tax authorities want to ensure that the correct profit is attributed to the economic activity in their jurisdiction in order to be able to collect the tax correctly. In the current economic context, transfer prices are one of the main areas of investigation during tax inspections. The cash-strapping of the state budget, the lack of a methodology for checking transfer pricing and complex legislation often lead to tax conflicts between authorities and taxpayers.

A. Transfer pricing action at international level

Transfer pricing legislation follows the guidelines of the Organization for Economic Cooperation and Development (OECD) and requires that related party transactions be made at market value. It is the basic instrument, recognized by most states, which provides essential information and recommendations on how to determine transfer pricing from a tax point of view. The United States introduced regulations on transfer prices in 1917, regulations that are largely mirrored in the OECD's work. At international level, the US applicable regulations (Section 492 of the Internal Revenue Code) and those issued by the OECD have significantly influenced the rules adopted by states around the world. However, transfer prices have begun to gain global importance since the 1960s, when trade has intensified. The first OECD report appeared for the first time in 1979, a new version was issued in 1984, updated and adopted in 1995 and then updated in 2010.

It refers to this principle because it is the International Standard of Agreed Pricing by the OECD Member States for tax purposes by multinational groups and tax administrations. Transactions between affiliated persons should be based on the arm's length principle (referred to as the "arm's length principle") without being influenced by the affiliation relationship between them. The OECD Guidelines analyze methods to assess whether the commercial and financial relationships of multinational companies respect the principle of full competition and discuss the practical application of these methods. In practice, five transfer pricing methods are used, divided into two categories: traditional transactional methods, requiring higher comparability and methods based on transactional profit. At the same time, comparative analysis is used, which helps to identify the market interval, which in fact represents the range of price / profit values for comparable transactions performed by independent companies.

Transfer pricing occurred in the context of groups of companies with presence in more than one country carrying out economic activities in these states, thus representing a complex end point. Transnational companies see transfer pricing as tax optimization, and the state wants to take measures to protect tax revenues, and especially measures that somehow avoid outsourcing the taxable base of taxpayers to affiliated entities in order to obtain a more favorable tax regime.

B. Transfer pricing action at european level

The evolution of transfer prices is closely linked to the development of trade relations between states and the emergence of the first multinational groups with operations in different states. "The first multinational companies appeared in the 1600s by the establishment of the British East Indies Company (1600) and the Dutch East Indies Company (1602)" (Patroi, Cuciureanu, Radu, 2013, p.2). The first state to introduce transfer pricing regulations was Norway in 1911, and in 1915 the UK introduced regulations on transfer pricing. The European Commission considers transfer prices to be of major importance, as they have the capacity to influence the way the internal market operates. The Commission recognizes the entire OECD activity in terms of prices and supports the principle of market value.

At EU level, Member States have concluded an Arbitration Convention as a tool to eliminate double taxation resulting from transfer pricing adjustments by authorities to comply with the ALP principle. In 2002, the European Commission proposed the establishment of a European Forum with the aim of identifying solutions to help implement the Arbitration Convention in practice. This Forum has issued certain reports on transfer pricing and the Council has also adopted two TP Code of Conduct (one relating to the implementation of the Arbitration Convention and one relating to transfer pricing documentation). In 2011, the European Commission proposed a model for the Tax Base Directive in the Community acquis, which aims to strengthen the taxable base of affiliated groups of companies within the European Union. So far, this directive has not been approved because Member States have not reached a consensus, most of them stating that the project does not respect the principle of subsidiarity, limits their sovereignty over direct taxes and has the effect of reducing budget revenues in income tax. If this draft directive is to be approved in the future, the tax formalities relating to transfer prices for affiliated companies that are part of a tax group under the Directive will disappear.

C. Transfer pricing action at national level

At present, there is a growing emphasis in Romania, because transfer pricing is seen by transnational companies as tax optimization and the state wants to adopt measures to protect tax collections and especially measures to avoid, somehow, outsourcing the taxable base of taxpayers to affiliated entities in order to obtain a more favorable tax regime. In Romania, the transfer pricing regime is of a relatively recent importance in 2004, with the entry into force of the Fiscal Code and the Methodological Norms for its application. The Romanian legislative system also contains provisions on the documentation of transfer pricing (which follow the principles of the EU Code of Conduct in this area) and the procedure for issuing advance pricing agreements.

Since transfer prices have important implications for Member States' budgets, there is an increasing complexity of tax issues for both tax administrations and companies that are required to comply with the different tax rules in the countries where they work. These national tax rules generate conflicts of interest between tax administrations and commercial companies, and the lack of administrative coordination between tax jurisdictions can cause capital cuts in some countries and loss of tax revenue.

3.2. USE OF TRANSFER PRICING IN REINSURANCE SERVICES

This reinsurance phenomenon arose as a result of high risks (maritime, aviation, fire, life, accidents, etc.), which can cause extreme damage to insurance companies. Reinsurance involves the total or partial cession of the underwriting risks and the payment obligations of an insurer (called a reinsured / cedent) to a reinsurance company called a reinsurer. In fact, in a group of reinsurers, prices can be determined by using simple rules that do not reflect the functions performed or the risks assumed. Transfer pricing is often set according to goals of maximizing corporate profit and measuring performance through business units; compensation and incentive management; feeding the management.

Prices and profits that once reflect the costs or market forces can no longer do so once again, but they can even be set to minimize overall corporate tax. In order to evaluate a reinsurance transaction in accordance with the transfer pricing rules, two key questions need to be considered:

- can it be shown that the ceded commission was calculated on the basis of the arm length principle?
- assignor would be engaged in the transaction, if it had been made with independent reinsurer?

A taxpayer evaluates a transaction by applying the method that produces the most effective measure of the arm length. In selecting "the best method," the taxpayer must consider the following:

1. availability of data to serve as a reference to the arm's length principle;
2. the reliability and completeness of the data that is available;
3. the quality of the assumptions necessary to apply the data;
4. number and type of adjustments to be applied to data to improve comparability.

Data quality and assumptions are important criteria for selecting the best method. It is the taxpayer's duty to show that results based on the selected method produce the most reliable result. In practice, there are a number of approaches that can be used to evaluate inter-group reinsurance transactions. All this is based to a certain extent on an actuarial pricing approach, and the methods most commonly used in these reinsurance transactions are: **the method of comparing profits (CUP) and the net margin trading method (TNMM)**, according to the OECD. The setting of reinsurance prices follows the same principles as the setting of traditional insurance prices. The joint statement in support of the arm's length of arm's length of reinsurance operations is that inter-company transactions are charged exactly on the same basis as for external reinsurance.

In practice, reinsurance operations consist of dividing the risks and responsibilities between the reinsured and the reinsurer. As business structures become more complex, companies often need more sophisticated insurance products to manage their business disruption risks properly. Narrow vertical integration makes risk management more difficult and increases insurers' requirements in terms of fair risk assessment and loss assessment. Therefore, in the field of reinsurance, it is essential that when assessing the risks of interruption of business, transfer pricing systems between companies need to be considered. This is the case for the risk assessment before loss, the post-loss reserve and the final loss valuation.

Therefore, it is crucial to have absolute transparency in transfer pricing and affiliated entities as this helps identify the need to cover business disruption. This transparency also helps to quickly and clearly evaluate damage for booking purposes. Close collaboration between all involved throughout the process is essential as it allows insurers to work through general loss calculation methodologies, explain what is needed, address potentially difficult areas for loss assessment, and manage expectations for the satisfaction of everyone. Transfer pricing issues are equally relevant whether or not the loss arises from physical loss in the insured company or from the damage of a supplier or a customer resulting from a contingent loss of business interruption.

Probability models should be selected to best describe the current situation, taking into account all the real statistical and analytical constraints that prevent more information from being obtained. Therefore, Klugman, Panjer and Willmot (1998), Hogg and Klugman (1984), and Patrik (1980) discuss model selection and parameter estimation and consider that the price formula that a reinsurance actuary will use depends on philosophy the price of the reinsurer, the availability of information and the coverage complexity.

The transfer pricing analysis, commonly defined as the examination of the economic substance, in fact analyzes whether the affiliated parties have the functional and financial capacity to execute the contracts they have concluded. The notions of property, substance and commercial rationality are identified as control criteria for observing the competition principle stemming from contract law. The Concept Transfer Pricing Framework defines the boundaries of the market value principle with the aim of eliminating double economic taxation and neutralizing the effect of corporate income tax on foreign direct investment.

4. REINSURANCE AND COMPLIANCE OF THE MARKET VALUE PRINCIPLE

In recent years, transfer prices have been a sensitive issue of national and international interest. The evolution of transfer prices is fully in line with the phenomenon of globalization, the development of trade relations between states and the emergence of the first multinational groups with operations in different states. As this article is based on data on the reinsurance industry, it contributes to a new understanding of transfer pricing and location of profits in global value chains. In this case, the way multinational companies implement their transfer prices play a significant role.

It is important that the study of transfer pricing compliance with arm's length reinsurance services also takes into account the risks of these transactions. This study is a difficult operation, which implies a thorough analysis of all transactions between companies belonging to the same group (affiliated companies). Thus, the arm length transaction is one in which the buyer / reinsurer and the seller / reinsurer act independently and have no relationship (blood, marriage or business relationship) between them, ensuring that all parts of the business act independently in their own interest and are not subject to any pressure or constraint from the other parties, occupying equal bargaining positions. Two foreigners with equal bargaining power and knowledge of property are likely to agree on a price that is close to market value because the seller will strive for the highest possible price while the buyer will fight for the lowest possible price . It is assumed that the arm length transaction will be fair and equitable to all parties involved and will lead to a market price.

When affiliated reinsurers carry out the assignment of gross written premiums, it is the responsibility of the authorities to verify that transfer prices are correct, as these transfers are intragroup transactions and are subject to the tax rules specific to those transactions. There is no regulation forbidding or limiting the realization of reinsurance contracts between Romanian companies and other foreign affiliated reinsurance companies, provided that these contracts are made at a fair value and the prices practiced respect the arm's length principle. Lately, the issue of reinsurance contracts between insurance companies with foreign shareholders and reinsurers within the same financial groups has been raised with companies that give up those subscribed premiums. The problem lies in the fact that placing certain risks assumed for policies subscribed to affiliated companies and their remuneration for doing so, their subsidiaries in Romania (sometimes even mother companies) only transfer profits to the outside, and thus manage to partially escape from payment of taxes on profits, to the Romanian state. The Fiscal Code stipulates that transactions between affiliated persons are carried out according to the free market price principle, according to which transactions between affiliated persons are carried out under the conditions established or imposed which must not differ from the commercial or financial relations established between independent enterprises and that in determining the profits of the affiliated persons the transfer pricing principles are considered.

Therefore, the issue is not the reinsurance contracts made by the affiliate companies, but the way of realizing transactions that do not accurately reflect the transferred risks and their expenses. Insurers need to be aware that they will carry out tax inspections whose role is to verify using the market value principle, the compliance of their prices with the affiliated reinsurers, in order to avoid misuse of these prices through excessive exaggeration of costs and artificial reduction of potential profits. The setting of reinsurance prices follows the same principles as the setting of traditional insurance prices. In addition, an actuarial valuation or other projection of future cash flows or distributable earnings on a particular type of business will produce a single product-based value and the risk characteristics of policies that are made.

In addition to this market value principle, two of the transfer pricing methods (price comparison method - CUP and net margin method – TNMM), can also be used, as well as quotes offered by brokers for similar reinsurance services or the best method available alternatives:

A. **Price Comparison Method (CUP) -** CUP method, compares the price charged for goods or services transferred in a controlled transaction to the price charged for goods or services transferred in a comparable uncontrolled transaction. If there is a price difference, this may indicate that the controlled transaction is not arm-length, and thus may cause price transfer.
B. **The Net Margin Method (TNMM) -** the Net Margin Transaction Method ("TNMM") analyzes a net profit indicator, ie a net profit relative to an appropriate basis (eg costs, sales, assets) when a taxpayer derives from a controlled transaction a net profit obtained under comparable uncontrolled transactions. This method can be applied to: internal and external comparisons. The choice of this method is made when net profit indicators provide a more reliable comparison than the resale price or cost plus method. Good to know: Profit level indicators are return on assets and return on sales. By using the net margin method, the market value of transfer pricing in reinsurance contracts concluded between related parties can be tested. This shows whether the reinsured in the activities carried out has obtained a suitable remuneration (for example: underwriting, sales, damage management).
C. **Use of broker prices -** given the high degree of difficulty in identifying comparable transactions with independent parties, an alternative approach can be used in practice. This method involves the use of quotes offered by brokers in respect of similar reinsurance services, but it should be noted that they do not closely follow the terms of a reinsurance contract.
D. **Best available alternative -** this method is used to see if the transfer prices used in reinsurance contracts respect the market value principle. Thus, the reinsurance company that cedes subscribed premiums must consider the

available alternatives before making a transaction and have to prove that at the time it chose the best. But there is also an inconvenience about this method, namely: a detailed analysis of the alternatives can take a long time and can be difficult to achieve.

At the same time, insurance and reinsurance companies in order to be able to support the transfer prices applied in the reinsurance services have the obligation to prepare and present the transfer pricing file. The preparation of transfer pricing documentation should no longer be just a compliance exercise, but should be an inherent part of the group's risk management strategy. The transfer pricing file is a documentary requirement imposed on entities, natural or legal persons, entering into commercial and financial relationships with entities, other affiliated natural or legal persons. A good folder containing the information required by law, information that is contained in ANAF Order 222/2008 (Official Gazette no. 129 of February 19, 2008).

This file must cover all transactions with affiliated parties, regardless of their nature: reinsurance services, lending / borrowing, portfolios transfers, claims file processing services, cost rebates, IT services. This document also represents a means of tax protection. The transfer pricing file is the taxpayer's defense in front of the tax inspector, but also in the face of pricing adjustments and must be updated whenever changes occur. This file is a technical tool that is used at the global, European and national level by the Tax to re-traverse transactions, fix a price for certain transactions that are not considered to be at the market price and to recalculate the profit margins and debts to the state. Each company knows the risks assumed and the assets used in the group so that it can claim that the related parties have meaning and economic content and have been carried out at market price and respect the market value principle. Therefore, the reason for adopting this principle is that it provides a treatment parity between independent and multinational companies, thus avoiding the creation of tax advantages or disadvantages that could distort the competitive positions of each type of entity. The OECD Guideline considers that this "arm's length" principle is the international consensus on transfer pricing, notably as regards the assessment of cross-border transactions between associated enterprises for tax purposes. In a global economy where multinationals play an essential role, transfer prices are a priority on the agenda of tax administrations and taxpayers alike. The trend of the evolution regarding the transfer prices in Romania reveals an increasing interest of the Romanian tax authorities towards the transfer prices, which is one of the main areas of tax investigations.

Under these circumstances, multinationals must pay close attention to the length of the arm, their dealings with affiliated parties and their documentation, so that they can be prepared for any disputes about transfer pricing with the tax authorities. When a multinational company, in our case a reinsurance company, determines their intra-profit transfer prices, they must take into account the legal constraints of both headquarters and domestic countries with foreign affiliates. Common constraints are related to repatriation, restrictions, sociopolitical requirements, and, most importantly, tax rules, which are explained further in this section.

If they are not controlled, these companies have every reason to use the transfer price to move the profit between tax jurisdictions with differentiated rates of tax, thus minimizing total corporate tax. A parent in a high-tax country may acquire goods from its subsidiary in a low-tax country at a price substantially higher than the market price.

The subsidiary will make a high profit, which will be taxed at the lower rate. The parent will report a low profit, or even appear to be in financial distress. Thus, a multinational will benefit from the lowest global tax expense. The tax authority of the subsidiary will not oppose the transfer price as their income tax is increased by artificially high profit, but the parent's tax authorities will find the existing transfer price and tax revenue lost unacceptably. In order to avoid such disputes between tax jurisdictions, the OECD offers for pricing guidelines based on the arm length principle - that the transfer price of a reinsurance contract should be the same as if the two affiliates were independent companies. The boom length principle is the framework for several bilateral treaties between OECD member countries and even non-OECD governments. The guidelines provide considerable technical details on how to apply the arm length principle. The latest guidelines were published in 2010, but effective implementation is not easy.

It is not always possible to find comparable transactions on the market to establish an acceptable transfer price, especially for high technology innovations and even for reinsurance contracts. However, despite the OECD guidelines on the principle of full competition, it may still be possible for a multinational to handle transfer prices. Therefore, the main benefit of accepting this principle is the high degree of certainty about its acceptance, its fairness both in the relationship between two tax authorities located on opposing positions and in the relationship between taxpayers and tax administrations, as well as the applicability its practice.

5. CONCLUSIONS

It is important that the study of transfer prices for reinsurance services is in line with the market value principle, also taking into account the risks of these transactions. Transaction based on arm's length principle is one in which the buyer/reinsurer and the seller/ reinsured act independently and have no relationship (by blood, marriage or business relationship) between them, ensuring that all parts of the business act independently. Lately, the issue of reinsurance contracts between insurance companies with foreign shareholders and reinsurers within the same financial groups has been raised with companies that give up those subscribed premiums. The problem lies in the fact that placing some of the risks assumed for the subscribed policies of affiliated companies and their remuneration for this, in the case of their subsidiaries in Romania (sometimes even the parent companies), only transfers the profits to the outside, thus succeeding in evading partly from the payment of taxes on profits, to the Romanian state.

Thus, I want to point out that large insurance and reinsurance companies use transfer pricing as a loophole for tax evasion. According to the details presented, it is necessary for the tax authorities to pay more attention to this area of insurance, as well as to the compliance of these companies with the market value principle. When affiliated reinsurers carry out the assignment of gross written premiums, it is the responsibility of the authorities to verify that transfer prices are correct, as these transfers are intra-group transactions and are subject to the tax rules specific to those transactions. If they are not controlled, these companies have every reason to use the transfer price to move the profit between tax jurisdictions with differentiated rates of tax, thus minimizing total corporate tax.

Transfer pricing is important for tax administrations as well as for taxpayers as they are largely determined by the revenue and expenditure of a particular entity and implicitly the taxable profits of affiliated companies in different jurisdictions, profit tax due to tax authorities. Therefore, it is necessary that the transactions between affiliated entities comply with the principle of market value without being influenced by the affiliation relationship between them.

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