



Unbundling and optimizing your entity lifecycle management

Tackling the ever-changing regulatory landscape

The regulatory landscape is changing at an unprecedented rate. New corporate rules are emerging literally on a daily basis, not least due to major developments in technology (e.g. data privacy and cyber security), international governance (e.g. anti-bribery and AML) and globally-integrated supply chains (e.g. international trade law). COVID-19 has added an additional dimension to regulatory change with a host of new rules touching upon almost any sphere of corporate law.

Legal and compliance departments as custodians of many, if not all compliance and regulatory processes are tasked to identify new ways of effectively and efficiently addressing current and emerging regulatory frameworks. However, increases in absolute numbers of regulation and legal entity reporting requirements go hand in hand with budget and time constraints of legal functions. Complex information and the need for a consistently high data quality pose serious challenges to any legal department. ➔

Unbundling the legal entity lifecycle – opportunities for efficiency and transparency gains

Many corporate legal departments have acknowledged that most legal processes are divisible. Each component (process step) of a legal matter or transaction can – and eventually should - be assigned to a provider whose operational model and capabilities are best suited to that process step or task. This approach, known as “legal unbundling”, offers the unique opportunity to re-visit key aspects of the legal entity lifecycle, namely existing company-wide corporate structures and corresponding annual corporate compliance and regulatory services.

The latter comprise activities, such as preparing, drafting and archiving minutes, convening letters, shareholder and board resolutions, filing of annual accounts with local authorities, updating commercial registers, and so forth, collectively known as “legal entity management”.

In the context of managing and optimizing the legal entity lifecycle, legal counsel should devise their strategies based on the following questions:

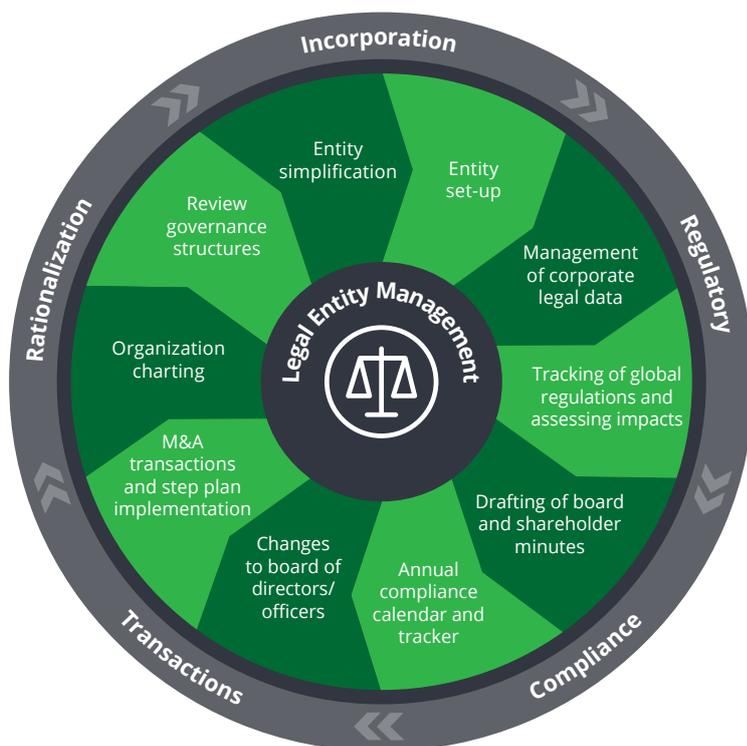
1. What are better ways to understand and manage corporate structures and achieve a higher degree of visibility related to those structures?
2. Can (legacy) structures be streamlined, merged or terminated in favour of a higher degree of transparency, better governance and lower administrative costs? If so, how will e.g. liabilities and ring-fenced operations be affected?
3. How can confidence in reporting and a cost-efficient compliance approach be achieved at the same time?
4. Which alternatives exist to further mitigating regulatory risks and reputation issues attached to legal entity management?

Integrating an external provider to help streamline legal entity structures in the first place and, later on, render legal entity management as an outsourced service offers a number of benefits to the in-house legal team:

- Economies of scale reflected in competitive service delivery rates;
- Standardised processes and deliverables built on latest technology that increase transparency and robustness of the compliance and regulatory framework;
- Scalable delivery models that are fully responsive to ad hoc requirements and process extensions across global operations; and
- Professional knowledge management across jurisdictions coupled with local specialist expertise on the ground.

In the course of the following two sections, we will briefly outline some key considerations.

Fig. 1 – Full entity lifecycle



Legal entity rationalization – cleaning up the house

Although legal entity rationalization may be seen as a preceding step before outsourcing the actual legal entity management, it is not compulsory to follow that sequence.

Essentially, rethinking how a business is structured and managed is a continuous task. Any subsequent alignment of the business model will enhance operating efficiency. Reformed business reporting processes help increase transparency and streamline compliance, accounting, finance & treasury, and reporting. A full revision will ultimately result in a “fit for purpose” structure that helps in aligning operating models, purging unused legal entities and enhancing functional simplicity.

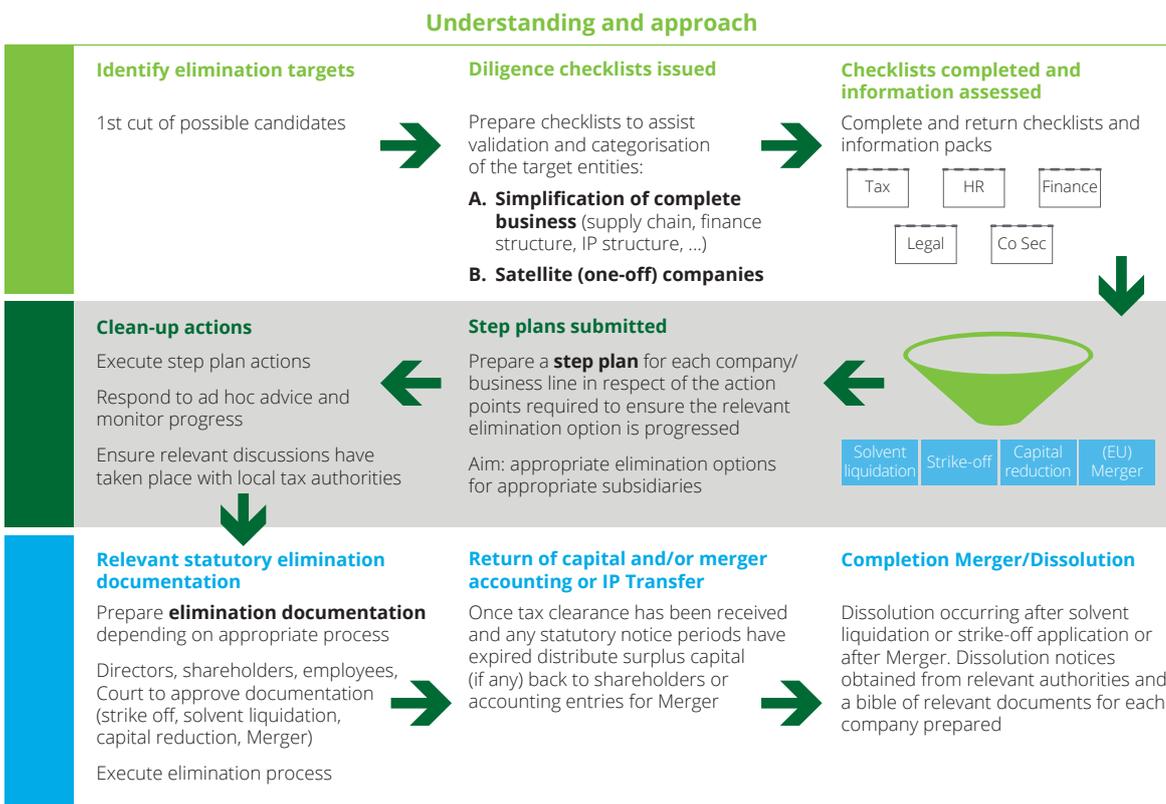
Legal entity rationalization follows a straightforward approach comprising a due diligence, clean-up and elimination phase. During the feasibility analysis, tax, legal and HR issues need to be taken into consideration with regard to the project structuring. For instance, existing compensation and benefits plans may require adjustments and employment contracts may need to be transferred. Tailored and proactive communication with affected employees, employee representatives, unions, suppliers, customers and other stakeholders can play a crucial role in this process.

While the legal documentation is prepared in line with the rendered legal advice, it is important to secure ad hoc consultancy services for issues that might be identified during the implementation, e.g. due timing issues, management questions, reconciliation with workers councils or in case of project changes.

Finally, the entire process must adhere to a rigorous project management, coordinating mixed client-advisor teams across different jurisdictions and workstreams. It is advisable to establish a dedicated Program Management Office (PMO). The PMO should be empowered and operate on behalf of project leadership to endorse relentless follow-up loops and assure full execution of actions and decisions. Such a PMO adds value through effective use of the right standards, templates, methods, techniques and technologies and drive a first time right approach by providing expertise, experience and best practices to the program.

The ultimate objective of the PMO is to be in control at all times of the disentanglement process in all its aspects.

Fig. 2 – Legal entity rationalization



Legal entity management – keeping the house in order

Legal entity management, as a potential second step, assists global corporate operations in complying with local mandatory corporate housekeeping requirements. The key idea is to manage corporate data in one place and access it, if and when required, any time from one source.

It includes services such as:

- Corporate (Health) Checks, i.e. data validation and entity database consolidation/transformation, including e.g.:
 - Assess and review the compliance of a company's records with prevailing statutory regulations; and
 - Remediate compliance issues and anomalies identified to establish the correct legal entity data and compliance position.
- Annual compliance, including e.g.:
 - Convene, hold and draft minutes for board of director and shareholder general meetings;
 - File annual accounts and other necessary filings required in relation to annual statutory compliance obligations;

- Keep and maintain statutory books and records; and
- Facilitate registered office requirements.
- Continuous management of corporate data including stock option plans and set-up of equity participation programs;
- Organization charting;
- Review of governance structures;
- Corporate changes and ad-hoc legal advisory work (event-driven compliance), including:
 - Convene, hold and draft minutes for board of director and shareholder meetings connected with non-routine events;
 - Manage constitutional changes e.g. changes in company name, registered office, share capital, financial year end, business objectives;
 - Manage changes in management e.g. appointment or resignation of directors and officers;
 - New entity set ups, including branches and subsidiaries; and
 - Implement share transfers, re-organizations and capital distributions.

Similar to legal entity rationalization, project management of the initial handover to an external service provider and, subsequently, running an outsourced model, is pivotal.

A central entity management system including a dashboard provides the platform for tapping into efficiencies and establishing a real-time data hub.

Your key contacts

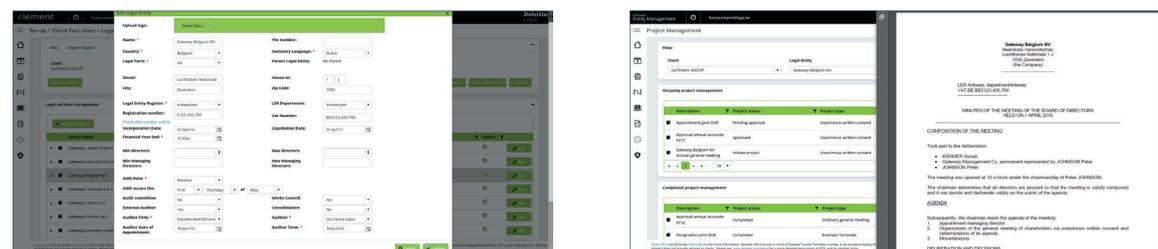
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Fig. 3 – Dashboard for legal entity management



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