MERCATOR®
By CITCO

Mercator Focus

Insights from across the Global Entity Portfolio Management Industry

Autumn 2021

Foreword

Although our name and brand identity are changing, our mission remains the same

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I always look forward to sitting down to write my foreword to our periodic newsletter, and this time I do so with even more anticipation. I am delighted to announce that after considerable work behind the scenes Citco GSGS is officially rebranding as Mercator by Citco.

As a business, we have been pioneering the discipline of entity portfolio management for more than a decade, codifying and crystallising best practice, building a truly global client service team covering more than 160 jurisdictions and developing industry-leading technology to help multinational clients manage all their entities in a stable, predictable, and consistent way. And, as our business has grown and as the industry has matured, we have now reached a point in our natural evolution where we feel we are ready for a new brand identity to match our ambitions.

Enter Mercator. As we went through the process of talking with our colleagues and stakeholders, one name stood out above the rest. Gerardus Mercator revolutionised global trade, facilitating trans-oceanic navigation with his "Mercator Projection" that he debuted in his 1569 map of the world.

Those trans-oceanic merchants of the past are the multinational conglomerates of the present. Like Mercator's vision, our offering aims to provide global companies with the innovation and constant bearings they need to manage their entities around the world. Although our name and brand identity are changing, our mission remains the same.

A key part of that mission is providing the industry with our latest thought leadership and regulatory updates, and this newsletter is part of that. In one article here we provide an overview of the key findings from our inaugural Mercator Entity Management white paper designed to be the definitive resource for business leaders and General Counsels on the cost and time required to manage an extensive global portfolio of entities. In another, we look at the unique challenges facing technology businesses looking to rapidly scale their business models across jurisdictions. We also introduce Entica™ 2.3 in the context of the ambitions of the Greater Bay Area (GBA) and take a deep dive into Mercator's Project Management solutions.

Now, as we launch our next chapter as Mercator, I would like to thank our clients for their partnership with us and say that we very much look forward to continuing our pioneering work together.

Redefining an Industry – Project Management Solutions in Entity Portfolio Management

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Over the last decade, the team at Mercator have been at the forefront of modernising Entity Portfolio Management (EPM) and establishing it as a discipline in its own right. Building on the expertise and knowledge gathered through Citco's longstanding global subsidiary governance services, we have pioneered tools that give our clients a future-proof way to manage their portfolio of entities, reducing the inefficiencies, complexities, and difficulties that have pervaded this industry for too long. Many of these inefficiencies have only become more pronounced through the disruptive effects of the pandemic, while an increasingly fragmented, complex regulatory environment ensures that there is more need for data-driven, cutting-edge Entity Portfolio Management specialists than ever before.

The provision of market-leading tools is the cornerstone of our offering, and by continually utilizing the data and insight we generate to further adapt to our clients' needs, we are able to create agile and lasting partnerships with our clients. A month on from the launch of Mercator, we wanted to expand on the five pillars of our service offering in a new series of articles- beginning with our specialized project management solutions.

PILLAR 1: PROJECT MANAGEMENT SOLUTIONS

In EPM, large-scale, multi-jurisdictional projects often present logistical challenges, generating inefficiencies and unforeseen complexities. Through offering specialized tools for planning and management, Mercator provides solutions for monitoring and reporting progress, consultation regarding project scope and requirements, co-ordinating with internal and external stakeholders, and finally, project execution. These tools and solutions have been specifically designed and are based on our team's experience tackling, and solving, these challenges. Having worked closely with multinationals for over a decade, we have a proven track record executing diverse projects - group-wide restructuring, post-acquisition integration, corporate governance due-diligence, and change management. Typically, we take a proactive role during the planning stage, providing tailored input, feedback, and expertise. Our research shows that projects go most smoothly and are most cost-efficient when consistently managed from inception to delivery, linking the often siloed legal, governance, and human resources departments to avoid inefficiency.

Our process begins by working with the client to clearly identify the corporate change that needs to be made. At this stage, we also discuss and communicate with the key stakeholders who should be involved in the planning- tax and finance advisors, HR, legal teams, and others. Once stakeholders have been mapped, we ensure that progress can be reported smoothly, and logistical and communicative inefficiencies are minimized.

We know this process works, including for a recent project involving the ambitious rebranding of a group comprised of over 200 companies. The timing here was crucial for managing widespread change, so we had to ensure that all entities would incorporate the new name just in time for the official announcement. When dealing with multinationals at this scale, such co-ordination is challenging. Each locality can have its own requirements, timelines, and legalities regarding renaming. In the UK, this can be as simple as a same-day registration following resolution, whereas in Mexico the process can take weeks and documents must be signed in front of a notary. And, even once approval is granted, further complications arise where certain regions require additional registrations to use the new name.

The provision of market-leading tools is the cornerstone of our offering

Finally, the hierarchies and ownership chains of multinationals add further complexity, as this has bearing on the order of operations for name changes. In this instance, a seemingly straightforward renaming project required extensive co-ordination of these different processes and timelines- ensuring a globally united rebranding on Day 1

This case study illustrates a general pattern- planning time and complexity is a function of the number of entities and different countries in which the change must take place. In a heavily globalised and conglomerated business environment this means that the need for the services and expertise of dedicated EPM providers will only grow.

This is just one example amongst countless others. Each project brings its own complexities and subtleties, and the expertise gathered in their execution informs our entire service. If you are interested in learning more about how we create lasting partnerships with our clients to help them navigate this challenging environment, please reach out to our client service team.

COVID-19 Spotlight

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The COVID-19 pandemic has had an enormous impact on all of our lives in the last 12 months. From the initial impact of lockdowns, where entire companies were forced to move online, to the current state of hybrid working, individuals have demonstrated impressive resilience in their adaptation to their ever-changing environments.

This adaptation is not just reserved for individuals, but whole industries as well. For the Entity Portfolio Management industry, the disruptions caused by the pandemic have largely been mitigated by a combination of effective remote working practices and supportive temporary regulation in many jurisdictions. This has ranged for delaying reporting deadlines to temporarily (or even permanently) enabling virtual Annual General Meetings (AGM). While we expect many processes to more or less return to normal in future, some adaptations have proved successful enough for the industry to be considering permanent changes to the way things are done.

As part of our wider research in the first annual 'Mercator Entity Management (MEM) report', we have detailed a number of highlights from this period of time, including some of these crucial innovations and the jurisdictions that effectively implemented them.

LATE FILING PENALTIES/WAIVERS & EXTENSIONS

In all regions we have seen waivers and extensions available, or at the very least, acceptable delays by the local authorities with no late filing penalties. The most flexible region during the pandemic in the year of 2020 and the first half of 2021 was Europe, followed by LATAM, APAC, MEA and NA. However, it should be noted that NA was already a very flexible region prior to COVID-19, hence procedures could move forward without any further delays.

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FILINGS WITH THE LOCAL AUTHORITIES

Based on the practice during the pandemic, more and more corporate actions can be easily completed using an online service. South America and Africa remain regions with the most common practice of filings in person (with the exceptions of Barbados, Bolivia, Costa Rica, Ecuador, Mexico, Uruguay, Algeria, Kenya, Mauritius, Morocco, Nigeria, Rwanda, South Africa, Uganda, Tanzania, Zambia). Whilst in Europe, Asia and North America we already have registries fully functioning through online portals. We have seen, as a result of the new terms dictated by the pandemic, a tendency for countries to adapt quickly to implement alternatives for the filings in person, which ultimately leads to more efficient process management.

E-MEETINGS

The general practice has been that e-meetings are allowed only if company's bylaws approve it. Argentina, Belgium, and The Netherlands are key examples of the innovative jurisdictions that introduced a new legislation which allows e-meetings regardless of what a company's bylaws indicates. Where the local laws do not allow a virtual meeting option or technology does not support this approach, companies still have a decision via circulation of resolution in writing. However, it should be approved by companies Articles of Association of local law as well.

E-NOTARIZATIONS

Another novel and positive outcome from the pandemic is e-notarizations. Countries including Australia, Austria, Belgium, Botswana, some provinces in Canada, Denmark, Dominican Republic, Estonia, France, Guatemala, Honduras, Hungary, Indonesia, Latvia, Mexico, Netherlands, Norway, Papua New Guinea, Switzerland, Uganda, USA, Vietnam, and Zambia, adjusted their regulations and adapted to the new environment, allowing notaries to work remotely and arrange virtual identifications of signatories.

WHAT'S NEXT?

Looking back over the past 12 months, it is interesting to consider what further solutions might be implemented in order to ensure continuous business beyond the pandemic. Perhaps the possibility to easily access more local registries worldwide via online portals. Alternatively, it could also be a wider range of countries implementing e-notarization/e-legalization procedures. Regardless of what it will be, we can say that this challenging period has already revolutionised processes in corporate governance which are unlikely to be removed in future, owing to the vast time and cost saving solutions uncovered as a result of the impact from the pandemic.

A Truly Data-Driven Entity Management Portfolio Industry Beckons

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In our past newsletters, we addressed the growing challenges facing governance professionals, both in light of the pandemic but also the increasing complexity of the regulatory environment. As the former begins to subside and countries across the globe continue opening cautiously, workers begin to return to the office and relative normality starts to look like a genuine prospect. Yet the issue of rising complexity persists, putting greater and greater pressure on business leaders and General Counsels of multinationals to continue to innovate with regards to their governance processes.

Over the last few years, we have collected real-life data across all major industries and 160 jurisdictions using our proprietary system to provide a definitive resource for business leaders and General Counsels

For General Counsels in particular, there remains the challenge of demonstrating to internal stakeholders that they are performing to the best level possible, in comparison to their peers and the industry as a whole. They must be able to measure performance (e.g. in terms of total tasks, duration, and relative cost) across individual businesses, industries, jurisdictions and regions. To do this, multinationals require quantitative data that has until now, been lacking in the Global Entity Portfolio Management (GEPM) industry, partly because this industry is only now starting to be considered as such. Data that existed on a company level has tended to be available only from a patchwork of internal and external sources in a non-standardized and non-centralised fashion. Industry wide data points have tended to be survey-driven and thus rarely provide a fully accurate and objective picture of the landscape.

As the pioneer of this emerging industry, we feel it is our responsibility to provide these insights. Over the last few years, we have collected real-life data across all major industries and 160 jurisdictions using our proprietary system to provide a definitive resource for business leaders and General Counsels on, among other things, the cost and time required to manage an extensive portfolio of entities.

INTRODUCING THE MERCATOR ENTITY MANAGEMENT (MEM) REPORT

Our inaugural guide for global businesses provides an invaluable insight into the dynamics of creating and maintaining entities or subsidiaries globally, overall governance and regulatory costs per centre, and average duration taken to complete vital activities.

Taking a holistic overview of the findings we discovered some important observations. For example, we found that there exists a correlation between the duration of activities and pricing thereof per region. This is most clearly demonstrated by the Asia-Pacific region, which, in 2020 and the first half of 2021, had both the shortest average duration and the lowest overall per activity price.

However, this obscures the diversity of the Asian jurisdictions, five of which are found in the top 10 most expensive, and in the top 10 least expensive jurisdictions. Interestingly this correlation between duration and price does not hold as strongly for the Latin American (LATAM) region. The region appears to be more costly than one would expect on the basis of activity duration. As regards speed of business, Argentina took top spot, while Guatemala took bottom position.
When looking at activity pricing, Sri Lanka, Malaysia and Australia all enjoyed a low pricing level, while the People's Republic of China (PRC), Qatar and Saudi Arabia are among the more costly countries, measured on a per activity basis.

Overall, Singapore emerges as the most favourable location overall in which to base entities when the cost and time taken to complete activities are taken into consideration. Singapore is followed by Australia and then the UK. All three jurisdictions have the ideal combination of cost levels and competitive duration, in descending order. All three are global financial centres with a long-established history of managing international trade, and this translates into the ease with which multinationals can manage entities in these locations. Furthermore, Singapore is oftentimes cited for its government's efforts in working with businesses and industry partners to step up their resilience during the COVID-19 pandemic.

Kazakhstan had the lowest ranking on a combination of cost and duration, with South Korea and Indonesia the next lowest; all have a combination of relatively higher cost levels, and less competitive duration.

I must note that the purpose of this report is not to advise multinationals on where to base entities or subsidiaries – this is obviously dictated by necessity – but to help set expectations and provide foresight on the relative cost and time it will take to manage entities in each jurisdiction. Clearly, working with a Global Entity Portfolio Management partner that has granular experience and insight into this practice, and moreover is able, in real-time to identify changes to the established patterns, is an important factor in the overall seamless management of your portfolio.

I encourage you to read the full report here, and to reach out to your representative at Mercator to arrange a demonstration of our proprietary software in action, as we look toward helping pioneer a truly data-driven entity portfolio management industry.

Move Fast, Try Not to Break Too Much

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Even more so than other sectors, there is a tendency for technology companies to move fast and everywhere at the same time

Technology was one of, if not the only beneficiary of 2020's disruption. Individuals and firms seeking to maintain, or even exceed, previous levels of productivity while working from home have adapted their work models to include innovations from e-commerce and digital payments to video conferencing and collaboration tools. This has led to increasingly greater investment flows into these technology providers and others, feeding further expansion and innovation, as digitisation becomes a permanent global reality.

While this is undoubtedly an impressive success story, which many expect to continue for many years to come, rapid growth can often throw up unexpected challenges from a corporate governance and regulatory perspective. If mismanaged, they can be potentially damaging. To combat this, we have outlined the key areas that technology companies must focus on as they aim for rapid growth without the growing pains that can sometimes bedevil fast-growing companies.

THE POTENTIAL PITFALLS IN CROSS-BORDER PROJECTS

Even more so than other sectors, there is a tendency for technology companies to move fast and everywhere at the same time. With the tech economy booming globally, companies are racing to expand into new markets, gaining first mover advantage for their innovative services and solutions.

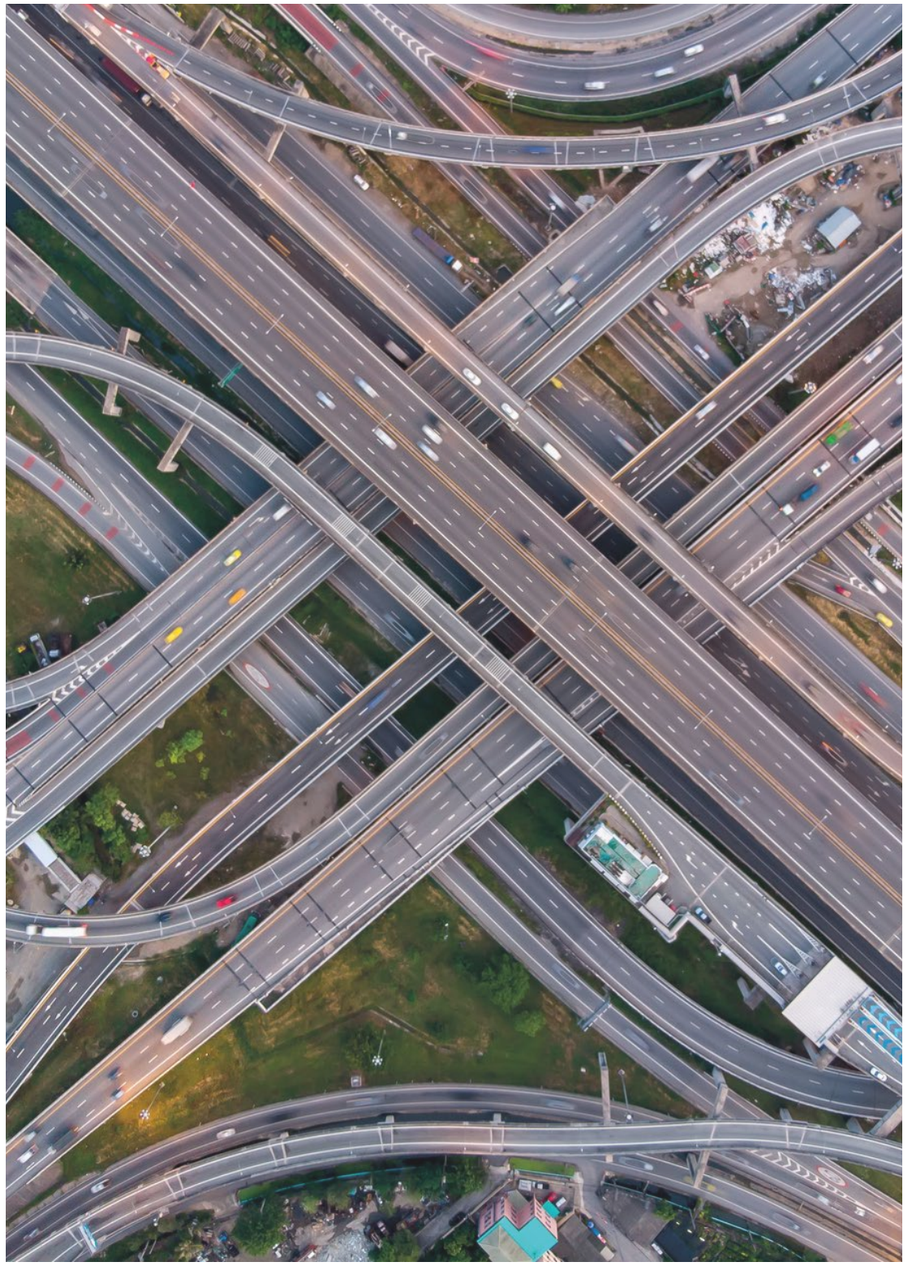
Expanding into multiple regions at once requires thorough planning and the ability to evaluate not only the actions required for incorporation in a particular country, but also how that process fits into and impacts the processes in other countries from a global perspective. When subsidiaries and holding companies are being established simultaneously, it is quite common that planning does not consider that some incorporations can only start after the holding company is established.

Another common mistake is not considering that a newly established company might not be operational from day one. For example, the shareholder company might first have to deposit the capital for the subsidiary company which in some cases can take weeks after incorporation. It is therefore crucial that **a global view with cross-border projects is taken.**

PAYING ATTENTION TO CORPORATE GOVERNANCE

Tech companies are very often managed by those who are building the company's future growth - IT specialists, engineers, project managers and marketers who, during the expansion, become the directors of the new companies. While they are well set up to lead and drive the business forward strategically, it is not uncommon for the team's corporate legal and governance experience to be somewhat lighter.

Arranging for the accounts to be prepared and approved on time, board resolutions to be passed for certain decisions, and making sure that a company is up to date with its statutory filings is sometimes pushed to the back. This results in overdue filings,



Good business decisions can be made only when firms have the most information and understanding about the market and regulatory environment they are planning to operate in

incomplete corporate records, or outdated/incorrect registrations with company registrars. This therefore highlights the importance of educating business leaders about the duties, powers, responsibilities, and liabilities of company directors, and stressing the importance of these task to the health of the wider business. Ensuring the corporate annual obligations applicable to the newly established entities are met is another process which benefits from awareness, with a forward-thinking calendaring solution being best practice.

ASSOCIATED DECISIONS WHICH NEED TO BE TAKEN

Some companies, such as those involved in the digital payments sector, fall under regulated business activities scope, which means that they are required to obtain special licenses, banks, or local authorities' approval to begin operating. Their business models and corporate governance needs are novel, and so authorities are likely to be more hesitant and demanding compared to "traditional" businesses.

This means that extra clarifications might need to be provided or additional requirements applied due to the scope of activities. This can hamper some businesses attempting to rapidly transition from start-up to scale businesses.

Another tendency is for key managers to be board directors in many of the group's entities. However, this raises the issue of director residency rules in entities such as Brazil or Canada which require directors to be residents.

SMART GROWTH

The technology sector has experienced a period of extraordinary growth over the last decade, which, coupled with globalisation, is leading technology business leaders into uncharted territories. However, corporate governance cannot be ignored. Regulatory issues can hamper businesses looking to scale up at speed, at worst causing reputational damage.

Good business decisions can be made only when firms have the most information and understanding about the market and regulatory environment they are planning to operate in. It is therefore essential tech companies make sure they understand how to tackle the corporate governance challenges that come with expansion.

GBA Ambitions Highlights Global Opportunity for Tech-Driven EPM Sector – Entica™

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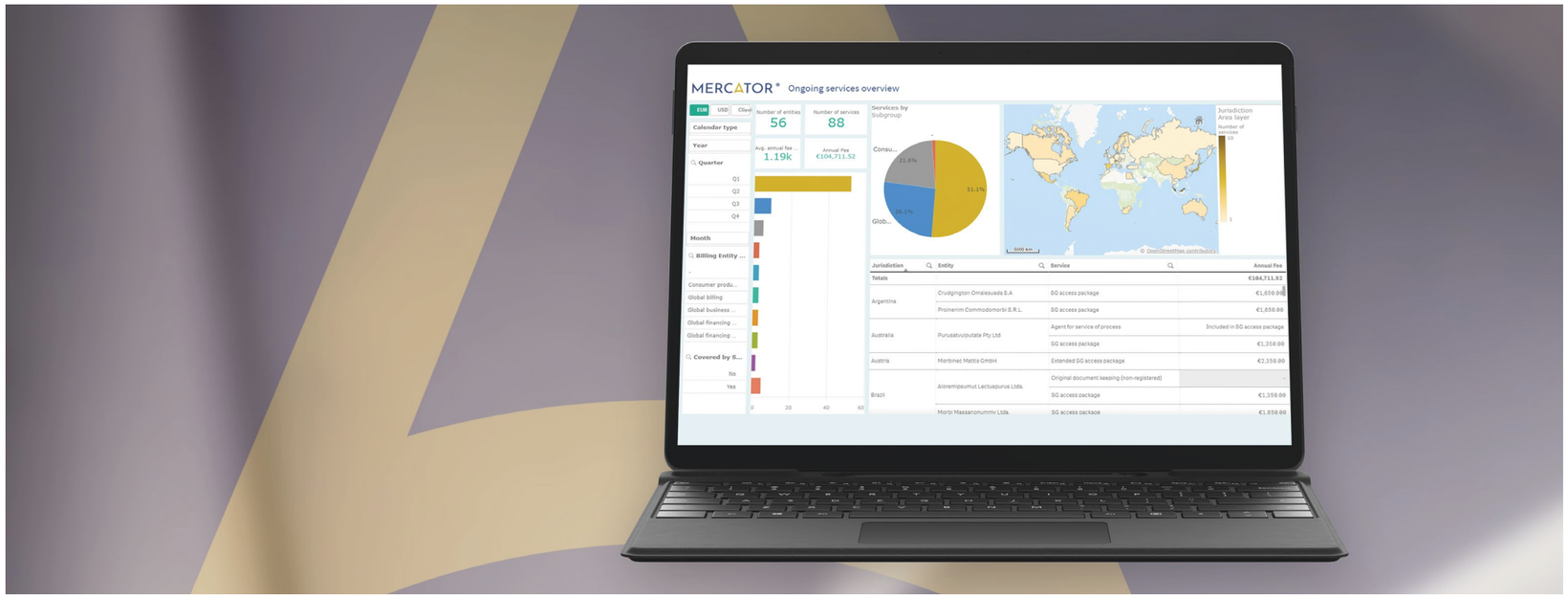
The much anticipated plan for the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) was announced in 2019, outlining a crucial national economic development strategy for China. The GBA initiative represents a world-class city cluster that the Chinese Government hope will become a globally competitive, connected, and innovative mega-region by 2035. With a GDP of $1.68 trillion already, and comprising a leading technology and manufacturing hub in Shenzhen, the financial dominance of Hong Kong and the trading capabilities of Macao, there is every reason to believe the experts asserting that the GBA could become China's answer to 'Silicon Valley'.

The traditional way of managing corporate secretarial duties is no longer "sufficient" for the increasing complexity of regulatory compliance

As the GBA develops and continues to leverage its scale and comprehensive capabilities, there is potential for a burst of innovation- breaking new ground for enterprise R&D, talent pool, and technology ecosystem in the region. Companies will be on the lookout for innovation in all facets of their business, and will want to know what the benchmark is- and adopt it. The desire for businesses to compete technologically extends to many different internal functions, particularly those with relatively repetitive and tedious processes that could have a serious impact on the company – such as directors' liabilities or major reputation consequences. Chinese businesses are starting to place a greater focus on Entity Portfolio Management (EPM), with many looking to implement technology and connectivity between internal departments within their companies - such as tax, finance and HR departments- to not only speed up the pace of business, reduce costs and minimize manual mistake but also to improve risk mitigation and enhance control through transparency.

The need to centralize a company's EPM workflows to make more informed decisions is even more pronounced when accounting for regional complexity. In our first annual Mercator Entity Management (MEM) report, we saw that APAC has on average 50% more activities per entity in comparison with Europe. This is due to a higher number of filings with regulatory authorities and updates to internal registers required in the region, especially where local company secretaries should be mandatorily appointed. Moreover, while the region was found to have the lowest overall-event driven activity duration and cheapest average fees per activity, this obscures the diversity of the Asian jurisdictions, containing six of the most expensive jurisdictions (China, Taiwan, South Korea, Japan, & Indonesia), and six of the cheapest (Sri Lanka, Malaysia, Australia, Philippines, Singapore, and Hong Kong).

The traditional way of managing corporate secretarial duties is no longer "sufficient" for the increasing complexity of regulatory compliance. Many companies manage EPM the same way they did 15-20 years ago but the industry has evolved. While many are trying to set up an internal system or methodology, often ending up using excel or share sites, this results in extra administration burdens and human errors. However, subscribing to an external software might not be necessarily justifiable on a regional basis and comes with a series of factors for consideration. Therefore, our tech-driven EPM infrastructure (combining both knowledge management and automated process best practice) is becoming increasingly popular.



INTRODUCING ENTICA™

Entica™ was built to meet the unique needs of our clients – to support both their ambitions and needs. The platform mitigates the disconnect between headquarters and subsidiaries, giving HQ the insight and oversight they need. Entities have often been considered 'black boxes' to parent organisations, with fragmented, non-standardized documentation and data, problems of access, and regional technological variation creating inefficiency and opacity for the governance professionals who manage them. For many companies, HQ may not know who is doing what, how they are doing it, and lack the data to contextualize performance and optimize their entities processes.

Entica™ is a powerful, secure, and comprehensive platform, available 24/7 and built to solve these problems. In its original iteration, Entica™ focused on a robust reporting cube into entity workflows- capable of providing both high-level, macro insights into the processes of the full portfolio, and granular information on the performances of individual entities and processes.

Global compliance calendar, project overviews and spend analysis are just a few samples of reports that became a daily tool for corporate secretarial professionals and enabled them to maintain control and insight over even the smallest aspects of their entity portfolio. Designed to evolve as our clients' needs do, the most recent major update introduced a new interface and authorization model, as well as adding request functionality and partly automated workflows, that link clients directly to the Mercator client service team. The update also introduced a module for recording key subsidiary information, such as directors, capital, shareholders etc., and storing corporate documents. With years of experience and multiple major updates based on client needs, Entica™ has become a truly all-encompassing, single-source-of-truth system for corporate secretarial management of entity portfolios.

As the GBA continues to develop into the world-class competitive hub of innovation, businesses that are primed for growth can benefit from having a EPM system that offers them the capabilities to expand, safe in the knowledge that their growing portfolio of entities are managed effectively. However, this is not just an opportunity for APAC. Around the world, multinational businesses are benefiting from the efficiency this type of technology offers them and the key areas in our development roadmap involve integrations and automations to further improve current functionalities, generating even more efficiencies for our clients.

We see Entica™ becoming an integral everyday work tool for every governance professional managing a large portfolio of entities, both in the ambitious GBA and across the globe.

Find Out More

For further information on how we can assist you, please contact Mercator at Mercator@citco.com

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