

Mercator Focus

Insights from across the Global Entity
Portfolio Management Industry

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Kariem Abdellatif,
*Director of Citco Mercator, UAB,
Head of Mercator® by Citco*
kabdellatif@citco.com

As we reflect on what has been another ambitious quarter for the Mercator® by Citco (Mercator) team, it has become increasingly apparent that multinational companies are sharpening their focus on maintaining a healthy governance framework for their global portfolio of entities – Entity Portfolio Management (EPM). This is driven by the urgent need to ensure each entity – no matter the location – is properly managed and remains compliant in a challenging environment where regulations change constantly. Failure to do so may lead to severe regulatory fines and reputational risk.

As always, an integral part of our mission is to provide the industry with key insights and regulatory updates. It is therefore my pleasure to highlight some significant activities and learnings in this newsletter, from our dedicated team of professionals.

Mercator has had the opportunity to participate in some of the industry's leading conferences and share new ideas on how innovative legal technology is transforming in-house legal departments. Our team has continued to forge meaningful connections - visiting our colleagues in Vilnius to celebrate the 15th anniversary of Citco's Vilnius office, meeting with Gitanas Nausėda, President of Lithuania, Dainius Kreivys, Minister of Energy for Lithuania, and other dignitaries, and once again interacting with our clients in-person at

our Steering Committee meetings. Looking ahead, we are excited to attend Nordic Legal Tech Day in Stockholm and Helsinki, and the CLOC EMEA Summit in London, as well as host our own event in New York on 6th October.

In this newsletter, Mercator provides an overview of the key findings from our USA EPM and Management/Officer Change Special Reports, designed to be a definite resource for business leaders and general counsels on the cost and time required to manage an extensive portfolio of entities. We will continue to intensify the production of these reports as part of our commitment to provide unparalleled data-driven insights, serving as a benchmark for companies' expenditure and efficiency.

In one article, we explore how technology is evolving subsidiary governance and helping multinationals stay ahead of the curve on regulatory changes across jurisdictions. We also take a look at the outcomes from our latest client satisfaction survey, which enables us to drive change through actionable feedback.

This year, we have again expanded our solid infrastructural foundation and built upon that to better service our clients in 2023. As we continue our voyage, I would like to thank our clients for their partnership and say that we very much look forward to continuing our pioneering work together.

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USA: A hotspot for multinationals to base legal entities



Kariem Abdellatif,
Director of Citco Mercator, UAB,
Head of Mercator® by Citco
kabdellatif@citco.com

The USA is ranked as one of the best jurisdictions for multinationals to base entities, according to two reports published this year by Mercator® by Citco (Mercator) as part of the 'Entity Portfolio Management Report Series'.

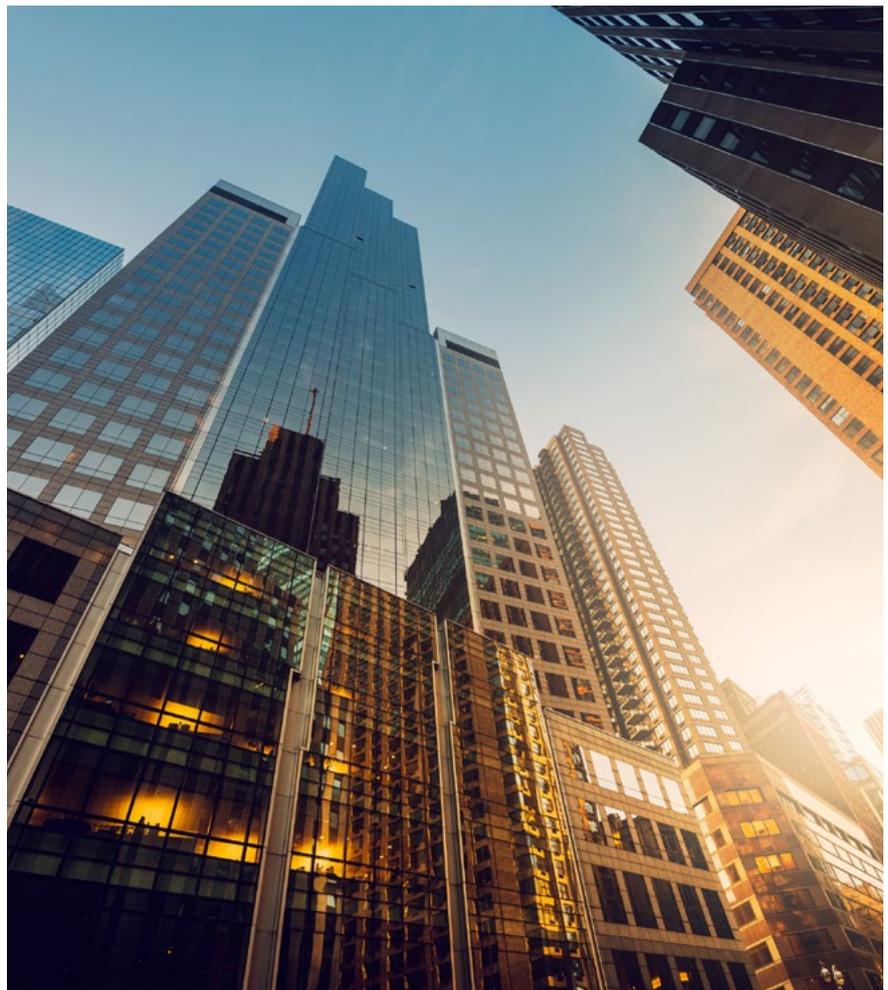
Findings from our **USA EPM Special report** show that, on average, the USA is 22% cheaper than other jurisdictions to complete corporate secretarial activities. This is due to the country's easily navigable legal system, straight-forward regulatory procedures and the fact that – in most cases – corporate changes can be approved internally without any requirement to file with the authorities.

The time needed to complete these key tasks is also significantly shorter than other jurisdictions – by 50% on average. This is due to flexible e-signature requirements and entity documentation is generally not complicated: on the latter, there are only few mandatory requirements that must be taken into account and most procedures are governed by the statutory documents of USA-based entities, which are usually straightforward and easy to follow.

In addition, many multinationals will view the USA as an attractive market due to the overall easier regulations for non-listed entities; in particular, many entities are incorporated in Delaware, where regulations provide additional flexibility for corporations.

The USA also ranks as the top jurisdiction among 170 worldwide to complete management/officer changes, according to findings from our **Management/Officer Changes Special Report**.

The data shows that the USA is one of the cheapest jurisdictions for these types of changes due to a highly competitive



legal sector, which significantly lowers the cost relative to other jurisdictions due to competitive market pricing. Bilingual documents are also not needed, meaning there are no translation costs.

In addition, it is the fastest jurisdiction for completing management/officer changes – due to the country's simple legal processes and the lack of need to register changes with authorities, as well as the possibility of online filings and the use of counterparts and e-signatures.

The USA's combination of low cost levels and relative speed of business, paired

with its straightforward legal system and international standing as a global financial center, means it remains a favorable location for many multinationals to base entities.

We hope this data will assist multinationals by serving as a benchmark for their expenditure and efficiency – while supporting in-house counsels on evaluating the management of their entities. It will also provide internal stakeholders with the assurance that each entity is properly managed and compliant.

The evolving technology of subsidiary governance



Toma Razmaite, Knowledge Integration Manager,
Mercator® by Citco, Citco Mercator, UAB
trazmaite@citco.com

The global pandemic has accelerated the shift towards digitalization in subsidiary governance significantly. Pre-COVID, investing in technology for document execution or virtual meetings would not necessarily have been seen as a priority. Post-COVID, it is hard to imagine doing business without these tools. So how exactly has technology evolved within subsidiary management?

DATA CENTRALIZATION AND MANAGEMENT

Multinational companies – with numerous entities spread across the world – need reassurance that each corporate change is actioned within the required timeline. At any one time, there can be numerous changes – the replacement of a director, a new registered address to update – as well as annual obligations to keep on top of, including approving and filing financial statements.

With all this data and documentation being changed, reviewed and filed, there is a need now to have real-time visibility of tasks and workflows. By having all information on one centralized technology platform, an in-house team can check the status of any given task at any time.

However, effective entity management is more than just company administration and filings. For in-house teams with large dispersed entity portfolios, one of the biggest challenges is ensuring they keep up with the constant local and global regulatory changes.

KEEPING ON TOP OF CHANGING REGULATORY ENVIRONMENT

Over the last century, the volume of laws, regulations, procedures and guidelines

has significantly increased globally. For example, in less than four years, more than 100 jurisdictions have implemented regulations to monitor and maintain data of Ultimate Beneficial Owners in an effort to combat money laundering. Since 2019, more than 10 jurisdictions have enacted economic substance requirements in response to laws introduced against aggressive tax avoidance. Likewise, the introduction of environmental, social and governance (ESG) criteria now challenges businesses to meet and report on certain sustainability requirements.

The most recent example is the COVID-pandemic. During its peak, the biggest concern of in-house teams was the uncertainty of e-signatures usage, paper or online filing availability with the authorities and physical meetings versus virtual ones. In response, jurisdictions across the world made amendments to local company law in order to allow the use of digital tools and processes.

The challenge multinationals face is not only ensuring they comply with these changes, but also being aware that they are there in the first place. Not being aware of the

most up-to-date requirements can result in penalties and serious disruption of business.

Technology provides a huge benefit here. A centralized platform – which offers immediate information on changes to processes and new regulations, covering all jurisdictions of an entity portfolio – means in-house counsels are kept informed, up-to-date and do not miss vital changes.

THE BENEFITS OF CENTRALIZATION

The evolving regulatory environment puts pressure on businesses to constantly stay updated on regulatory change. The solution is having a single point-of-contact and delivery providing centralized, technology-based legal entity management, which makes the monitoring of a multinational's portfolio not only more convenient for in-house teams, but ultimately more efficient.



The EU Digitalization Directive and implications for Germany



Kseniya Cheshyk, Senior Legal Officer,
Mercator® by Citco
kcheshyk@citco.com

Businesses around the world are increasingly expecting to set-up and do business online. In an effort to streamline online processes involved in the business lifecycle and modernize company law to fit the digital age, the European Union has adopted the so-called 'Digitalization Directive' (the Directive).

The Directive came into force on the 20th of June, 2019, amending Directive (EU) 2017/1332 with regards to the use of digital tools and process in company law. An initial deadline of the 1st of August, 2021 was given for legislators to transpose the Directive into national law, with some member states being granted a one-year extension upon their request – and some provisions were given until the 1st of August, 2023.

WHAT DOES THE DIRECTIVE ENTAIL?

Online-formation of companies

The Directive allows for the complete online formation of companies, without having to register physically with authorities (currently it is possible only for limited liability companies). The time to complete registration has been reduced to ten business days and, if a company is founded exclusively using incorporation templates, the timeframe may be decreased to five business days.

Disclosure of documents

Another new possibility is the disclosure of public company information via one unique Registry. This will allow easy access to publicly filed documents. Access costs are not expected to exceed the administrative costs of the registers and some basic company information - such as name, registered office, company number, status, object, authorized body, and registered branches - will be available for no cost.

Online notarization

One significant introduction is online identification for remote notarization. The process of identification may vary from one EU member state to another, but will generally be included audio and/or videoconference authentication, removing the need for the applicant to appear in person before local authorities.

Cross-border information exchange

The Directive's introduction of a single unique Registry paired with the European Unique Identifier (EUID) – which enables the identification of companies and their branches in other member States – means that cross-border information access and exchange between EU Member states has never been easier.

HOW WILL THE DIRECTIVE AFFECT GERMANY?

The centerpiece of the new Directive's implementation in Germany relates to the significant amendments to Germany's Commercial Register Ordinance (Handelsregisterverordnung) providing a new timeframe for registration of limited liability company, Gesellschaft mit beschränkter Haftung (GmbH) companies and the process for online formation of GmbH companies.

Notarization

Prior to the adoption of the directive, it was necessary to complete articles of association in notarial form, read out in the physical presence of a notary. For GmbH companies, this process can now be completed online. For other types of companies, this option is not yet possible with local acts still requiring a certificate of attendance.

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Disclosure

Further to the directive's implementation, all financial statements will solely be submitted via Germany's Business Registry (the Unternehmensregister). Up to now, the companies financial statements were published in Germany's Federal Gazette (the Bundesanzeiger), which is a separate portal from the Business Registry.

Information exchange

Finally, as of the 1st of August 2022, it is possible to retrieve documents from the 'Handelsregister' and any previous costs are levied. This means information about German entities is freely accessible to other EU member states, contributing to cross-border information exchange and mitigating against the risk of corporate fraud.



Mercator: Going above and beyond to deliver on EPM needs



Jurate Kisieliene, Head of Client Services,
Mercator® by Citco
jkisieliene@citco.com

In today's increasingly complex business landscape, companies can no longer afford to take a one-size-fits-all approach to Entity Portfolio Management (EPM). At Mercator® by Citco (Mercator), we understand the importance of nuance – of fusing advanced technologies with professionals' expertise to help our clients stay ahead of regulatory and geopolitical shifts, while achieving corporate governance excellence across their entire portfolio of entities.

Our client satisfaction survey grants users the opportunity to be part of Mercator's continued transformation – driving change through actionable feedback.

According to our latest survey, satisfaction remains high - and continues to grow. In a year of extreme volatility, **nearly 90% of survey respondents said that Mercator made it easier for them to maintain subsidiaries globally and keep them in compliance.** This is a testament to the strength of our comprehensive suite of services which equip clients with the knowledge and tools they need to future proof their portfolio of entities through access to our forward-looking regulatory and operational deadlines.

In particular, our clients reported high satisfaction across a range of our EPM offerings, particularly across three areas: **our positive service attitude, the calendaring of annual compliance obligation deadlines, and our single point-of-contact and service delivery model.**

Across Mercator's range of services, clients regularly point to our team's responsive attitude and our single point-of-contact offering as the key levers for streamlining compliance complexities. Convera, a technology-led payment solutions provider, shared their experience



working with Mercator: *"The team have done an invaluable service to Convera so far. Their attention to our company and needs is really outstanding. It has been a tremendous pleasure working with the team and we genuinely look forward to continuing to work closely together going forward."*

At Mercator, we put our clients at the heart of our business and remain in continuous dialogue with them to ensure we are delivering excellence. As Mercator continues this exciting journey, we look forward to the positive impact that our services have on our clients' entity portfolio management journeys.

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Find Out More

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

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