

LATAM EPM: Special Report

The Entity Portfolio Management Series

The definitive, data-based resource for business leaders and General Counsels – providing invaluable insight into the cost and time required to manage a portfolio of entities in Latin America.



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Introduction

The Data*

The data in this report is drawn directly from Entica™ – the proprietary technology platform of Mercator® by Citco (Mercator) – which individually records all corporate activities that clients undertake when managing their entity portfolios and covers over 180 jurisdictions.

The data for LATAM includes jurisdictions in South America, Central America, Mexico and the Caribbean islands and represents approximately USD \$1.5 trillion in market capital, spread across major business sectors including Pharmaceuticals, Aerospace, Energy, Technology, Natural Sciences, Financial Services, Retail, Manufacturing, Travel and Hospitality, among others.

Entity Portfolio Management

Entity Portfolio Management (EPM) is the practice of maintaining a healthy governance framework for a company's global portfolio of entities.

EPM has never been more important as in-house legal and corporate secretarial teams work in ever more challenging environments, where regulations change constantly.

Internal stakeholders need to be assured that each entity – no matter the location – is properly managed and compliant. If actions are not completed properly, corporations may suffer regulatory fines and reputational risk.

Citco's Supporting Services

As part of the Citco group of companies (Citco), Mercator works closely with Citco's Corporate Solutions team – a bespoke, centralized service offering Business Process Outsourcing (BPO) accounting, Common Reporting Standard and payroll services, among others.

The transparency offered by Mercator's data insights combined with Corporate Solutions' proactive expertise, means Citco can support any multinational corporation on all their entity management needs.

*The statistics that form the basis for this report cover February 2022 to January 2023 as recorded in the performance of our EPM support for clients. The data relates purely to multinational companies.

Full, absolute data is available to our clients on how their entity portfolio relates to jurisdictional and regional averages. To obtain your copy, please contact your Mercator Client Service team.

Foreword

I am delighted to present Mercator's LATAM Special Report – the latest in our Entity Portfolio Management series. These reports combine operational data – drawn directly from our proprietary technology solution Entica™ – with analysis and insights from our dedicated team of jurisdictional experts.

In this report, we analyze the performance of the LATAM region as a whole in the practice of entity portfolio management, compared to other regions worldwide. Post-pandemic, the digitalization drive has swept the globe with more and more countries modernizing corporate governance processes to fit the digital age. Whilst LATAM is no exception, our findings indicate there is still a considerable amount of red tape and regulatory quirks that multinationals need to be aware of in order to stay compliant.

We then take a deep dive into the region itself, looking at the centers of activity within LATAM and ranking jurisdictions by the cost and time it takes multinationals to complete corporate activities. Alongside this, we examine some of the nuances and complexities of navigating entity management in key jurisdictions including Brazil and Mexico.

Of course, the purpose of this report is not to advise multinational companies on where to base entities or subsidiaries – this is obviously dictated by necessity – but to set expectations and provide foresight on the relative cost and time it takes to complete key activities to support and maintain a healthy portfolio of entities.

We hope this data will assist multinationals by serving as a benchmark for their company expenditure and efficiency in LATAM.



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Executive Summary

This report provides direct insight into the practice and dynamics of Entity Portfolio Management in Latin America (LATAM), based on real-life data, covering more than 180 jurisdictions.

The analysis of this report focuses on three key data points:

- i The regional and jurisdictional distribution of corporate secretarial activities
- ii The cost to complete activities
- iii The time it takes to complete activities

Key findings:



Cost

The cheapest jurisdiction to complete activities in LATAM is the British Virgin Islands, followed by Panama then Peru. The most expensive jurisdiction is El Salvador, followed by Brazil and Mexico.



Time

The fastest jurisdiction is Ecuador, followed by El Salvador and Uruguay. Slowest jurisdictions in LATAM are Guatemala, followed by Venezuela then Mexico.



Cost and Time

Overall, Panama emerges as the top jurisdiction when considering both cost and time, followed by Ecuador and the Cayman Islands.



LATAM vs the World

In comparison to other regions, LATAM remains one of the most expensive regions for multinationals to set up and maintain entities. LATAM is 31% more expensive than Europe (ranked as the cheapest region) and 65% slower than North America (the fastest region).



Power of Attorney

Power of Attorney (PoA) is the most common authorization multinationals should expect to complete. There are nearly double the amount of PoA tasks in LATAM in comparison to Europe.

1.

LATAM vs the Global Landscape

In this section, we look at how entity management in LATAM performs overall in comparison to other regions across the world, comparing the cost, time and types of corporate secretarial activities undertaken by multinationals.

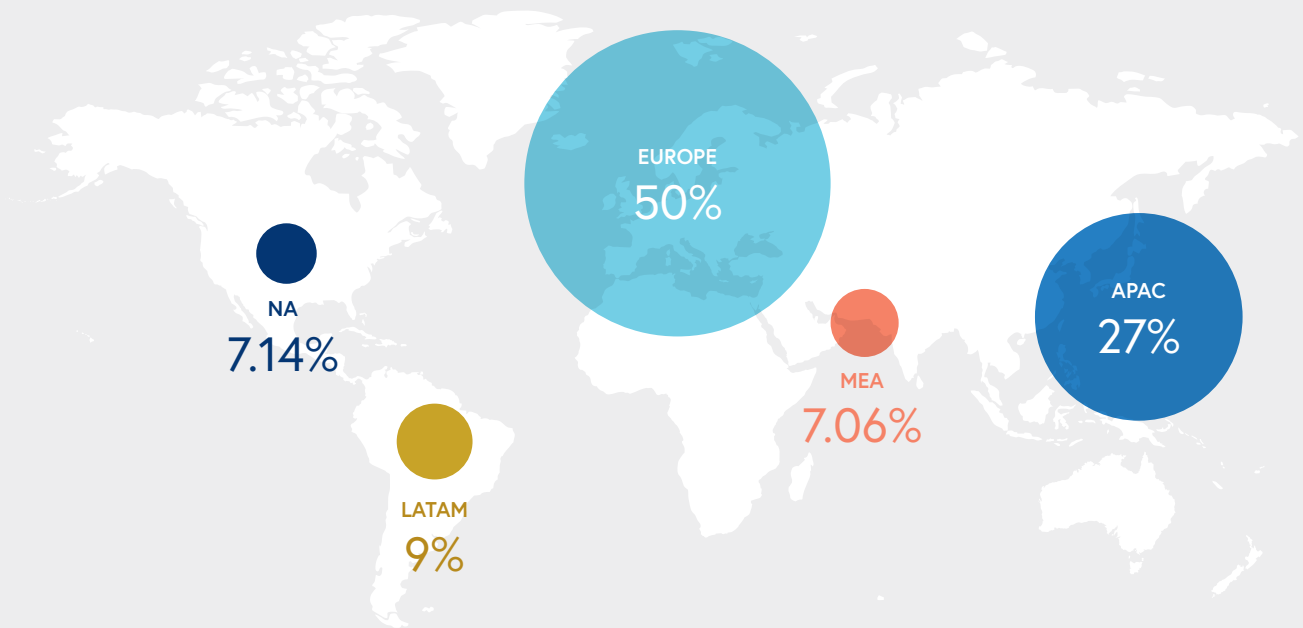
Note on statistics:

Data for LATAM includes jurisdictions in South America, Central America, Mexico and the Caribbean islands.



Overview

Relative Proportion of Entities per Region based on Mercator's data



LATAM offers a rich market full of opportunities for multinationals who are looking to establish or expand their operations. However, historically high levels of bureaucracy and varying levels of political and environmental instability throughout the region means that it remains one of the most complex regions for multinationals to operate in.

It is vital that multinationals are aware and keep on top of all local regulatory and compliance obligations. Those who fail to do so face reputational risk and the prospect of fines.

The risk of non-compliance

Alongside the risk of fines and penalties, non-compliance can cause significant challenges by blocking registration of corporate changes or company operations. For example, even a seemingly honest small oversight such as failing to renew management information in official company registries may put the company into a situation where it has no local legal representative who is able to prove their authority to represent the company before third parties.

Key Challenges

Whilst exact requirements vary from jurisdiction to jurisdiction, there are some unifying characteristics that multinationals need to be aware of:

Numerous local authorities are involved to enact changes

- Within each jurisdiction, registrations will have to be done with a number of different local authorities. This results in a lengthy and complex process to complete entity establishments and other corporate registrations.
- Many local authorities do not share information with each other, requiring multiple registrations and extensive local knowledge.

Digitalized processes are still in their nascency

- Many jurisdictions still rely on physical documentation and do not provide corporate documents in a digital format.
- Those countries within LATAM who do accept electronic signatures are very rigid on the requirements and often require further disclosure and maintenance.
- Some jurisdictions allow e-signatures for internal documents, but they are not yet generally accepted by authorities as valid signatures.

Complex process to legalize documents

- The process of legalization/notarization of documents involves multiple lengthy and complex processes, including local presence at the local authority and sworn translation of foreign documents.

Potential language barriers

- The majority of authorities' representatives do not speak English, with Spanish or Portuguese being the business language. Foreign documents will also need to be translated to the local language and notarized.

'On-the-ground' representation is required

- Local representation is needed to enact all changes and file documents (e.g. directors, local representation, agents).

Digitalization Drive in LATAM

Like many other regions across the world, LATAM has started to embrace the post-pandemic digitalization drive.

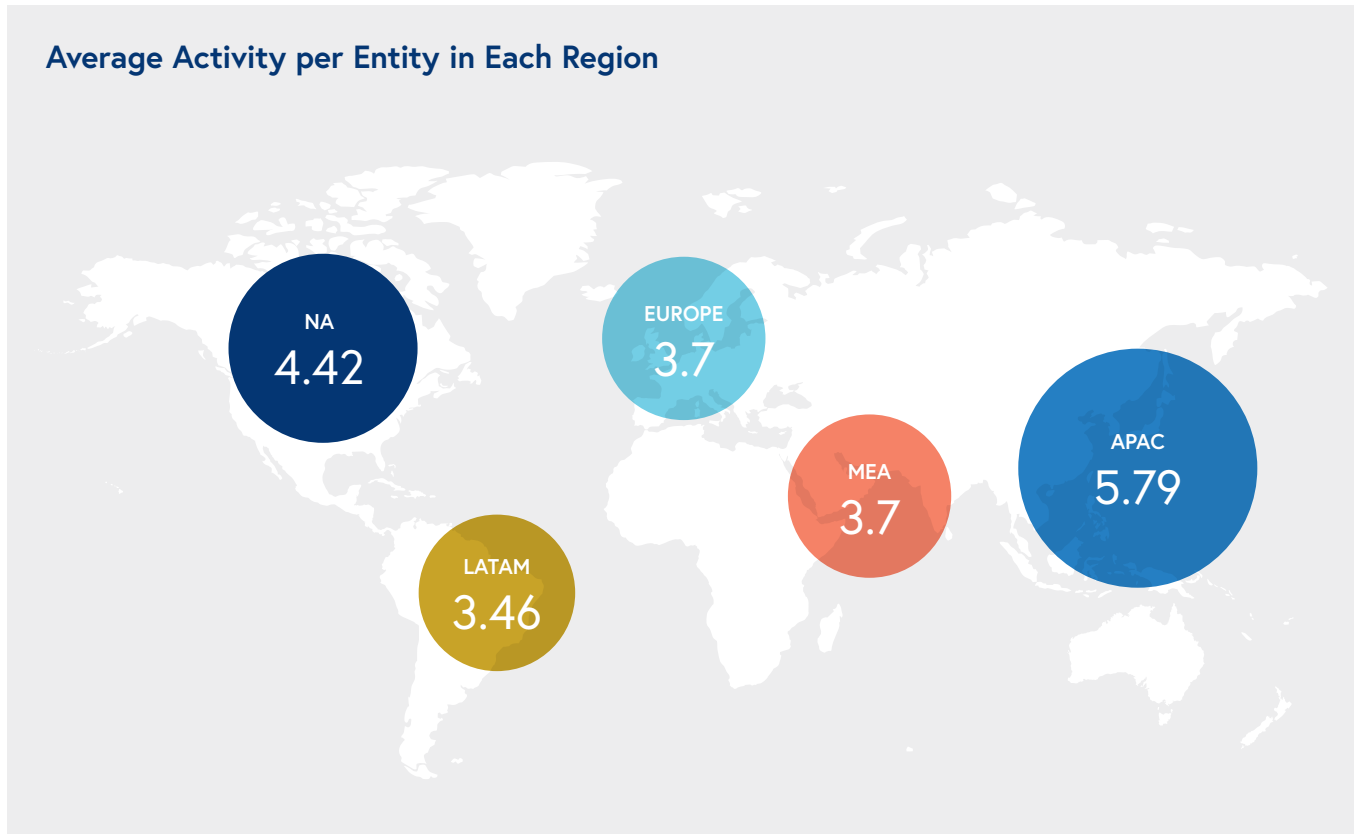
A host of jurisdictions within LATAM have started to incorporate digital tools in an attempt to ease the process of entity management and modernize company law procedures.

Recent examples include:

- Argentina – As of 2020, introduction of remote meetings.
- Ecuador – As of 2021, digital signing of more documents are now acceptable.
- Brazil – As of 2020, qualified digital signatures are now acceptable and documents can be submitted online for some authorities.

However, overall the digitalization drive in LATAM is still very much in its nascency, and as a whole, the region significantly lags behind others such as Europe and APAC when it comes to unifying and simplifying corporate governance processes.

1.1 Activity Level



The average number of activities per entity in LATAM

3.46

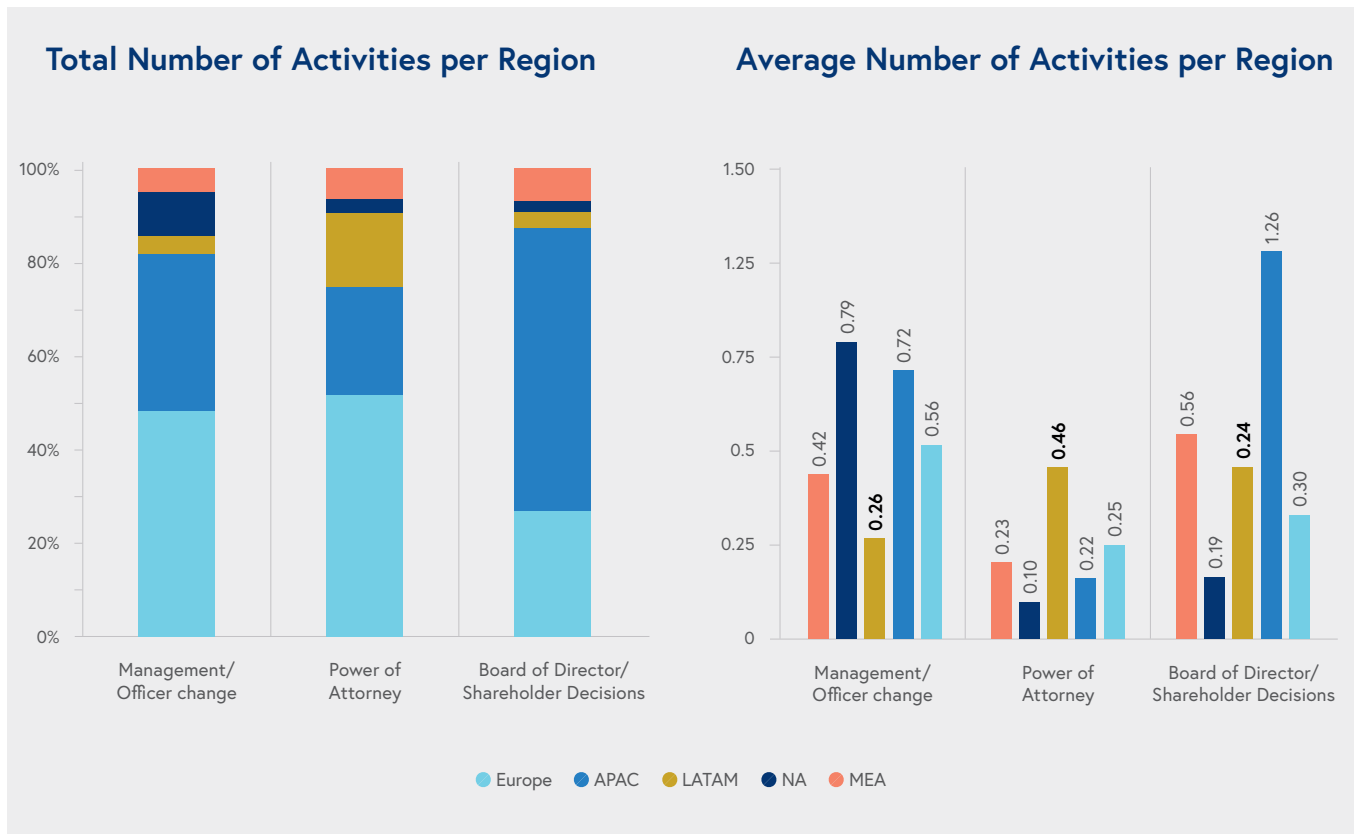
The average number of activities per entity in LATAM is 3.46 – the lowest when comparing to other regions across the world.

In part, this can be attributed to LATAM's operating model/economy. The region typically has smaller operations offices and/or representation offices, which do not have a lot of activities requiring corporate maintenance.

In addition, a significant proportion of businesses are in the manufacturing sector, where activities are relatively stable and do not require frequent corporate changes (i.e. lower number of requests for change to registered address/officer change etc.).

Finally, LATAM's complex and nuanced regulatory landscape also contributes to lower average activity levels. The volume, length and complexity of requirements means there remains significant hurdles for multinationals to establish and maintain businesses, in comparison to operations in other regions worldwide.

1.2 Activity Type



In comparison to other regions, LATAM has significantly fewer numbers of Management/Officer changes but significantly more Power of Attorney (PoA) changes. In comparison to Europe, companies operating in LATAM should expect to complete nearly double the PoA tasks per entity.

The high number of PoA tasks is because daily operations in LATAM are typically handled by attorneys. Appointment to a management position does not come with implied powers, therefore a management appointment is often accompanied by granting of specific powers. In addition, it is quite common to grant PoA to Country Managers or Operations Managers who will then have full powers as directors in the company.

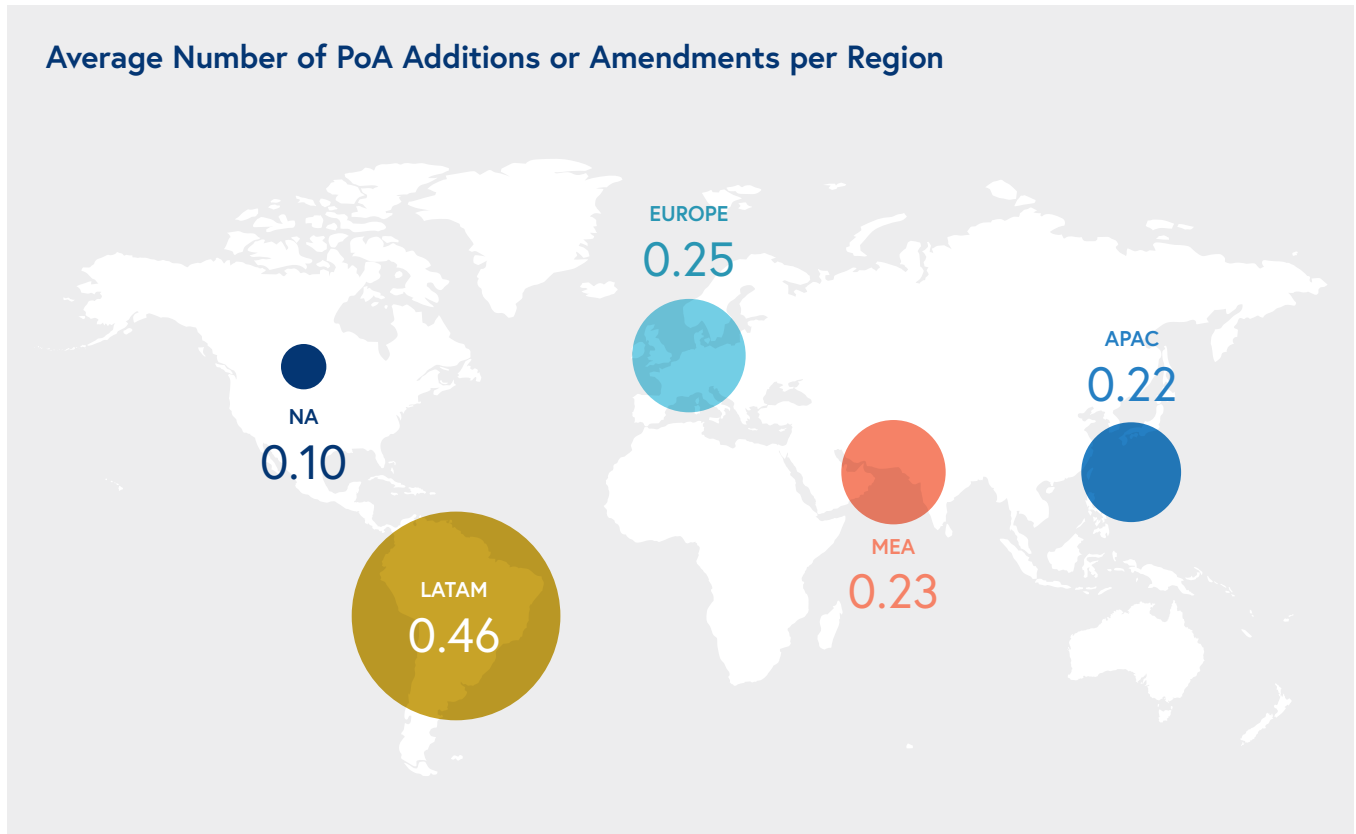
Jurisdictions in LATAM also have a tendency to have joint signatories (vs. sole signatories) for security reasons, again increasing the number of PoA tasks.

Finally, naturally having a high number of existing PoAs also brings a need to consistently maintain and issue changes (i.e. update or revoke them once any change happens).

The three most common types of corporate secretarial activities are:

- i Management/Officer changes
- ii Power of Attorney additions or amendments (PoA)
- iii Board of Directors (BoD)/ Shareholder decisions

The Power of PoAs in LATAM



The amount of PoA tasks completed in LATAM exceed Europe by

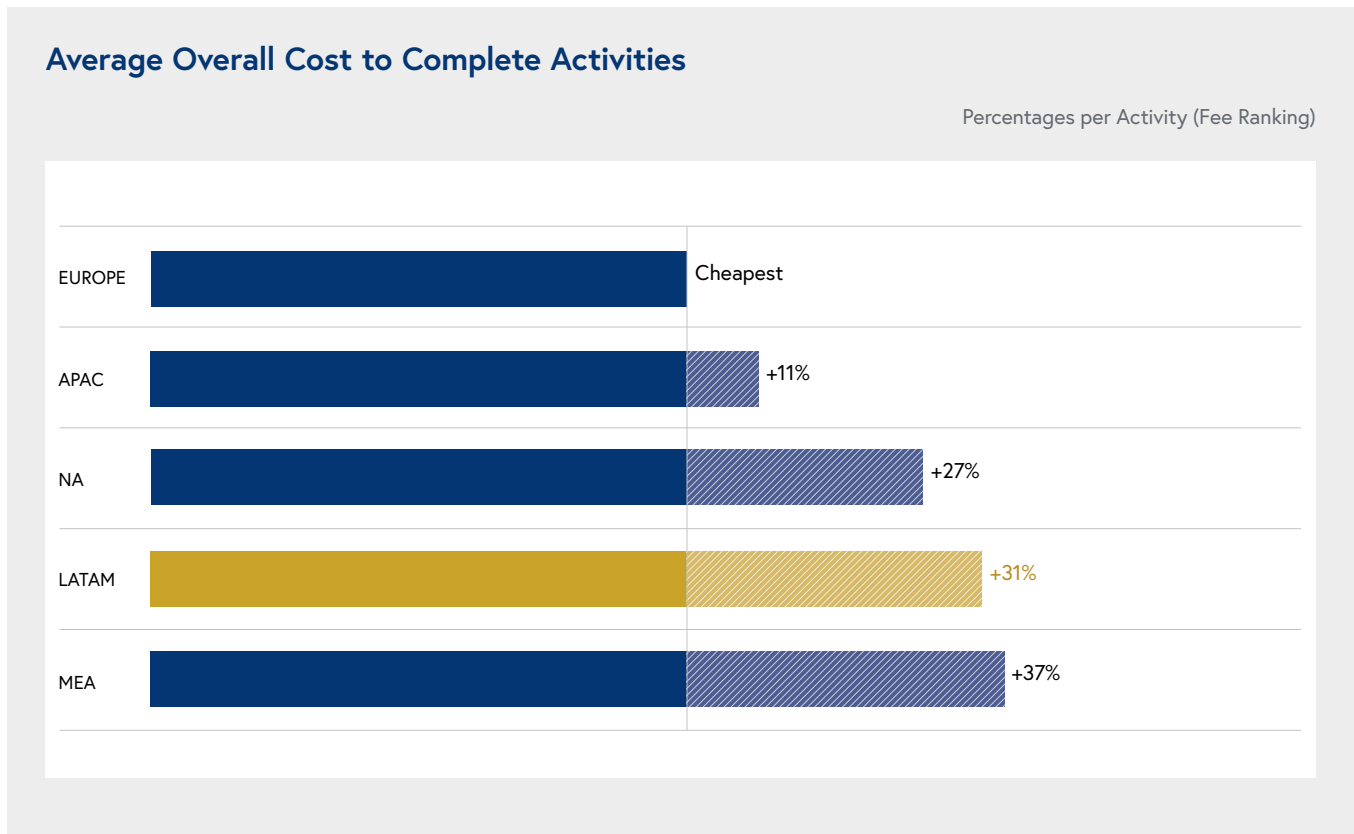
+84%

Powers to represent a company in LATAM are usually given, not by appointing a person for a management position, but by granting Power of Attorney for specific functions or duties.

Indeed, PoAs play a significant role in LATAM. PoAs are required for most fields of activities (i.e. Contracts, HR, Banking, etc.) and therefore companies in LATAM will usually issue a high number of PoAs.

The majority of PoAs are mandatory (e.g. by the banks) in order to register with LATAM authorities. In comparison, other regions allow a simple authorization by resolution or non-registered PoAs are acceptable. Issuing public/notarial deeds adds complexity to the authority granting process.

1.3 Cost



Europe is the cheapest region, with LATAM being more expensive by

+31%

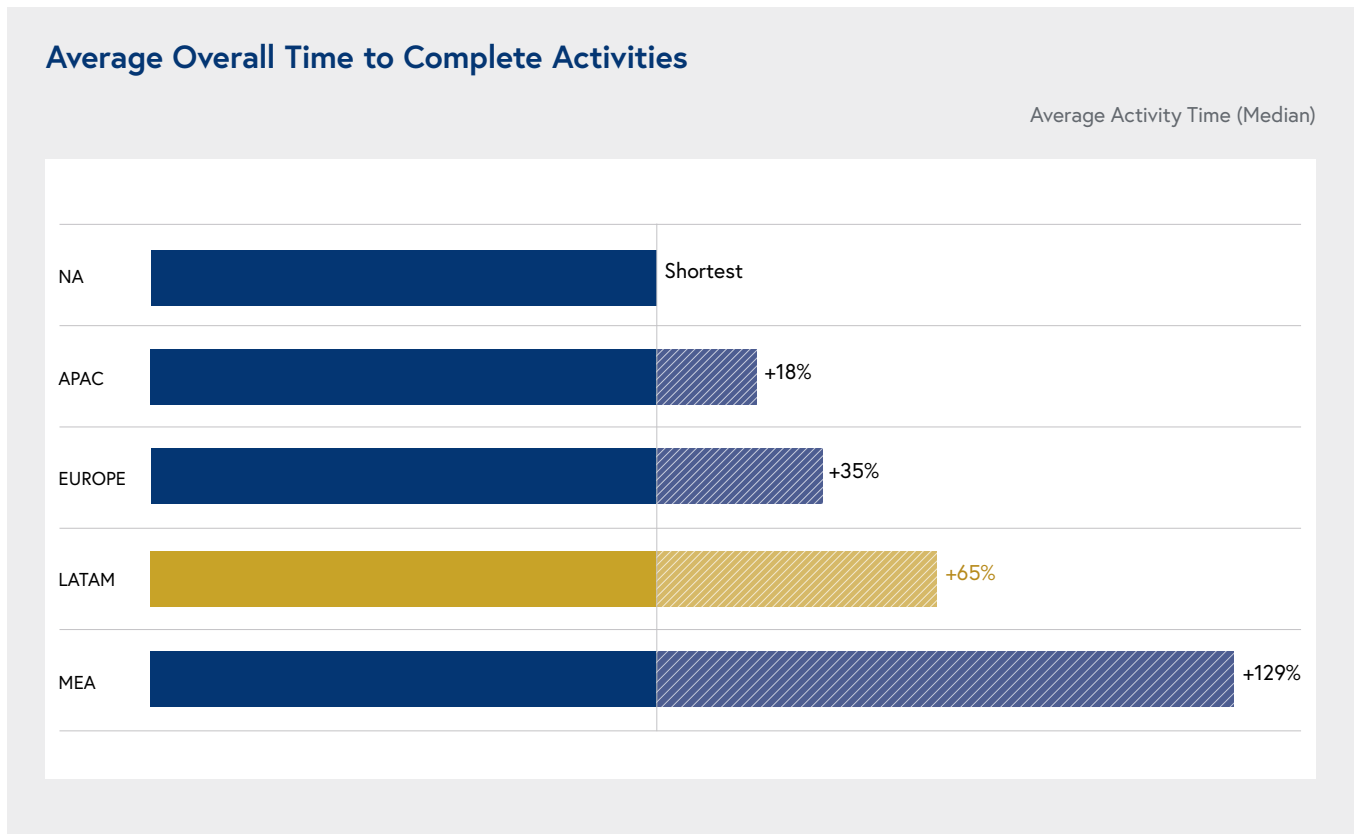
LATAM is 31% more expensive than Europe (the cheapest region).

This is due to the complexity and number of formal requirements and processes within LATAM jurisdictions which require extensive local knowledge. In addition, the majority of processes cannot be completed remotely, meaning companies will need a local presence which incurs extra costs.

Many authorities also do not share information with each other meaning that companies are required to make numerous filings to enact just one change, each with an additional cost.

Finally, the majority of jurisdictions apply translation requirements for foreign documents – they must be apostilled and sworn translated to certify the original source of the document. This incurs substantial translation efforts and costs.

1.4 Time



North America is the quickest region, with LATAM being slower by

+65%

LATAM ranks as the second slowest jurisdiction, being 65% slower than the North America (the fastest region).

This is driven by three key factors. Firstly, all documents must be submitted in the local language otherwise they will not be accepted by authorities. Therefore, any documents executed in English or with foreign language notarization or apostille wording will need to be translated in to the local language.

Secondly, the time to complete tasks in LATAM is further extended due to requirement of wet ink signatures and the additional steps required for notarization and legalization of documents if they are executed abroad. This is the case for many multinationals meaning extra time is needed to execute the document in front of a notary and get it legalized before submitting.

Finally, the registration process in many LATAM jurisdictions is considerably lengthy. For example, corporate director changes can take six weeks to register in Mexico. In comparison, there is no requirement to register directors in the United States, in part why NA comes out as the quickest region overall and why LATAM is considerably slower.

2.

LATAM Rankings

In this section, we analyze the 17 most active jurisdictions within LATAM, ranking them from the most cost/time efficient, to least.

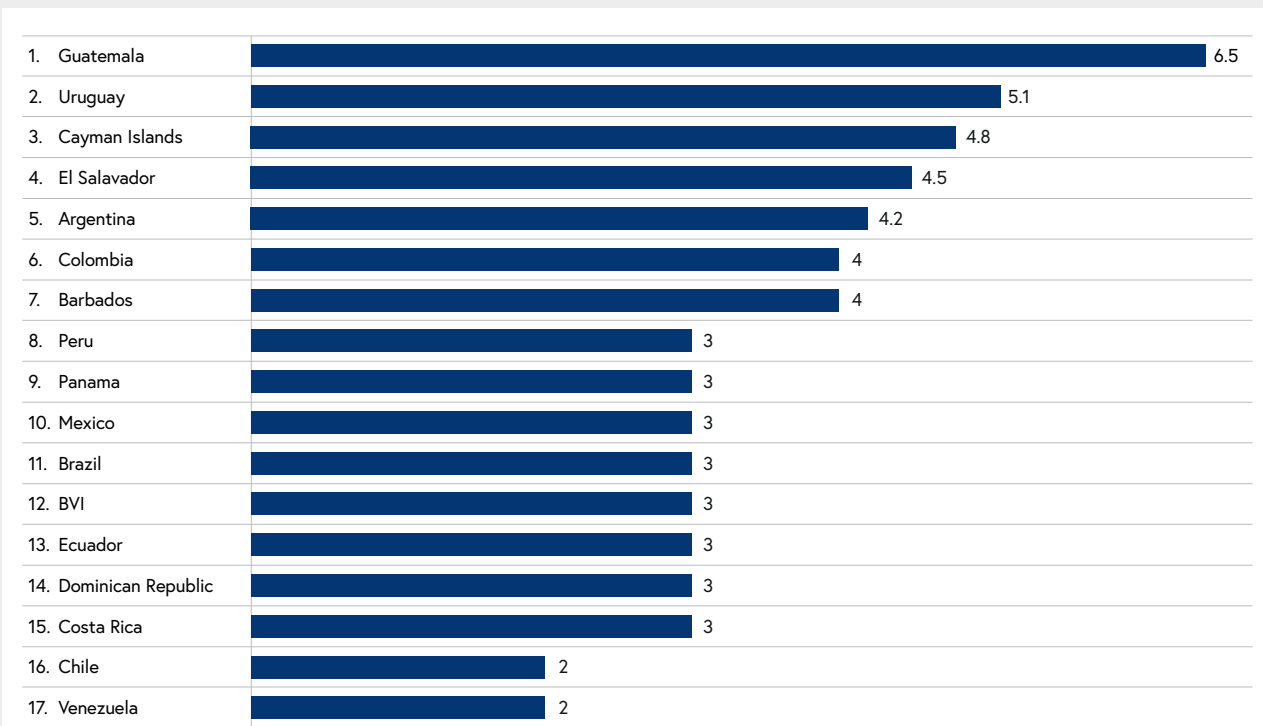
Note on statistics:

These statistics focus on the most active jurisdictions in LATAM. In order for meaningful analysis, jurisdictions with less than five tasks or four entities have been eliminated from the study.



2.1 Activity Level

Average Activity per Entity in Each Jurisdiction



The average number of activities per entity in LATAM

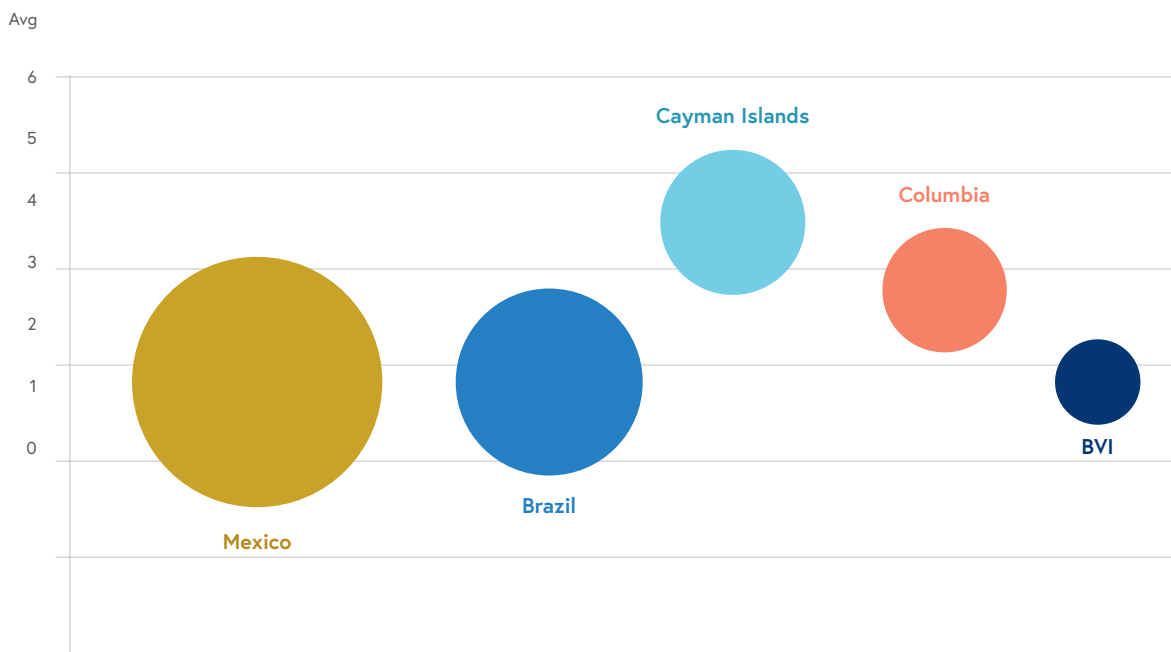
3.46

The average number of tasks per entity in LATAM is 3.46. However, in Guatemala and Uruguay this is significantly higher – at 6.5 and 5.1 tasks per entity respectively.

This is due to a necessity to register all changes on relevant officers individually (i.e. an appointment and revocation cannot be registered with just one registration).

For example, a company is making a board change and will be replacing all six appointed directors. Each director will be resigned and registered individually, and this will result in having 12 different documents and 12 different processes.

Top Five Jurisdictions by Total Activity



Mexico and Brazil top the list in terms of the most overall tasks; however, they are below the LATAM average when it comes to activity per entity.

In practice, Mexico and Brazil include as many decisions into one meeting as possible, which reduces the number of necessary filings made with authorities. In addition, in both of these jurisdictions, there are practically no directors' decisions due to more active involvement of shareholders and shareholders' representatives in the businesses management and daily operations of businesses.

2.2 Cost

Average Cost of Ad Hoc Task per Jurisdiction

1. BVI	Cheapest
2. Panama	+18%
3. Peru	+30%
4. Argentina	+45%
5. Cayman Islands	+47%
6. Dominican Republic	+53%
7. Costa Rica	+54%
8. Chile	+55%
9. Venezuela	+64%
10. Barbados	+67%
11. Ecuador	+87%
12. Colombia	+94%
13. Guatemala	+97%
14. Uruguay	+101%
15. Mexico	+102%
16. Brazil	+160%
17. El Salvador	+233%

The British Virgin Islands (BVI) ranks as the cheapest jurisdiction within LATAM. As a British overseas territory, the official language is English, meaning no document translation to/from Spanish and/or Portuguese is required.

The BVI's legal system is also more related to English common law, thus it is much less complex for multinationals to navigate than the majority of LATAM which follow the civil law tradition.

The BVI is also regarded as a leading financial services center, with an established legal services market and established corporate governance processes. All these factors significantly reduce costs.

The overall costs in any jurisdiction are influenced by three key factors:

- i How many specialized legal and company secretarial support services there are – as a range of providers helps to reduce costs
- ii Whether the jurisdiction requires documents to be in the local language – incurring costs for translation and legalization.
- iii Whether the jurisdiction has a centralized or de-centralized corporate governance model – e.g. federal republics have different regulations per province.

2.3 Time

Average Time to Complete Ad Hoc Task per Jurisdiction

1. Ecuador	Fastest
2. El Salvador	+0%
3. Uruguay	+50%
4. Panama	+100%
5. Columbia	+150%
6. Costa Rica	+175%
7. Cayman Islands	+200%
8. Argentina	+250%
9. Barbados	+425%
10. Chile	+450%
11. Dominican Republic	+650%
12. Brazil	+675%
13. Peru	+775%
14. BVI	+850%
15. Mexico	+925%
16. Venezuela	+1,650%
17. Guatemala	+2,050%

Ecuador is the quickest jurisdictions, largely because it is one of the few jurisdictions in LATAM where corporate changes and filings can be submitted online by anyone holding the company's access. This significantly reduces delays at the filing stage.

For the majority of LATAM, registrations must either be submitted physically, or documents are manually, and in great detail, reviewed by the relevant authorities as well as by local notaries who have discretion to question application documents.

Due to local authorities' workload and backlogs, it can take significant time for documents to be processed. In addition, an assigned person for application is often not readily disclosed, and therefore it is not possible to make any physical contact and it is harder to chase the authorities for an update. Guatemala, Venezuela and Mexico rank as the three slowest jurisdictions.

Companies operating in these jurisdictions should be aware of a lengthy registration process that in some cases can extend to a few months.

Slightly lesser, but more consistent, delays are caused by the requirement of wet ink signatures and availability of original documents over digital copies. Time to complete activities is further extended due to delays in document execution and delivery of original documents to local representatives to carry out further procedures.

The ongoing political instability in Venezuela also contributes to the lengthy process in this jurisdiction. Because of the instability, Venezuela has implemented strict liability laws for director's duties – this means it is often difficult to find a suitable person for the position and therefore causes significant delays in decision-making.

Cost and Time of Entity Management in Mexico and Brazil

As two of the top economies in LATAM, Brazil and Mexico remain attractive locations for companies who are looking to expand their operations. However, they rank as two of the costliest and slowest jurisdictions.

Mexico (15th)

+102%

Brazil (16th)

+160%

Cost

Both jurisdictions have many different states, each with different procedures and operated by different authorities, meaning multiple filings are required for just one change. In Brazil, there are also additional pre-steps to complete before even making a filing. For example, every foreign director or shareholder must be registered with a local tax number.

Translation costs are incurred as both Mexico and Brazil apply requirements for foreign documents. Translated documents must also be apostilled and sworn translated to certify the original source of the document.

In Mexico, most corporate governance tasks are accompanied by strict notarization requirements, meaning additional arrangements must be made locally and additional expenses incurred for notarial work. These requirements necessitate extensive knowledge of the legal framework and experience carrying out the practical aspects of these tasks.

Finally, both Brazil and Mexico are identified globally as two of the world's leading emerging markets with strong growth potential for investors. The pricing of legal services is therefore higher and more aligned with similarly developed countries, in comparison to smaller LATAM economies.

Time

In Brazil, the lengthy time frame is due to the complexity of the process which involves substantial document collection, execution and translation. The Brazilian administrative division includes three levels (federal, states and municipalities) and lack of full integration between authorities means separate filings of the same corporate change are required to each division.

In Mexico, the delays are caused by the registration process itself, taking anywhere from six weeks to several months. Registrations must either be submitted physically, or documents are manually, and in great detail, reviewed by the relevant authorities.

Due to local authorities' workload and backlogs, it can take significant time for documents to be processed. In addition, local authorities do not readily disclose the name of an individual who can be contacted about the status of an application, meaning it is near impossible for companies to chase the authorities for an update.

Brazil (12th)

+675%

Mexico (15th)

+925%

3.

Conclusions: Cost and Time Analysis



Overall Rankings

Overall Rankings (Scoring based on Cost + Time)

1. Panama



2. Ecuador
3. Cayman Islands
4. Argentina
5. Costa Rica
6. BVI
7. Peru
8. Uruguay
9. Colombia
10. Dominican Republic
11. Chile
12. El Salvador
13. Barbados
14. Venezuela
15. Brazil
16. Mexico
17. Guatemala

Overall, when weighting both cost and time to complete activities, Panama emerges as the most favorable location overall in which to base entities within LATAM, followed by Ecuador and the Cayman Islands.

Panama takes pole position with both competitive cost levels and relatively fast corporate processes by local authorities. Panama also has the following advantages:

- Availability of electronic filings for almost all corporate related actions;
- Changes require minimal documents to be sent in comparison to other jurisdictions in LATAM and registration is done quickly;
- It is common practice to approve corporate decisions by written resolutions instead of requiring an actual meeting;
- There are no nationality requirements for directors;
- The incorporation process is quick and not complex.
- There are not a lot of annual reporting requirements, thus less chance a pending filing will cause issues or delays with corporate changes

Guatemala ranks lowest when combining cost and time, followed by Mexico and Brazil.

Guatemala has one of the most complex registration processes in LATAM. Each corporate change needs to be registered separately and local representation is required. Multiple documents are also required. For instance, if three directors are appointed, separate documents will be needed per director. This significantly increases both the cost and time for multinationals to complete activities.

Brazil and Mexico offer a wealth of opportunities for international businesses; however, multinationals should be aware of the complexity and deep local knowledge required in order to set up and maintain entities.

Clearly, working with a specialist Entity Portfolio Management partner that has granular experience and insight into the practice and requirements in LATAM is an important factor in the overall successful management of your entity portfolio.



Find out how Entica™ can help meet your Entity Portfolio Management needs.

REQUEST A DEMO



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