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Best Practices in Subsidiary Management

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Introduction

Accurate subsidiary information is crucial to a company's business function and timely compliance.

While managing subsidiary details may seem like a simple task, oversight and management of the company's subsidiary and affiliate information, tracking each entity's lifecycle, its Officer/Director appointments, ownership, registration requirements, and an ever expanding list of other details requires complicated subsidiary management with coordination of information across time zones, languages, and departments.

With limited back-office and in-house resources, many multinationals rely on a patchwork of decentralized systems and an inconsistent approach to governance and regulatory compliance across countries. But with separate systems, recent changes may not be entered, data may not be symmetrical, and the entire compliance effort may be doubled or tripled in scope. No multinational company should be expected to manage subsidiary and affiliate information without a state of the art, centralized, purpose built entity management system.

However, a comprehensive entity management system is not the end goal. It is simply a starting point to facilitate compliance, acting as a destination and source for all entity related information.

This white paper synthesizes our experiences implementing entity management software with some of the world's largest, most complex, multi-national organizations.

Best practices in subsidiary management

The major objective of entity management is the establishment of a single repository for all entity related information and the implementation of processes and procedures to ensure its precision, accuracy and timeliness.

To achieve this goal:

- Users should have confidence that the entity management system accurately represents the information from all jurisdictions in which the company operates. Global users must view this system as the source for all of their entity information needs.
- Processes should be in place to ensure those who are the source of the information are able to communicate it through the system. A user in a foreign country who is responsible for that country's entities should have access to the system to update and make timely changes.
- At a minimum, the system should track the effective dates of all transactions. The best practice is to track the events and event dates that comprise the transaction in addition to effective dates. Ideally, the system should know the date a company was incorporated, but also the original purpose for the entity and the dates when everyone approved its formation.
- At a minimum, processes should be implemented to ensure a regular review of all the core entity information. Best practices would ensure that all information is annually reviewed to ensure that it is current and accurate.
- An entity management system should serve as the official, central repository for all entity information across all departments. Legal, Tax, Treasury, Finance and other departments all have requirements for information that is entity related. The entity management system should meet the needs of inter-departmental users.
- The most effective solution will enable information to be shared among core applications. Information originating with other applications should automatically and securely feed the entity management system. As an example, if the Human Resources system "knows" that a high level executive has left the company, the entity management system should also have that information for appointment replacement. Entity ownership information should synchronize between the entity management system and other applications to ensure accuracy.

A single global subsidiary solution

Local jurisdiction awareness

Global entity management should begin with data input and management at the level that is most appropriate (local, regional, national, departmental, operating division, business unit, etc.). Data is then entered into the entity management system where it is consolidated with other entity related information. A system designed from the bottom-up ensures the greatest accuracy by precisely capturing all the subtleties of the local entity information. Users can then be confident that the system is correct for their location and use.

For example, local nuances such as titles and positions must be captured and recorded accurately. A high functioning system should "know" whether an appointment position can be filled by another legal entity or whether it must be filled by a natural person. To achieve the efficiencies and effectiveness of a global, unified system, details like date formats, currencies, company types, appointment titles and ownership information must be accurately and consistently represented.

Furthermore, in jurisdictions such as Hong Kong, Japan and Greece, company and individual names and addresses must be represented in the local language. The system should easily maintain the native alphabet (Cantonese, Kanji, Greek, etc.) for individual names, entity name, and local addresses in addition to the English representation of that same information. Since translation inaccuracies are commonplace, translation of this information into English and back is not an option. Native information must be stored in a separate field that accepts the native language.

Global systems that do not meet the requirements of local users in all jurisdictions will create many problems. The accuracy of your information will always be suspect. When the global system falls short, local data managers will no longer use it and will create or buy a secondary system or simply update a spreadsheet to keep their own information. This secondary (real) source of data will create long term problems for the organization. If secondary systems are allowed to exist, accuracy and overall effectiveness of the entity management system will suffer dramatically, and the overarching quality of transparency and reporting will become substantially compromised. Organization charts and reports produced by multiple systems will be incomplete and inaccurate. And because errors are cumulative, the problem only grows worse exponentially with time.

Compliance reports and organization charts maintained manually outside of the system signal a total lack of confidence in the ability of the entity management system. This is often the first, most noticeable sign of the need for an entity management system upgrade.

Pending and Approval

Individuals in local jurisdictions have direct knowledge of entity and personnel changes. But when there is no single system for local users to report changes, they must send that information to headquarters via email or some other ad-hoc means. This will result in data lapses, gaps or transcription errors.

Conversely, remote or "decentralized" data entry allows local users to enter information directly into the central system, eliminating many of those gaps and errors. Data consistency should be managed in a decentralized entry environment. The users

may not be native English speakers, so quality must be controlled. Also, documentation supporting many of the transactions must accompany the change, and those documents should be maintained within the system.

Here is an example of decentralized data management:

1. Users in remote office locations are delegated the responsibility for managing information about their regions/divisions and update the central solution when changes occur.
2. Remote users are granted edit rights and the responsibility for maintaining certain sections of the system like Officer/Director appointments, address changes, etc.
3. For significant changes like a change in entity ownership, or perhaps all changes great or small, the user may only be allowed to create a "pending event"— a change that is not officially applied to the database until it is reviewed and approved.
4. The pending event may then automatically notify a reviewer that the event has occurred and needs to be "actioned".
5. After final approval is granted, the transaction is then actioned and the system is automatically updated—information is now accurate.

This de-centralized data management process allows the most knowledgeable individuals, at the most appropriate levels of the organization, to manage change as it occurs. Yet, the process also retains a central management oversight. Central management does not typically reject these types of transactions, but they need to make sure the entire transaction is properly documented and completed before the information is actioned for all to use. This oversight and verification ensures the central system is always accurate.

Decentralized data management can be monitored and controlled, allowing users to maintain a transaction in a pending state and forward that pending transaction to the appropriate person for review and approval. This control capability can indicate which data entry types require authorization and from whom authorization should be obtained. Multiple levels of authorization can be established, allowing the system to manage multiple person/level authorizations.

And the pending/approval capability is also useful where, for example, documents are printed for signature. The transaction can be implemented in the system once the appropriate signatures have been received, even when the time lag between origination of the document and receipt of the final signature(s) might be significant.

Entity Life Cycle Management

Entities typically have a life cycle: formation, activity, and dissolution. When a new entity is formed, it is important to record who requested the new entity and why, who approved the entity, and who was informed that the entity was created. Once created, a review process may periodically ask individuals or groups (the business owners, local managers, interdepartmental staff, record managers, etc.) to verify the information is current and accurate. Finally, when it is time to de-activate the company, the system should assist by assuring that all facets of the entity, like contracts and ledgers, are properly closed.

Implementing a best practices process will incorporate all stages of an entity's life cycle. All actions impacting an entity will be recorded in its history, from who first had the idea of creating the entity to the entity's final dissolution.

New entity request

Compliance requirements for entities have tightened dramatically with enactment of SOX and other regulatory legislation. When someone in the company decides to create a new entity, that request should be entered into the central system where it will be immediately date and time stamped. This request can be very simple -- a proposed name, company type, location and purpose of the new entity -- or it can require much more information to start the process. The system should know what data is required at each step along the way and ensure that data is provided.

Once the request record is complete, the appropriate individuals will then be alerted automatically via an email. The rules can be quite specific as to who needs to be alerted. These rules can be based on the business unit, the country of origin and other internal criteria.

Every step in the process -- from who originally requested the company to who was notified of the approval to who approved the creation of the company -- should be time and date stamped and then permanently stored with the system.

Periodic Company Review

Once the data is collected and approved, the next step is to ensure that details, documents and dates are all properly maintained. This step is often as difficult as the initial information gathering, especially since it involves on-going attention from decentralized representatives who may present span-of-control challenges. The system will help with on-going data maintenance, as the system forces periodic attention (review, certification, attestation, etc.) to the entity records.

Periodic review requires a few basic steps for success:

- Identify all local users who are most knowledgeable about the entity and thus responsible for reviewing key information such as ownership and Officer/Director information.
- Document and send specific instructions to each of these users detailing their information review responsibility and expected completion date and
- Enable these users to electronically advise of changes needed to the information and then sign off acknowledging the information is then accurate, thus completing the periodic review.

In addition to conducting a basic entity information review, this is an excellent opportunity for the company to learn more about the entity by asking questions like whether the business purpose for this entity is still justified and/or valid. This process often identifies entities that are expensive to maintain or are no longer necessary, and thus can be closed.

Company dissolution

Dissolving companies that are no longer necessary requires coordination between many different groups. For example, Legal, Tax, Finance, and Contract Management all need to be informed that the entity is in the dissolution process. The entity system should coordinate and record whether these groups were contacted and whether they completed the necessary steps for dissolution within their departments. The history of all these events should then be stored in the system.

Business Process Management

Integration with other systems

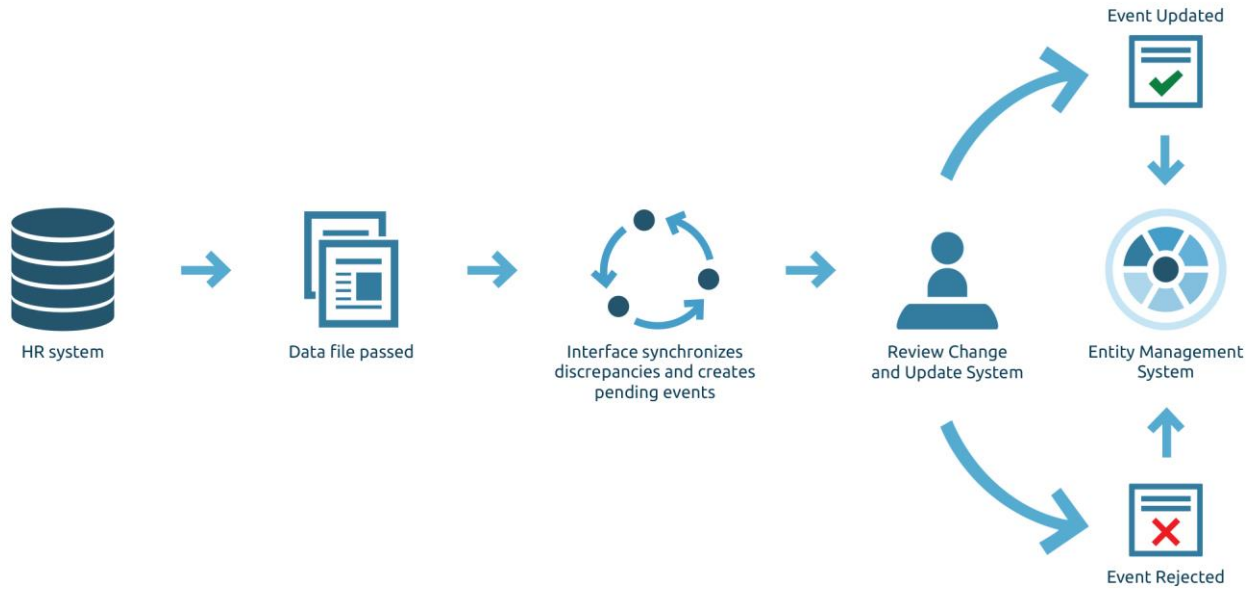
Major data integrity issues arise when changes to the data occur without the entity systems' knowledge. For example, what happens when a senior employee who lives in a foreign country and also an Officer/Director of several subsidiaries suddenly leaves the company? People within the organization will struggle to get this information and it is often not communicated across departments. The company then generates inaccurate reports showing this individual as an Officer/Director for weeks or months after they have left the company.

To improve accuracy and timeliness, the system should exchange information with other internal systems. For example, information captured from your Human Resources/Payroll system may alert you when Officers/Directors have left the company.

The entity system should query the human resources/payroll system daily to look for employees who have left the company. When there is a match of the name and employee number of an individual who has left the company with the name and employee number of an Officer/Director in the system, the entity management system should automatically:

- Create a pending event to review that Officer/Director in the system;
- Add a calendar task for follow up; and
- Send an email alert instructing the custodian of that individual's record to review the Officer/Director status.

A prospective Human Resources integration workflow is shown here:



In today's highly regulated and scrutinized corporate environment, it is critical that the Tax and Legal ownership structures are synchronized for accurate financial and compliance reporting. Historically, separate Tax and Legal entity systems were rarely

synchronized, meaning both systems had incomplete and inaccurate information. Sometimes this meant that companies were missing information from one of the systems. But more often, the Tax system had incomplete or truncated company names and the Legal system was missing or had inaccurate Tax identification numbers, among other anomalies. Manually reconciling records takes large blocks of time away from the relevant departments and creates significant additional work for auditors.

Building a link to synchronize the two systems ensures that changes are accurately reflected in both systems. Periodic reports of discrepancies can assist in process remediation as users work to understand the source of any further inaccuracies.

The most appropriate solution is to integrate Tax, Treasury and other department applications with the entity management system and its life cycle management process. All changes that occur in one system should be propagated to all other systems. As an example, a change in the company name might send a message to Tax, Treasury, Contract Management and other systems to ensure their systems are properly updated.

Entity-Related Solutions

Obtaining the basic entity information: ownership, appointments, and other core entity information is often considered the end goal. But subsidiary management should not end there, it should provide the framework for all other compliance functions that require entity information. In fact, the entity management system should examine the uses of entity related information throughout the company.

Many functions are entity related but are not part of the core information area. The company benefits from extending the system to include other information and processes because:

- A multifunctional system increases efficiency and allows costs to be spread over multiple areas; and
- The overall quality of the information improves for everyone. The entity name is consistently used in all applications. All departments can help identify changes to core information, and an address change or a director of a subsidiary leaving the company can be reported quickly and more consistently if all departments are using the same system.

Entity management and Tax solutions

Tax relies heavily on entity information. In many companies, Tax has its own database of entities that duplicates much of the information found in the company's other system(s). In our experience, when two systems with similar information are utilized at once, the quality of the information will be compromised. This problem can be addressed by synchronizing the databases as discussed in Section 5. Still, there is often a better answer: bring the Tax information into the entity system, creating a unified entity system for use by all departments.

Regulations like FBAR (Report of Foreign Bank and Financial Accounts) and FATCA (Foreign Account Tax Compliance Act) demand information that relies heavily on accurate entity-related information. These compliance requirements can be solved within a central entity system. Compliance is simplified through audit trails, automated compliance reminders, and secure storage of all relevant documents and files. And since the entity system is the sole repository for all of the information, the organization is assured it is up-to-date and reliable. With separate systems, recent changes may not be entered, data may not be symmetrical, and the entire compliance effort may be doubled or tripled in scope.

Entity management and Federal Reserve reporting

For US financial institutions, Federal Reserve Y-10 and Y-6 reporting is based on changes in the entity structure. Share transactions, company status changes and other similar events require reporting to the Federal Reserve. Here, the company must have processes in place to ensure each reportable transaction is reported on a timely basis to the Federal Reserve. The entity system will help users decide if the entity is Fed reportable, and if the event is Fed reportable the system will assist in Fed reporting.

Compliance Surveys

There are many instances where the Officers/Directors of the organization need to be surveyed for compliance or conformance with company policy. These surveys can be managed and the answers tracked as part of the entity system. For insurance, the NAIC Biographical Affidavit is a good example. Distribution and conformance with the Foreign Corrupt Practices Act is another good example.

Other Components

Advanced business alerts

Proactive, automatic email notifications to individuals or groups are critical to the success of business process management. Notifications may be triggered based on:

- Changes to entity information
- Pending events launched by other people or systems
- Approaching compliance, review or due dates
- Escalation issues where designates have failed to respond and
- Exceptions (such as vacant fields or other parameters)

Email alerts should be batched together by user and sent once daily. Users will arrive in the morning with a “to do” list from the system.

Automatically generated and recurring reminders can also be based on criteria entered against a field, such as an expiration field. This allows an automatic reminder to be produced in advance of an expiration event. Tasks can also be created by users for any subject. These allow users to define the scope of entities for which the task should be performed, stipulate the type of task, provide an explanation for the task and identify the task’s originator, the request date, the due date and its status. Tasks may also contain authorization requirements.

As an example, the system can automatically email representatives from the Tax and Treasury departments when a new company is being formed or there have been significant changes in the entity’s ownership and/or organization chart information. Companies may choose a “new entity request” process be imbedded within the system.

Other automatic notifications can include important dates such as upcoming annual meeting dates, filing deadlines and lapses in signing authority.

Document automation

A well-conceived, well-built system truly is a "compliance engine" that automatically creates jurisdiction-specific documents such as minutes, consents, resolutions, resignation letters, forms and reports. Using the system to generate these documents ensures consistency and compliance with local requirements. For example, when appointing a director, the system can generate jurisdiction-specific resolutions and forms, queue a pending event and wait while the resolution is signed by the shareholders or other representatives. Using the system to generate forms creates additional value for users.

History and audit trails

An audit trail provides historical perspectives and offers review and remediation of entity transactions and processes. An audit trail ensures that the system automatically records time, date, and name for actions taken (i.e., additions, changes, deletions, etc.).

Audit filters allow queries of audit events by date, entity, type of entity, country grouping, country, audit date, user, event date, event group, event type and note. As the source for historical searches/reports and change reports, the audit trail should also enable change notification via email alerts.

View access

Secure read-only access to critical information should be tailored to the field level and evolve with needs of users over time. Most systems have a small group of users with edit rights and a large group of users with read-only rights.

At some companies, literally thousands of read-only users access the system. These individuals are situated in separate locations and accessing different pieces of information. For example, they may be checking who is eligible to sign a given document or they could be identifying which divisions are owned by an individual business. Each time a read-only user obtains information directly from the system, there is a boost to productivity as they avoid time-consuming email exchanges and/or phone calls.

A second advantage of wide access by the read-only users is a sense of ownership. Individuals across the company may have small bits of data relating to a specific company. For example, a user may have knowledge about the addresses of certain companies. If that user has ready access to the application and knows that many other users have similar access, they will be compelled to make sure their component of the information is accurate.

Read-only users should be able to provide feedback if they find incomplete or incorrect information in the system. This also gives these users a sense of ownership and control. Read-only users should be able to send feedback or comments to the user responsible for that record. The system should know the context of the feedback and include this information in an email or calendar event, or both, to the “record manager”.

Reporting

Timely and effective decision making, regulatory reporting and process management rely on effective, spontaneous reporting. Users need an intuitive yet powerful ad-hoc report writer to explore and find answers to critical questions without deep technical knowledge. Therefore, an inbuilt ad-hoc report writer is necessary to empower users to create and save searches and reports. Security should be intrinsic to the ad-hoc report writer so users cannot bypass the security mechanisms built into the system when running ad-hoc reports.

Organizational charts

Regulatory reporting and global corporate compliance rely heavily on the accurate and timely representation of organization charts which must conform to a wide variety of users’ needs. Generating these reports manually is labor intensive and error prone. The process can and should be automated. Organization charts which automatically roll up from share or capital ownership help reconcile Legal and Tax information and ease auditing.

The organization charting component should be flexible enough to handle the proper representation of branches and joint ventures. The system should also be able to handle Tax requirements such as tax-transparent entities.

Many important reports should be derived from ownership information. For US users, complex documents such as Hart-Scott-Rodino and Exhibit 21 reports should be automated. This saves time and produces a more accurate report than one that can be prepared manually.

Some companies produce hundreds of organization charts across a wide variety of current and historical search criteria--Tax (check the box), Management, Division, Set, and Branch structures. Without a unified system to accurately and immediately produce charts, these requests would overwhelm staff and challenge regulators' patience.

About Blueprint

Blueprint is our web-based entity management, governance and compliance solution, allowing users to access and manage their corporate compliance data 24/7, anytime, anywhere. With thousands of Users worldwide, across every conceivable industry, our client-base features many of the largest companies in the world such as Microsoft, Exxon, Chevron, Disney, TimeWarner, General Motors, as well as large clients in Europe, Africa, the East, Far East and Australasia. We have dedicated sales and support offices in the UK (HQ), US (Stratford, CT), Australia (Sydney), the UAE (Dubai) and Hong Kong. We are also a multi-site Microsoft Gold Partner with both the ISV and Hosting competencies.

Our commitment to providing a suite of highly secure and integrated solutions is the reason why many FTSE100, FORTUNE 500, EURONEXT 100, ASX 200, government organizations and public bodies trust us to manage their corporate information to deliver good governance.

We have a 98% client retention rate, the highest client retention rate in our industry, achieved by providing superior customer service and support.