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Best Practices for **In-House Entity Management**
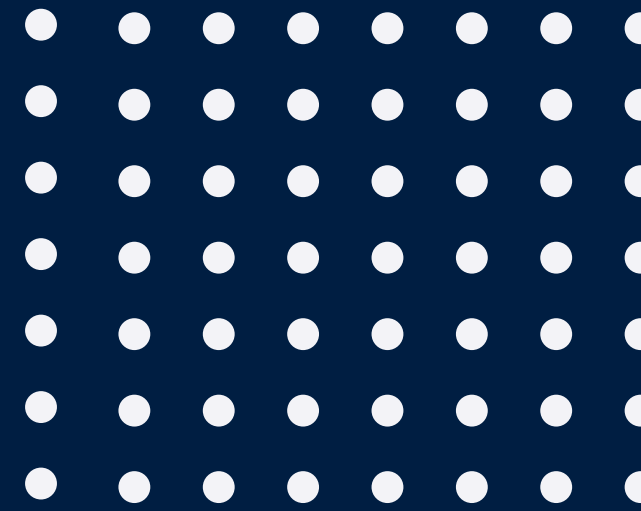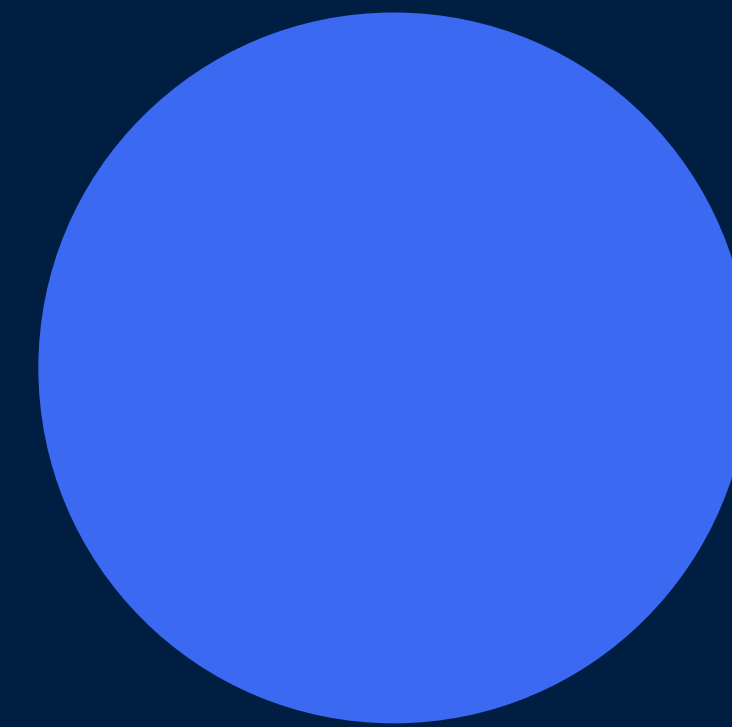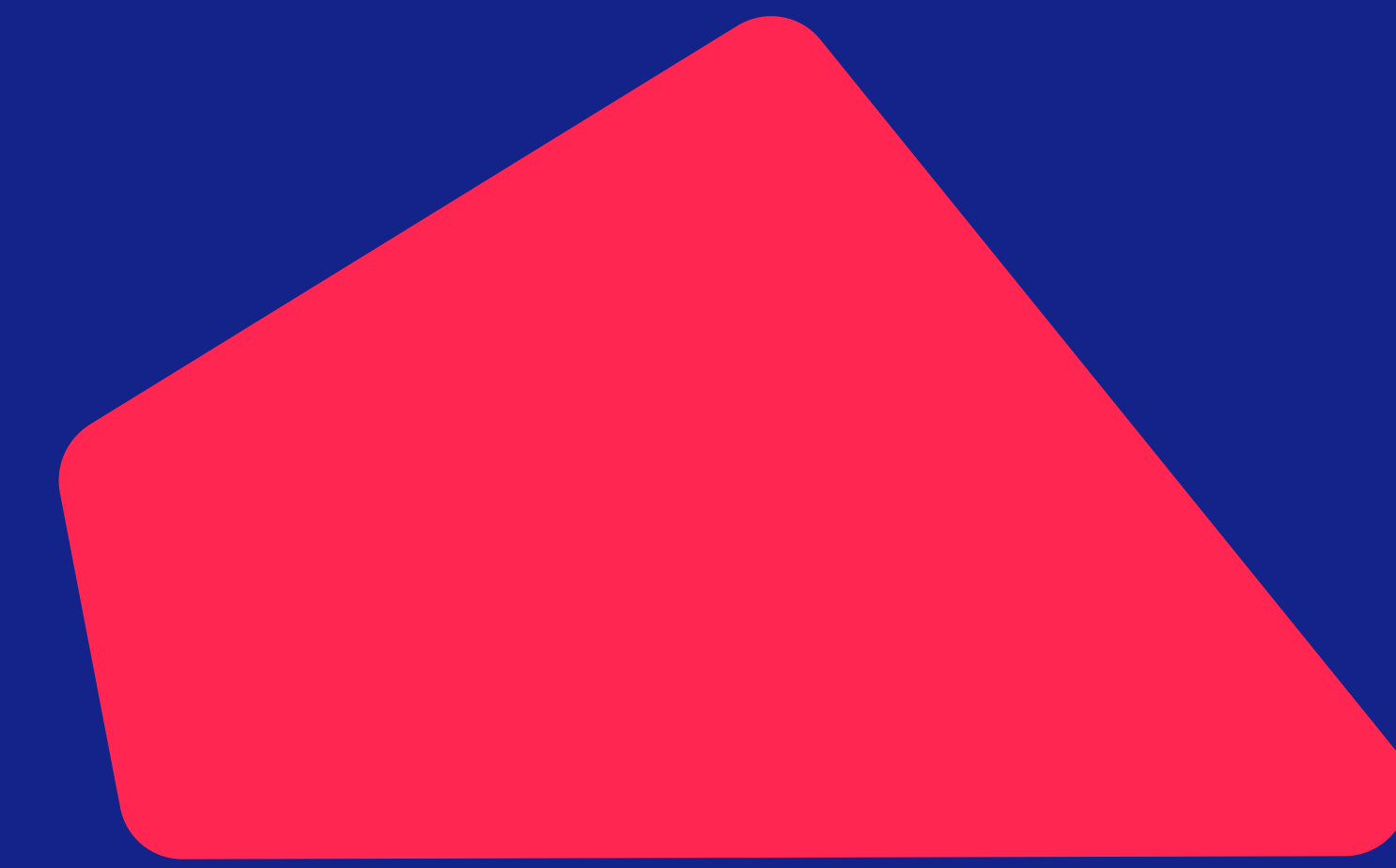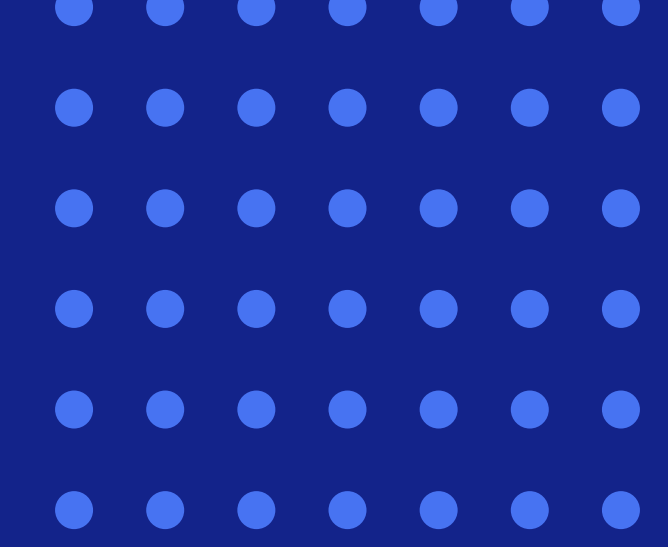
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Meeting the Expanding Global Expectations

In today's legal landscape, there is a growing focus on multijurisdictional security and transparency on a regulator, stakeholder, and investor level. With these on the forefront, organizations struggle to maintain compliance effectively and face challenges when monitoring changes across their jurisdictions.

Without proper entity management, an organization can face reputational and regulatory risk that hinders their operational function. In a recent survey conducted by EY, 89% of companies reported escalating challenges in managing their legal entities.

Efficient data management and corporate cleanliness require a proactive approach that prioritizes entity management as a legal operational pillar— a vast shift from the previously held view that entity management was administrative housekeeping. Legal professionals are urged to adopt new practices, technologies, and operating models that appease revenue authorities on a global scale.

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Setting Your Team up for Corporate Success

The Value of Corporate Paralegals

A corporate legal department moves like a clock—all cogs moving and completing separate functions to create a streamlined and efficient system. While the lawyers ostensibly handle client relationships and deals, beside them are a team of corporate paralegals (or, sometimes just one) working to ensure client success while performing revenue generating work. For a legal department to present as high-functioning, all compliance work and transactions must be handled swiftly and adeptly, with expert knowledge and resolute enthusiasm. Though not always client-facing, paralegals play a critical role in maintaining client relationships, internal data accuracy, and an organization's profitability.

An in-house paralegal's job duties often stretch even further than their law firm counterparts as they are company employees, and generally engage in interdepartmental collaboration. There is less need for transactional work, as it is most often outsourced to a law firm partner. Instead, a project management, department workflow, and database maintenance are a key component to their daily job responsibilities. An in-house paralegal has significant internal knowledge of their organization and often liaises with external counsel; all the while holding responsibility for the legal department's alignment with the entire organization. Because of this, it is not uncommon for an in-house legal team to be composed of more corporate paralegals than in-house counsel.

Software Support

In-house corporate paralegals are integral to successful business function both within the legal department and throughout the entire company. Consequently, it behooves an organization to support their paralegal team's operations by offering them the solutions they need to work most efficiently. Corporate paralegals rely on different software systems for their day-to-day work, but none are as important as an entity management system.

Paralegals spend most of their day in their entity management system, as it serves as the source of truth for all maintained corporate records. Organization's are scaling quickly, and the expectation is that data should be at-your-fingertips accessible. A cloud-based entity management system is the most logical solution for the modern in-house team.

Paralegals face the risk of overwhelm when dealing with spreadsheets and inefficient software; Without the proper entity management system, data is poorly managed, the risk of error escalates exponentially, and for large organizations with multiple offices, data is siloed within different servers

With a cloud-based entity management solution, legal teams can access data securely from anywhere. Not only does this save time from having to physically find a minute book, flip through pages of data to find answers within the source of truth, but it boosts revenue by automating the compliance and maintenance function, freeing up the paralegal's time to do work that maintains the higher billable rate. With the right entity management software, user permissions allow users to access corporate records, creating the highly desired transparency and efficiency.

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Gartner research suggests that businesses who have proven resilient during changing variables (e.g., climate change, political and social upheaval, economic volatility, the COVID-19 Pandemic) share these qualifications:

- Responsive risk management
- A flexible structure
- A dynamic culture

Digital-ready legal departments increase appropriate legal and compliance risk-taking by **46%** in the years of **2018–2020**.

Key Shift to Make in the Legal Operating Model by **2025** to Remain Resilient:

Implement a Technology Strategy: Experiment to Deliver Business Outcomes

"Legal departments struggle to exploit technology, often following market hype rather than focusing on their own underlying needs and the investments that could impact broader business outcomes."

Data: **Gartner, The Future of Legal**

Digital Best Practices for In-House Teams

According to Gartner research, 68% of legal and compliance leaders struggle to manage their current workload. In addition, when comparing an in-house team to a large law firm, the challenges stretch even further.

By nature, in-house teams don't have as many resources, support staff, organization, and processes available as their counterparts. Often they're dealing with a high volume of data and information that is dispersed throughout the company, further complicating their daily operations.

Many in-house teams face challenges such as:

- A lack of visibility across teams
- Poor document management
- Limited trust in data
- Siloed information

In fundamental terms, all of these problems can be solved by creating a living single source of truth with universal internal access. This allows for inter-departmental visibility, at-your-fingertips accessible data, and a database that stores information as it changes, ensuring that every team member has the most up-to-date documents at all times.

Digital Best Practices for In-House Teams

Leveraging a cloud-based software solution is the simplest and most modern way to evade these challenges. With modern entity management software, you can:

- Streamline task management, such as corporate transactions & annual report filings. Automatically track annual maintenance, set due dates and email reminders, update data in bulk to retain consistency, and create shareable templates for entities.

- Improve cross-departmental collaboration. Customize specific team/user access capabilities to documents, virtual minute books, eSignature, and more. Set team-wide compliance or assignment reminders.

- Easily produce, sign, and archive consistent legal documents and forms. A scalable and modern solution offers a template library with automatic updates based on jurisdiction, eSignature integrations with email alerts and notifications, direct access to eFilings with the appropriate governing body, and more.

- Create an auditable system that can be accessed at any time. Technology solutions like Athennian's keep you prepared for internal, external, or third-party audits. Your system keeps track of its history for change management purposes and easily identifies problematic or weak areas for improvement.

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Best Practices for Corporate Subsidiary Management

Corporate entity information is critical data that underpins nearly every business process. Maintaining and operationalizing this data for several different strategic purposes is a large part of today's legal landscape.

However, as recently reported by EY, 89% of legal department leads face substantial challenges with their entity management, causing significant concerns about their deal readiness. Transactions get delayed because subsidiaries aren't in good standing, have outdated appointee records, or encounter other administrative friction.

The Importance of Subsidiary Management

The fundamental reasons for creating subsidiary entities are:

• Establishing a presence in a new jurisdiction (having a bank account, employees, tax IDs, contracting, etc.)

• Protecting a parent company's assets from liability for actions of a subsidiary company that it owns ("piercing the corporate veil".)

• Being transaction ready to support friction on financings, M&A integration, divestitures, re-organizations, IPOs, and other important corporate events.

• Acting as guarantors and grantors of security if the parent company must secure credit financing.

The Challenge of Subsidiary Management

However important this data is, it is equally complex to manage. Often, entity management is a shared responsibility between legal tax and finance departments, causing communication gaps across departments. Collaboration between multiple teams is usually a substantial challenge for most large organizations that leads to friction around ownership and responsibility. Systematic entity management maintenance is also hindered by outdated technology. 96% of legal departments report issues with their legal entity management software. 72% find it difficult to keep systems updated and 62% found it challenging to track governance activity statuses.

In addition, many organizations tend to naturally leverage a decentralized mesh of law firms by managing entities for basic statutory compliance. This model can create coordination and cost management challenges. Currently, 47% of legal departments currently operate in this decentralized model.

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Best Practice: Creating a Framework

Companies with advanced entity management functions align on an established and common framework for their entities, whether documented in a playbook, SLA, or Subsidiary Governance Framework.

These systems establish a consistent approach for governance and set minimum standards for activities such as:

• Subsidiary to parent reporting content and cadence.

• Financial and regulatory controls.

• Guidance about formation, composition of subsidiary boards, appointment and termination of directors, onboarding, and training.

• Guidance on how to conduct subsidiary board meetings and record minutes.

• Procedures for incumbency and secretary's certificates, powers of attorney, notarizations, and apostilles.

• Subsidiary director and officer training, indemnification, and signing authority.

• Compliance monitoring programs to ensure the framework requirements are appropriately satisfied.

Best Practice: Effective ICAs

Transfer Pricing

Transfer pricing, also known as TP, is a set of international tax laws that determine a company's charges, such as royalties, service fees, and goods prices. These decide what is paid between connected entities within a multinational group and influence where profits are made and taxed.

What is the Arms Length Principle?

The arms-length principle is an adopted international standard for determining transfer prices for tax purposes. According to LCN Legal, what this means is that "tax authorities review the transfer prices affecting a particular enterprise, and then tax that enterprise based on the profits it would have made had the prices been negotiated between independent third parties."

This applies to ongoing and one-off transactions and to both legal entities and branches. However, this increases the risk of double taxation because the implication is that any tax change should apply to all jurisdictions. If this does not occur, the enterprise may be taxed twice.

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What are ICAs?

Intercompany agreements, or ICAs are a fundamental component of transfer pricing compliance for multinational groups. According to Paul Sutton of LCN legal, intercompany agreements "define the legal terms under which transactions occur within a group of companies."

These transactions can look like:

- Head office and back-office services (e.g., finance, tax, legal, and HR services)

- Marketing services

- R&D services

- IT services and support

- Shared services arrangements

- Sale of goods

- Sales agency and commissionaire arrangements

- Intellectual property licenses

- Revenue/profit sharing

- Cost-sharing

- Contract manufacturing

- Toll manufacturing

- Loan facilities (e.g., term loans, revolving credit, and overdraft facilities)

- Intercompany debt in security form (e.g., loan notes)

- Guarantees and other forms of security or financial support

- Cash pooling

- Secondment of staff and other mobility arrangements

ICAs play a critical part in implementing transfer pricing policies, including:

- Describing the transactions – (e.g., recording which services are provided or intellectual property is licensed.)

- Allocating contractual risk between parties – (e.g., risks include product liability claims, credit risks, or inventory risks.)

- Specifying the fees to be paid by the correct parties – (e.g., royalties or license fees.)

- Specifying which party owns intellectual property rights used connection with the arrangement.

In a tax audit, ICAs are one of the first items that tax administrations will ask for. An ICA must match the group's transfer pricing policy and tax filing; otherwise, the group is instantly disadvantaged. Not only will this extend the audit process, but it will also undermine the enterprise group's credibility.

What Makes an ICA Effective?

To be successful, an ICA must be aligned with the allocation of functions, risks, and rewards described in transfer pricing policies. It must also be legally binding and correctly managed (i.e., signed and dated by all participating entities.) In addition, ICAs require regular maintenance so that they accurately reflect the group's policies and structure. Without proper maintenance, a group could find itself with an excess of penalties.

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Using Technology to Streamline Entity Management

According to research, legal professionals spend only 29% of their day completing advantageous and billable tasks. For the average 8-hour day, that amounts to only 2.3 hours of productive work. The other 71%, according to experienced law clerks, is spent on manual administrative duties due to friction in the entity management process.

Most of the market's entity management tools on the market were built before the turn of the century, which renders staying abreast of the rapidly-changing industry near impossible. In no other industry do pre-2000 technologies suffice, which explains the severe gap in a legal team's productivity.

| 1984 | 1990s | 2007 | 2010 | 2016 |

ICSA Releases
Blueprint OneWorld

More SQL Database Products Released
GEMS, EnGlobe, CSC Navigator, ALF, Wolters Kluwer CT Corporation

NETFLIX

Netflix Launched

Corp. Legal Ops Consortium Launched

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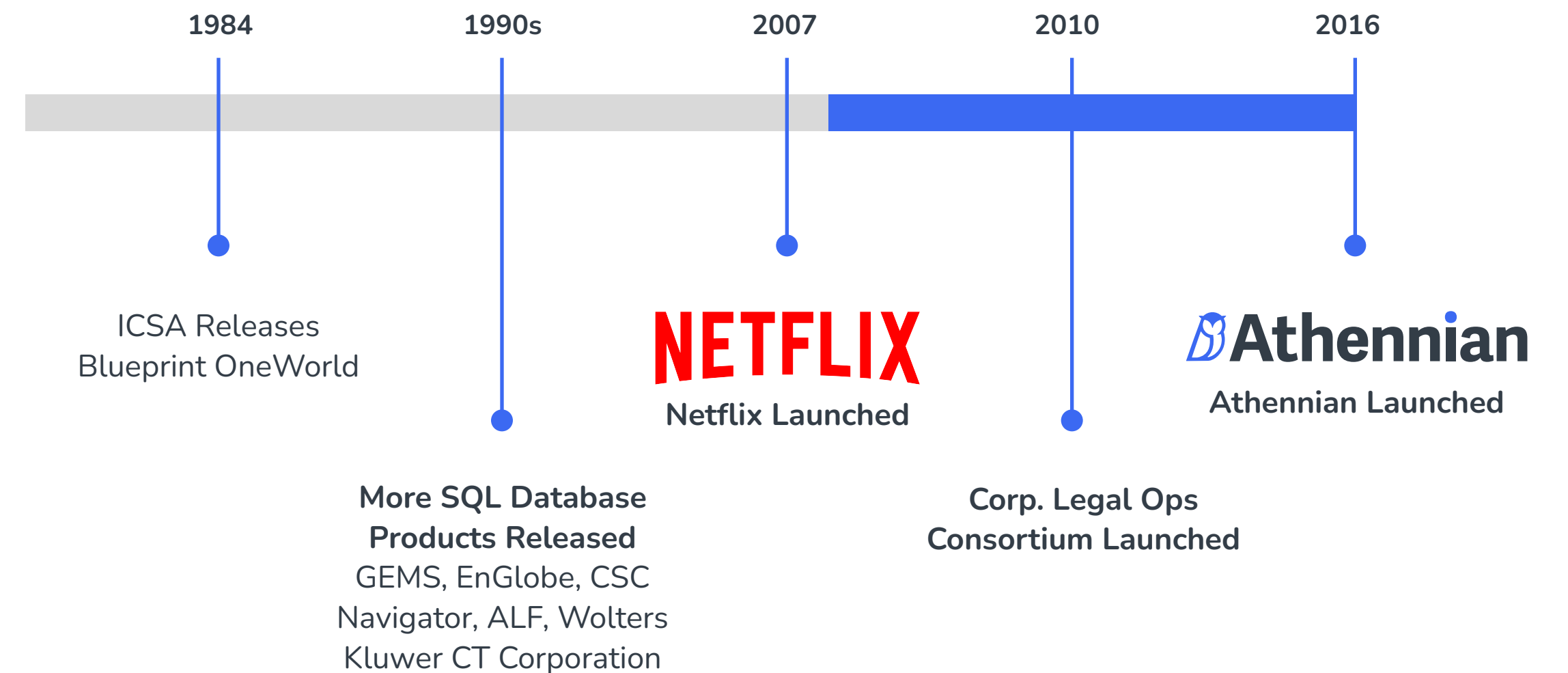
Archaic Tools Pose 3 Major Challenges:

1 **Lack of Trust in Data**

Legal teams lack trust in the accuracy of their records. Bad data causes operational efficiencies such as poor data entry, duplicate, and invalid data, which can lead to loss in revenue and increased risk.

2 **Compliance Issues**

Without a change management process to identify and incorporate regulatory and legal changes, legal teams are at a greater risk of financial penalties and reputational damage. Without modern compliance solutions in place, missed deadlines and out-of-date corporate records can occur.

3 **Reporting Is Unreliable**

In addition to manual reporting being laborious, it also drastically increases the chances of human error. Entering the wrong information without noticing has a domino effect that can lead teams to make bad decisions that can have a long and lasting impact on the business.

How Can Technology Be Leveraged?

A modern, cloud-based, and scalable entity management platform allows for controlled data management through a centralized online workspace. Accuracy, data integrity, and organization are just some of the benefits of a cloud-based single source of truth.

Automated reporting eases and expedites the process for annuals, renewals, compliance, and documentation automation, leaving more time for billable tasks.

The Benefits of Entity Management Software

A modern cloud-based entity management solution offers your team the efficiency and flexibility to thrive in today's fast-paced legal market. With a solution like Athennian's you can:

• Easily share business insights with internal and external teams.

• Ensure all levels of the organization, including governance, tax, and finance, work together more efficiently and proactively.

• Remove manual tasks from your workload.

• Provide up to date, accurate information to your entire team, regardless of where they are, globally.

• Ensure stakeholders and business decision-makers have the correct data when they need it.

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Legal Document Automation & Virtual Minute Books

Best Practices In Legal Document Automation

For any mature law firm, legal document automation is an essential part of company-wide efficiency. Allowing for signature-ready documents in record time, document automation offers consistency both internally and when presenting to clients. With document automation, legal professionals can reduce the risk of error by systemizing their knowledge management and establish precedents within the automated system that aligns the entire department.

In Athennian's webinar on legal document automation, 64% reported that they would be starting a document automation project in the next 12 months. For many in the legal industry, adopting new tech practices can be daunting.

Still, as reflected by the webinar's guest panelist, Karen DiMartino (Cassels LLP), investing in doc auto was like, "building a puzzle. [First], make sure you flip all the pieces over to get started, build your border, then some trial & error to put everything together. But it is beautiful when it comes together [and you] get the green checkmark that your document has been generated correctly."

If you fall into the 64% of legal professionals planning on starting a document automation project, here are some tips and best practices for ensuring that your endeavor is successful.

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1 Be Strategic About What Can Be Automated

Technology can only build logic off data points, so it is critical to ensure that your documents are repeatable. If a clause is going to be different every time, there is less value in trying to automate it. However, documents with repeatable options and corresponding data points for determining the appropriate language are ideal for automation projects.

2 Pay Attention to the Details

Even if all the data and the logic works, legal professionals can still get stuck with fixing formatting— and it can make a huge impact. From the font, alignment, adjusting signing blocks, or formatting numbers with commas or decimals, the little details matter and can easily overwhelm with how quickly they add up.

3 Invest in the Scope of the Project

With document automation, most find that doing through initial preparation saves more time than going back later to fix mistakes in a template. Before starting, it is essential to examine your intentions from a 360 view. Why are you doing this? What are your intended business outcomes? Developing a clear starting point and execution plan ensures that you've taken the time to research and prepare for a successful project, and saves you valuable time later.

Questions to consider before starting:

• What is your formatting style guide?

• How many different variations of a document are there?

• What data points will you use?

• Do you want to package some documents together or have them separate?

4 Start Simple to Perfect the Workflow

Begin your project with simple, high-volume templates that will bring you the greatest return on investment. With simple templates, it's easy to ensure that you have all the necessary data points. Better to save the 30-page share purchase agreement with 15 variations until you're really comfortable with the coding process and have experience automating multiple workflows.

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Best Practices for Virtual Minute Books

As a corporate legal professional, you know that organized and accessible minute books are the foundation for an effective legal team. Having proper maintenance and timely filings is integral to efficient processes, enhanced client communication, and productive workflows. The Canadian Legal Innovation Forum, in partnership with Athennian, hosted a webinar on digital minute books which outlined best practices for making the switch from paper, ranging from technical advice to tips for company alignment.

The pressure to move toward virtual minute books has increased tremendously in the past two years due to the sudden shift to remote work. However, even before this change, legal professionals were striving toward technological solutions to manage their data. Firstly, paper minute books can be voluminous and take up valuable in-office space, causing many firms to look for off-site housing. In addition, with "at-your-fingertips" as the accessibility standard in all other departments, legal teams were finding it hard to keep pace when collaborating involved moving manual documents from law firm to client and back again.

Until recently, a digital minute book meant a scanned copy of a paper source of truth, which was significantly easier to manage than hard copies, but still required the constant toggle between paper and computer with paraprofessionals playing the role of messenger between the two. Today, a digital minute book exceeds those expectations. Converting your paper minute books to the cloud offers the unique benefit of creating a shareable, instantly accessible, and easily maintained single source of truth. When a minute book is designed, altered, and updated through technology, it frees up time and allows for swift and streamlined collaboration.

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As outlined in CANLIF's webinar, the benefits of virtual minute books are expansive, but the process of digitizing can be daunting, especially without appropriate planning and change management. Below are some best practices for digitizing your minute books in a way that avoids friction, promotes alignment, and mitigates risk.

1 Clearly Define Your Needs & Wants

Start with outlining what your expectations are for an end result.
How do you want to share your data? Who do you want to share it with?
How will your minute books be organized? What are you hoping to achieve through moving to digital?

These fundamental questions will help frame your strategy and keep your team aligned to the same goal throughout the project.

2 Foster a Supportive Environment

Just like in any business process, company-wide alignment is critical.
It can be helpful to create a committee of people from each department who can serve as support touchpoints during the entire digitization process from research to implementation. This ensures quality control, managed expectations, and a transparent chain of command for questions and concerns.
In addition to internal support, ensure that your project's positioning is optimistic and firm when discussing it with clients. Open communication and well-defined benefits can be crucial for assuaging external hesitation.

3 Create A Detailed Chain of Custody

When moving your minute books, outline each document's journey from start to finish, especially if your migration process requires the use of a trusted outside scanning vendor. Detailing exactly where your minute book will be, how long it is expected to be there, who is responsible for it at that location, and who is responsible for the transition to the following location eases pressure and creates transparency.

4 Design a Plan for the Future

Approach your plan for your fully digital minute books with the same attention as your migration plan. Define naming and template standards, and specify your protocol for sharing the virtual data with each client. How much access will they have to their minute book in practice? How much time should a client expect before seeing data changes?

5 Trust the Experts

Find a platform that understands the unique complexities in entity data and minute book migration. Ensure that their team fully understands the labyrinth of formats, and organizational challenges, that make this process intimidating. Choose a specialized migration team, like Athennian's, that is dedicated to a secure and seamless transition to digital.

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An Essential Checklist for Purchasing Legal Entity Management Software

Investing in a purpose-built entity management platform is the best way to ensure that you have the specialized functions you need to optimize your team's productivity. But - a system alone won't give you a comprehensive solution. Modern digital transformation in entity management requires a full-circle approach that combines change management, technology adoption, risk mitigation, and dedicated product innovation. Use this checklist to assess a vendor's expertise and capacity to support your organization's unique business objectives.

✓ **Security That Meets Your Standards**

Your entity data is critical to your business.

Cloud platforms offer the most rigorous security protocols with servers and fail safes certified to the highest standards. You should know how your next entity management vendor protects your data against threats, and its certifications (such as SOC 2 Type II and ISO) to maintain compliance and mitigate risk.

✓ **Modern Functionality for Success**

Seek more than just the bare minimum.

Your next entity management platform needs to have the required capabilities to manage your data effectively. However, your team will benefit by ensuring that your entity management platform goes beyond just the bare minimum. Consider the entity management challenges you face, and ensure that the vendor's functionality and technology roadmap translate to the accomplishment of your specific business goals.

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✅ Proactive Service and Support

**Migrating to a new entity management platform isn't overwhwelming with the right support.**

Before choosing a new entity management system, ensure that you discuss what is required in their data and document migration process, how long it will take to onboard and train team members, responsiveness and integrity of the customer success team, and the level of commitment required from your team to be successful.

✅ Clear Vision Towards an Innovative Future

Ensure the vendor you choose is dedicated to the product development.

Identifying and understanding a vendor's vision of their platform helps your team create a powerful picture of how your business can scale. Think about where you see your organization in the next 5-10 years, and ensure that the vendors you consider are placing their investments into product functionality that supports your roadmap.

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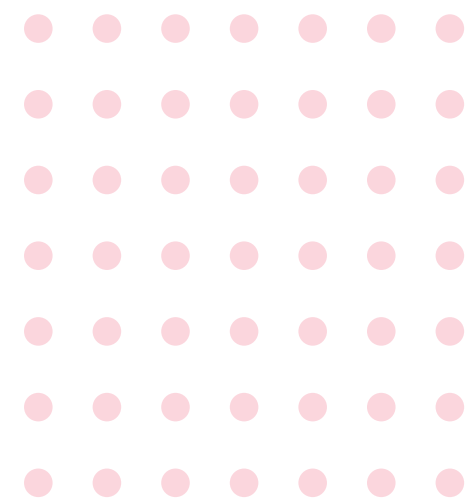
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Bringing Entities
from Out of Control,
to **Under Control**

Athennian's cloud-based entity management platform
provides innovative solutions that enhance global
corporate governance in scalability, compliance,
and efficiency. With Athennian's secure, streamlined,
and intuitive software, legal teams can make critical
data-driven decisions, scale faster, and drive profits.

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