Legal Entity Rationalization

The art of simplification

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Successful companies tend to grow, not shrink. But with each acquisition or formation of a new entity, complexity and costs increase. Many organizations are now looking for ways to reduce operating costs, contain cash expenditures, and improve their tax positions. Companies may be able to achieve these goals by reducing and realigning legal entities through a legal entity rationalization (LER) project.

KPMG recognizes that an LER project can affect many functions and processes, so we have developed an operationally aware approach to assist in executing LER projects. Our approach can be used to plan—then implement—a new, sustainable, and more efficient structure that can help unlock tangible and intangible benefits by reducing costs, realizing tax benefits, and aligning the entity structure with a company’s business strategy.

**Reshape Success**

LER services can help companies determine if significant direct and indirect savings can be achieved by simplifying their organizational complexity.

Using a phased approach, proper risk management, and established leading practices, an LER project can help companies:

- Increase efficiency and reduce overhead through the consolidation of operations
- Eliminate nonessential entities that have developed over time
- Consolidate extraneous entities acquired from a prior merger or acquisition
- Gain more transparency into financial reporting environments
- Reduce costs associated with tax filings and take advantage of changed tax laws and income tax treaties
- Identify tax planning opportunities and simplify legacy tax structures that have outlived their usefulness.

Besides the tangible benefits of LER, many clients believe the intangible benefits are even greater. These benefits include the redeployment of company resources to higher value-add activities and, as discussed below, the better alignment of organizational structure with organizational strategy. In LER engagements facilitated by use of proprietary software, KPMG LINK Legal Entity Manager, these benefits also include access to enormous amounts of organizational data collected and organized within the software.

**LER Transformation Components**

LER is a key cornerstone of business transformation. An LER project involves helping the client evaluate whether the current corporate structure is adding more cost than value; clarifying the desired organizational end state; and, if entity
reduction is selected, developing a clear plan to reduce excessive organizational structure without materially affecting ongoing operations. The LER process should align the company’s business strategy and future operating model. Key components are:

- **Organizational strategy**

Companies have shifted into strategic mode from the survival mode that marked recent years during the global economic recession. By aligning the organization’s legal entity structure with business strategy, companies can design a future state that more accurately reflects its business needs.

- **Legal entity elimination and simplification**

KPMG can work with your company to create a set of guiding principles for eliminating entities and developing legal entity profiles that simplify your company’s operating structure. During the process, we will assess time and budgetary constraints and find opportunities associated with each eliminated entity.

- **Governance**

KPMG can provide suggestions of a legal entity governance framework and policies and procedures for opening, maintaining, and closing legal entities.

- **Implementation**

LER projects touch many business functions including finance, tax, legal, and treasury processes. Functional leaders need to clearly articulate and agree upon the desired end state before LER implementation goes forward.

KPMG assisted a large multinational client with evaluating and rationalizing the number of legal entities within its legal entity structure. The company wanted better alignment of its operational, financial, and tax perspectives in order to achieve a more efficient and effective marketplace position. KPMG conducted the initial tax due diligence, populated KPMG LINK Legal Entity Manager with the diligence results, designed a diligence map that included a recommended plan of reorganization and end state structural mapping, and developed diligence questionnaires, which resulted in a suggested preliminary LER business case.
LER projects generally raise complex regulatory, commercial, legal, tax, finance, HR, and other considerations. A typical external team, even one staffed with strong technicians, may incur significant time working to build an efficient, global LER process. Fortunately, KPMG has developed an operationally aware approach to assist with LER.

Enabled by tools and custom software, KPMG adapts its LER methodology to each client’s individual goals and fee expectations. Our web-based LER software application, KPMG LINK Legal Entity Manager, and methodology can be used to model a client’s existing complex entity structure, maintain entity information, and collect feedback. This information can then be used to manage restructuring, merger or acquisition simulations, tax rationalization, and other analyses.

KPMG LINK Legal Entity Manager provides the ability to manage large quantities of data and support the creation of a more streamlined, effective structure by:

- Capturing data attributes to create profiles for each entity
- Modeling future-state organization and identifying changes to the current structure.

The tool makes it easy to navigate complex organizational charts and zoom in on the desired entities or groups of entities. The features of KPMG LINK Legal Entity Manager include:

- Multi-user functionality
- Configurable import framework (compatible with XLS or CSV)
- Flexible organization chart and user interface
- Versioning (copy) capabilities for entire project
- Ad-hoc reports and charting capabilities
- Complex security framework.
Enabled by tools and custom software, KPMG adapts its LER methodology to each client’s individual goals.
KPMG can help
KPMG’s cross-functional teams are experienced in LER planning and implementation. Our professionals offer in-depth skills, experience, and an unbiased approach to think beyond the current state and offer more transparency. With multi-jurisdictional knowledge and an established track record, our professionals help mitigate risks and address business, regulatory, and commercial considerations while building a new, sustainable, and more efficient structure for our clients.

KPMG LINK Legal Entity Manager is highly flexible and is customized to focus on each client’s individual goals.

- Configure project settings
- Define client specific entity attributes
- Configure client specific organization units
- Configure imports to suit data sources (XLS or CSV)
- Web based
- Supports concurrent users updating project information
- Able to upload questions and obtain feedback from multiple organizational units
- Multiple organizational chart display layouts
- Icons to readily refer data conditions
- Ability to filter entities based on selected criteria
- Colors and shapes to represent entity attributes
- Sophisticated ad hoc reporting framework
- Ability to publish selected ad hoc reports as canned reports
- Ability to export reports to excel, PDF or HTML
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For information on KPMG LER services and how KPMG can help reduce the complexities of legal entity rationalization, contact:

**U.S. LER Leadership Team**

**Barbara Federowicz**  
Managing Director, Advisory  
212-872-2179  
bfederowicz@kpmg.com

**Brent Johnson**  
Partner, M&A Tax  
404-222-3246  
bejohnson@kpmg.com

**Tom Joss**  
Partner, International Tax  
703-286-8421  
tjoss@kpmg.com

**Lisa Madden**  
Partner and M&A Tax National Leader  
202-533-3050  
lamadden@kpmg.com

**Chuck Thompson**  
Principal, M&A Tax  
214-840-6239  
chuckthompson@kpmg.com

**European LER Leadership Team**

**Steve Creasy**  
Director, Advisory  
+44 20 73115615  
steve.creasy@kpmg.co.uk

**Andrew Milner**  
Partner, Advisory  
+44 20 73114131  
andrew.milner@kpmg.co.uk

**Jane McCormick**  
Partner, Tax  
+44 20 73115624  
jane.mccormick@kpmg.co.uk

**Sarah Lane**  
Partner, Tax  
+44 20 73112483  
sarah.lane@kpmg.co.uk

kpmg.com

Scan for more information on KPMG LINK  
Legal Entity Manager

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