How we support our clients

Ernst & Young’s integrated approach to LER and our multidisciplinary team enables us to meet the specific needs of each client. As part of the early planning phase, we help assess your options, define the strategic focus and work closely with your team to provide the necessary tools to accelerate the pace of the LER program to deliver results.

Other requirements for a successful LER program include:

- Review of current business and footprint, business flows, legal entities, required licenses and regulatory and tax structures
- Analysis to identify tension points and outline potential impacts on the firm from a changing regulatory and fiscal environment
- Development of future state operational models and target structural vision
- Quantitative and qualitative assessment of costs and potential savings as well as impact of internal and external regulatory constraints
- Development of implementation roadmap and integration of the plan with related initiatives

Contacts

Our cross-border LER team includes local resources in the financial centers across Europe, Middle East, India and Africa (EMEIA), and can offer significant insight into varied markets and geographies. For information on how we can help, please contact our financial services team.

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Overview

Benefits of legal entity rationalization

Financial institutions that strategically reduce the number of legal entities through consolidation or even elimination are better equipped to determine an optimal group structure, enhance their competitive positioning and eliminate hidden costs. Further benefits include:

- Reducing the regulatory burden
- Deploying regulatory capital and cash more efficiently
- Reducing operational costs and enhancing efficiency
- Driving down audit, tax compliance and other administrative costs
- Saving management time and headcount
- Realizing tax benefits and savings
- Releasing intercompany balances and reserves
- Improving transparency and corporate governance
- Enhancing business coordination
- Preparing and implementing recovery and resolution plans

Challenges

Legal entity rationalization (LER) is an integrated approach for responding to multiple factors that impact businesses. LER balances competing demands and ultimately creates sustainable value.

Over the past few years, many global financial institutions have sought to undertake LER initiatives to varying degrees of success. Some initiatives have resulted in a reduction of a significant portion of the less-complex entities, while others have stalled when faced with competing strategic priorities.

Releasing value from rationalizing structures while meeting business requirements and hard constraints, requires a range of different skills across jurisdictions:

- Regulatory
- Tax
- Accounting
- Transaction support
- Performance improvement
- Strategy
- Compliance
- Legal
- Operations

In the last decade, cumbersome and complex legal structures have emerged as by-products of acquisitions, changing tax legislation and new financial products. As a result, prevailing legal entity and operating structures may no longer fulfill their intended purpose, leading to inefficient use of resources, unnecessary costs and ultimately value erosion.

In addition, cost reduction is also a key driver and financial institutions are questioning how they can leverage recovery and resolution planning requirements in order to increase operational efficiency.

Key considerations

- What are the number of legal entities within the group structure?
- How much is each legal entity costing the group?
- Have legal entity and operational structures been considered in light of the changing regulatory and tax environment?

What needs to happen

By assessing the potential impact of the changing regulatory and fiscal environment on current group structures, firms can identify initiatives that will put them in a better position to cope with the changing environment.

This requires:

- A structured decision-making approach and transparency of trade-offs among competing goals
- Flexible and forward-looking scenario analysis to address a range of circumstances
- Robust financial modeling to assess the impact of decisions on hard constraints and performance metrics
- Clear understanding of all the regulatory, tax and cost implications