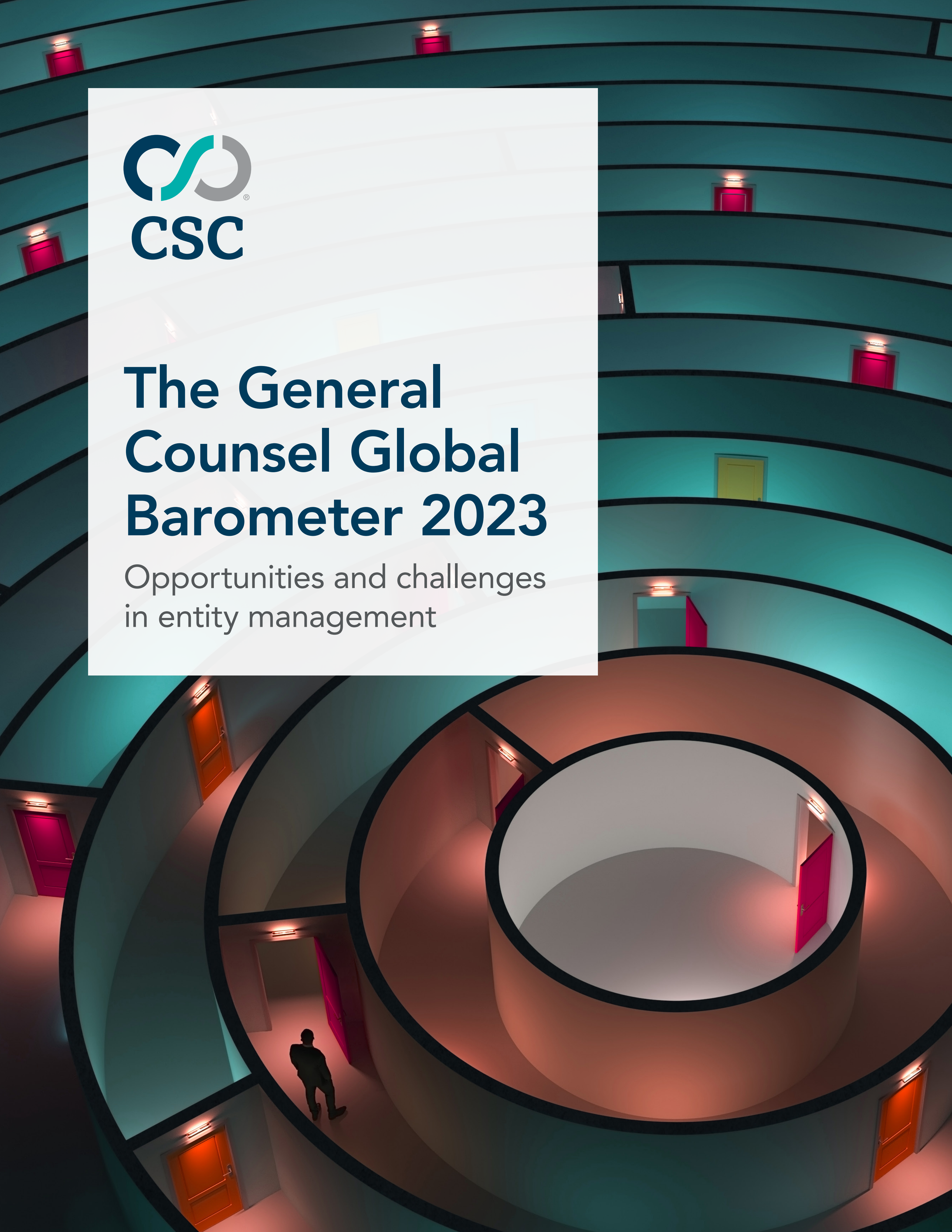

CSC

The General Counsel Global Barometer 2023

Opportunities and challenges in entity management

THE STAKES ARE HIGHER FOR GENERAL COUNSEL

Today's general counsels (GCs) are grappling with increasingly complex regulations. To understand the impact this is having, CSC commissioned Corporate Counsel to carry out a survey looking at GCs' top concerns and objectives. The study reveals a sector under strain from dwindling resources struggling to meet changing needs in a post-pandemic world.

A sector under strain

We surveyed 121 respondents in November and December 2022, the majority in the U.S.

We found that:

Businesses retain a global outlook

2 out of 5

companies plan to move into new international markets in 2023

But they face real obstacles

58%

worry about cybersecurity and data breaches

50%

worry about miscommunication and cultural differences

46%

worry about growing workloads

42%

worry about regulation and governance issues

They're considering solutions

40%

use outside legal counsel or an external legal entity management provider

66%

said they wanted to implement new technology in 2023

2/3

Nearly two-thirds report that at least half of their operations are undergoing digital transformation

In summary

Life is getting more complex for corporate legal teams who are asked to do more with less. But help is available from technology and third-party providers.

Eyes on the global prize

As companies expand into new markets, GCs must contend with more regulation and managing a greater number of global entities.

Figure 1: Is your company planning to expand internationally this year?

Yes	41%
No	42%
Don't know	17%

The study suggests that the main areas for expansion are the Middle East, Europe, and Asia.

Figure 2: Where respondents are hoping to expand this year

Middle East	28%
Asia (other)	26%
Europe (excluding the U.K.)	26%
Africa	18%
China	18%
Australia | Oceania	18%
South America	16%
North America (Canada or Mexico)	14%
Caribbean	12%
Central America	12%
Southeast Asia	12%
North America (United States)	4%

For companies with global expansion plans, consistency across legal jurisdictions is key—meaning external partnership on global entity management could provide a significant strategic advantage.

Thijs van Ingen, head of CSC's Global Subsidiary Management business, says cross-border expansion creates increased complexity for businesses.

> *"It's important to understand just how much is involved when expanding into new jurisdictions. We're here to help clients overcome all challenges and obstacles when they expand into new markets. The important role of global service providers is to make sure the client understands the reality of properly setting up and keeping their international portfolio of entities in good standing."*

The advantages of external providers

Just under half of respondents manage legal matters in-house for their own global subsidiaries. Almost a quarter (23%) use outside legal counsel, with 17% using an external legal entity management provider, and a further 12% using a legal entity management system such as a cloud-based app, sometimes backed by a service provider. Just 2% currently use a Big Four accounting or tax firm.

Figure 3: The primary method used to manage legal operations involving global subsidiaries

Global subsidiary legal issues managed internally	45%
Outside legal counsel (law firms)	23%
External legal entity management provider	17%
Enterprise legal management system	12%
Big Four or tax firm	2%
Other	1%

The survey also shows that those using external providers are less likely to worry about reputation issues and missteps (see Figure 10).

Those currently relying on in-house capabilities noted two dominant concerns: growing numbers of integration partners to manage (58%), and inconsistency across in-house approaches to governance and compliance (also 58%).

Figure 4: Top concerns of those managing global subsidiary legal issues internally

Multiple and growing number of integration partners to manage	58%
Inconsistent in-house approach to governance and compliance	58%
Losing in-house capabilities and resources being taken away	44%

In comparison, firms that use external partners, while still concerned by the growing number of entities they have to manage, are less concerned about a loss of resources in-house than those relying on in-house capabilities.

The results reflect a post-pandemic shift in the roles of in-house legal teams, which may have slimmed down during and post COVID-19.

Rogier Bronk, solutions engineer for CSC's Global Subsidiary Management business, says the pandemic had a huge impact on many firms.

> *"In many cases, the in-house legal team either got decimated, or due to the changing landscape, became busier,"* he says. *"Post-pandemic, many people are saying that although they managed to get through it with a small team using local or regional providers, they're now knocking on the global providers' doors more and more often."*

Digital transformation—staying ahead of the curve

Augmenting an organization's back-office technology provides considerable advantages. Perhaps the greatest of these is that it gives legal counsel more confidence in their operations, allowing them to redirect their attention to more nuanced tasks.

Bronk says that the digitalization of in-house legal teams is falling short:

> *"Many businesses still lack accurate information and insight into local regulatory changes. Meanwhile, the authorities are upping their game, so non-compliance of global entity portfolios poses some serious issues. All of this means that the stakes are getting higher for general counsel."*

When asked what their companies' top ambitions were for 2023 when it comes to global legal operations, two out of three of the top answers concerned technology, illustrating the importance of getting technology right.

Figure 5: Respondents' top ambitions for 2023

Improve operations efficiency	73%
Implement new technology	66%
Upgrade existing technology	46%

Nearly two thirds of respondents reported that more than half of their operations are undergoing or have undergone digital transformation.

Figure 6: The percentage of internal legal operations undergoing digital transformation

Less than 50%	30%
50% to 74%	23%
75% to 90%	35%
At or near 100%	12%

Figure 7: State of play for respondents' digital transformation plans over the next 12 months

Digital transformation is a priority, however, we are still defining our strategy.	41%
We are accelerating our digital transformation.	27%
We are already close to or fully digitized and will continue to expand and upgrade our systems and processes.	21%
We struggle to keep up with the complexity and rapid evolution of digital transformation.	11%

Robert-Jan Bertina, solutions engineer for CSC's Global Subsidiary Management business, says back-office technology systems are helping respondents keep on top of increasingly complex global regulations. *"Data helps everyone up their game."*

Running the risk

Reputation damage is the single biggest risk concerning GCs if they fail to comply with local rules—with 58% of respondents flagging this as the most concerning potential consequence of inadvertent non-compliance.

Figure 8: The most concerning potential consequence of inadvertent non-compliance

Reputation damage	58%
Postponed or suspended ability to trade in that jurisdiction	19%
Fines	14%
Impact on expansion elsewhere	9%

Van Ingen says he's not surprised that reputation is such a concern.

> *"Nobody wants to be fined,"* he says. *"But reputation risk is far more of an issue with how fast news can spread in a non-stop news cycle. Things can quickly escalate."*

Such incidents can cause trickle-down effects into other jurisdictions. Ian McConnel, chief risk officer and general counsel at CSC, says regulators around the world have their own formal and informal lines of communication.

> *"The obvious question every regulator in a jurisdiction in which you operate will ask is, 'Is the same problem present in my jurisdiction too?'"*

The need to remedy the problem causes a huge amount of work for companies, including the need to respond to clients and provide extra documentation on procedures.

In every case, McConnel urges "proactive transparency."

> *"The last thing any regulator wants is to hear about a company's non-compliance issue from another regulator or from the press,"* he says. *"Approach regulators as soon as an issue appears, and go with a solution as well as a problem."*

He adds that the same culture of transparency should be implemented with clients, too.

Clients understand the regulatory climate is increasingly complex and that minor missteps can be hard to avoid. But they will want to hear about a relevant problem—and the steps you're taking to solve it—from you.

One of the most significant issues for many respondents was proper data management and security. Cybersecurity or data privacy risks topped the list when respondents were asked about obstacles to growth.

Increased workloads was seen as an obstacle by almost half, while the variation in regulations and governance in different jurisdictions was similarly concerning.

Figure 9: The biggest obstacles to a company's ambitions (top three selected)

Cybersecurity and data privacy risk	58%
Overcoming communication or cultural differences	50%
Increased workloads	46%
Jurisdiction administration, regulation, and governance differences	42%

Bertina says it's only right that data security is a major concern.

> *"The data on the entities is the data on the business,"* he says. *"It's vital that data is secure for clients. Security is everything."*

DIFFERENT CHOICES, DIFFERENT WORRIES

Those who choose to manage their legal entity issues internally report more potential obstacles for growth than those who use an external provider.

Those who manage legal issues internally are the most concerned by cybersecurity risks and the risk of cultural and communication missteps. Those who use external providers anticipate fewer obstacles, although their major concern is still data protection.

Figure 10: Top concerns raised by those using internal resources as opposed to external providers

Top obstacles	Those managing internally	Those using a law firm	Those using external legal entity manager
Cybersecurity and data privacy risk	56%	24%	25%
Overcoming communication or cultural differences	56%	22%	24%
Jurisdiction administration, regulation, and governance differences	45%	15%	18%

To Bertina, it makes sense that those who are managing this internally are more concerned by these obstacles. "It's becoming a more and more complex landscape with rules and local nuances. The severity of penalties and the implications if entities are not kept in good standing is increasing."

The importance of local knowledge

One of the major concerns for GCs is the impact of cultural differences and poor communication when dealing with overseas entities. This was named as a top worry by more than 60% of all respondents.

Almost a third of respondents (31%) had experienced a situation where a lack of local knowledge had tripped them up or caused a mishap.

Delving further into the data revealed the seriousness of some of these mistakes—missed deadlines, incomplete documentation, and language difficulties were noted. One respondent admitted that a lack of adequate local knowledge led to the wrong information being given, resulting in financial loss.

A lack of local knowledge also hinders the development of long-term, trust-based relationships with local regulators that help businesses avoid these mistakes. These relationships take time, commitment, and boots on the ground.

> *"If you're not building a long-term relationship based on trust, you're missing something and potentially storing up problems,"* says McConnel.

Different regulators have different processes. At the same time, regulatory frameworks are changing over time, adding complexity. McConnel mentions the Global Data Protection Regulation (GDPR) in the EU, which is continually evolving.

> *"This means there aren't always clear road signs around compliance, and that's where you need communication,"* he says. *"For that, you need people in the country who understand the regulatory relationship and how it works."*

Van Ingen emphasizes the point, saying that GCs need to know there's someone on the ground with local knowledge *"in order to sleep at night."* The extent of any local presence will depend on the complexity of a firm's operations in that jurisdiction, but it needs to be there.

> *"That's why they lean towards professional third-party service providers that have the global footprint, the technology, and most importantly, the local people on the ground and the local knowledge to know exactly what needs to be done."*

Figure 11: Have you experienced a situation where a lack of local knowledge tripped you up or caused a mishap?

Yes	31%
No	55%
Don't know	14%

Those who use an external partner—either an entity management provider or a law firm—are less likely to anticipate obstacles derived from a lack of local knowledge or communication.

Over half (56%) of those who manage their global entities internally expected this to be an obstacle, compared with 22% of those using outside legal counsel or 24% of those using a global entity management provider.

Van Ingen says this complexity is making many internal legal teams seek support.

> *"The number of laws and regulations just keep increasing, which makes it very, very complex for in-house legal departments."*

Finding the perfect partner

Given the high stakes involved, seeking the perfect partner to manage global entities requires a huge amount of due diligence.

Respondents revealed they're more confident in their external partners' ability with legal expertise than they are in their data security. The perfect partner needs to inspire confidence in every area.

Figure 12: Respondent's average confidence in their legal entity management partner's ability in certain areas (where 5 is very confident, and 1 is not confident)

Respond with in-country legal expertise	4.03
Monitor the impact that changes in a subsidiary's local legislation will have on filings and standards	3.88
Meet each jurisdiction's data security protocols	3.59

> *"Third-party enterprise service providers have the global footprint and local representatives with local knowledge who understand cultural factors—and who can streamline processes based on bespoke technology integration,"* says van Ingen.

He adds that due diligence researching external partner companies is vital.

CONCLUSION

Adapting to an evolving landscape

The concerns raised by respondents reveal that, in an increasingly complex world, GCs know they need to work hard to stay ahead of the curve.

There are fewer people in their offices, managing with fewer resources, working with a different set of rules since the pandemic to meet different and evolving responsibilities, and yet the pace of expansion has not slowed.

GCs continue to manage challenges on multiple fronts. To allay fears and avoid fines, many are seeking external help.

"I see the number of laws and regulations being put on this industry. They just keep increasing—and that makes it very complex for firms. There is a trend to outsource more and more," says van Ingen. *"However companies choose to manage their legal entities overseas, it's clear that it must be an ongoing process. The very valid concerns raised in this report are the everyday reality of general counsels everywhere. It's important they're understood and addressed."*

About CSC

CSC provides tailored administration and strategic outsourcing solutions to support the complex operations of alternative asset managers across jurisdictions and asset types while adhering to global regulations and compliance. A market leader, we work with funds of all sizes, from start-ups to the largest and most experienced fund managers in the world. Founded in 1899, CSC prides itself on being privately held and professionally managed for more than 120 years. We are the trusted partner of choice for more than 90% of the Fortune 500® and more than 70% of the PEI 300. CSC has office locations and capabilities in more than 140 jurisdictions across Europe, the Americas, Asia Pacific, and the Middle East. We are a global company capable of doing business wherever our clients are—and we accomplish that by employing experts in every business we serve. We are the business behind business®. Find out more about our global solutions at **cscglobal.com**.

cscglobal.com

251 Little Falls Drive, Wilmington DE 19808

GSM052423