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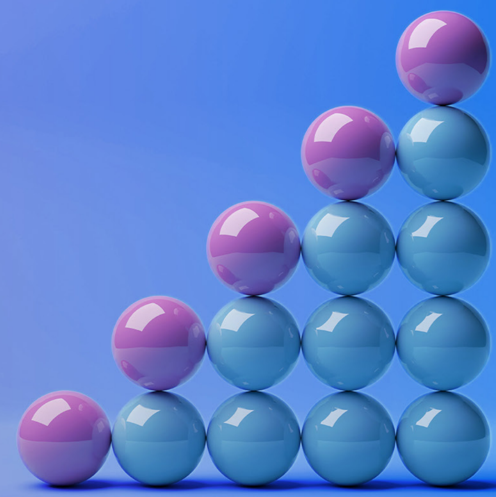

Blog:

Legal entity rationalization (LER) is a process that has become increasingly relevant in the banking industry. LER involves looking at a company's corporate entity structure and finding ways to save money or create value. For example, in the banking industry, LER can involve eliminating entities that no longer serve a purpose as a way of reducing costs, and creating tax planning opportunities.

One reason why LER is important in the banking industry is because of the consolidation, mergers, and acquisitions that have occurred in recent years. These activities have led to bulky org charts and duplicative special-purpose entities. By engaging in LER, banks can streamline their legal entity structure and eliminate redundancies. A streamlined entity structure can help banks reduce their regulatory compliance burden. By eliminating unnecessary entities, banks can reduce the number of required regulatory and tax filings. This can save banks a significant amount of time and money as well as reduce risk. Consolidating their legal entity structure can help banks reduce potential accounting adjustments and the likelihood for compliance errors.

There are several steps that banks can take to engage in LER. A first step is often to look at the bank's legal entity structure and identify any entities that are no longer necessary. This can involve eliminating entities that are not fit for purpose, or that are not contributing to the bank's overall strategy. When streamlining a bank's legal entity structure, it is important to use strategies and tactics that are tax-efficient and don't result in incremental costs or exposures. A critical step is to think about where a bank may have tax basis and where it may be able to get benefits or basis that it wants to preserve for future planning. This could involve, for example, looking at a bank's loan portfolio and figuring out if there are any built-in losses that can be realized.

In conclusion, LER is an important process for banks to engage in. By streamlining their legal entity structure, banks can reduce their regulatory burden, reduce their risk, and save money. In the banking industry, where consolidation, mergers, and acquisitions have led to bulky org charts and duplicative special-purpose entities, LER should be a top priority. Banks that engage in LER will be better positioned to compete in the marketplace and to weather economic challenges.

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