

MASTERING ENTITY DATA COMPLIANCE: ENTITY FORMATION



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Entity compliance is not only complex; it’s also fast evolving. As regulatory compliance is becoming more visible to shareholders, corporate leaders and the public, more companies are outsourcing their state and local-level compliance tasks.

Organizations are also seeing a fundamental shift in the manner by which data is handled. Previously, an assistant corporate secretary might spend the better part of a day focusing on filing annual reports and updating corporate data. In other words, inputting data was the key priority.

Today, that same assistant corporate secretary is tasked with addressing shareholder concerns and coordinating responses to various organizational groups, whether tax, finance or treasury. This means that data management, rather than mere data input, has become the organizational imperative.

To help explain how the data management process works, let’s take a closer look at the first element of the entity data compliance workflow: entity formation.

THE ESSENTIALS OF ENTITY FORMATION

Choosing the appropriate entity is a critical decision that sets the foundation for later success. It’s not necessarily a simple decision, as there are many things to be considered. These considerations include the type of business, the financial and tax needs, capitalization requirements, projected business duration and management/organizational structures.

DETERMINING THE CORRECT ENTITY TYPE

The number of available entity types has proliferated—a development that offers greater flexibility for organizations and their advisory staff, but also requires more complex decision-making. While many people are familiar with established statutory entity types (for and non-profit corporations, limited liability corporations, limited partnerships, and so on), newer entities exist that may better fit the bill.

There are alternative entities such as benefit corporations, series LLCs, low-profit limited liability companies, unincorporated nonprofit associations, limited cooperative associations and civil foundations. To determine the best entity choice, organizational leaders need to be aware that these newer entity types exist and understand which jurisdictions allow them. It’s also important to gain some familiarity with the laws that govern and authorize these entities, and to stay abreast of any changes as they occur.

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MEETING STATE REQUIREMENTS FOR YOUR ENTITY

After weighing all relevant factors and choosing and establishing the right entity, organizations need to focus on navigating regulatory requirements. These requirements are variable, depending on both the state where the entity is being formed and the type of entity in question.

Typically, organizations must begin by ensuring that the entity name is state compliant. It's also important to focus on document preparation, review, submission and tracking. Other common steps include acquiring a [federal tax ID number](#), appointing a [Registered Agent](#) and filing all necessary [business licenses](#), whether local or specific to the industry.

It should be noted that this is a general, rather than a comprehensive, list of requirements to meet.

DATA HANDLING CHALLENGES

After an entity has been formed, there's another significant task to complete: extracting the necessary data from governing documents. How the data is processed is vital to helping organizations stay compliant, while also guiding decision-making with regard to how the entity is used in the jurisdiction and who gets to make decisions on behalf of it. Smart entity management also requires effective real-time data upkeep and maintenance and the ability to share data with organizational groups as needed.

Accurate entity data is essential for virtually every routine business process. This means that governance professionals have a constant need for subsidiary and related data and documents in real time. For every entity, a governance

professional typically manages 100 discrete and unique data points.

These data points may be management, capital and ownership structures or specific entity attributes. Governance professionals must be aware of the jurisdictions in which all entities are qualified and keep track of filing deadlines in order to produce timely annual reports.



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All of this information is crucial in terms of creating compliance filings and other legal documents and helps guide corporate secretaries in fulfilling their key advisory roles.

IN CONCLUSION

Ensuring that all entity records remain current and accurate is a core priority for savvy organizations, yet it also requires significant time resources. Partnering with the right services provider can help ensure that data is accurately processed while relieving the burden on in-house staff.

By enabling real-time management of entity data, organizations can remain highly confident that all information shared between organizational groups is both accurate and up to date.