



Legal Entity Reduction: Simplifying Group Structures in a Legally Compliant Manner

Introduction & Agenda

Speakers



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Agenda

- I. Overview**
- II. Strategic considerations**
- III. The 3 LER phases**
- IV. Use of AI**
- V. Design/structuring options**
- VI. Labor law aspects**
- VII. Summary**



I. Overview

LER basics

What is LER?



A LER program ...

...is the strategic process of simplifying the legal structure of a group by reducing the number of subsidiaries and branches.

LER Fundamentals

Reasons for complex corporate structures



LER Fundamentals

Disadvantages of complex corporate structures



Too many group companies

- Burden on day-to-day business and the long-term development of a company
- Each unit has its own regulatory and compliance obligations, operating procedures, and organizational structures

Additional effort

- Similar tasks have to be performed again in different systems
- Isolated IT solutions create data silos and hinder the flow of information
- Separate reporting complicates financial and strategic management



Long-term

- ... Inhibition of growth
- ... Increase in administrative costs
- ... Complicating effective compliance with governance requirements

Streamlining of the company portfolio ...

- ... increases operational efficiency
- ... reduces costs
- ... creates transparency



II. Strategic considerations

Pre-phase

Determination of LER potential

Outside-in analysis

- Key figures such as revenue per legal entity per country and sales and administrative overhead costs as a percentage of revenue are compared with competitors' figures.
- If your own values deviate significantly from the benchmark, this indicates potential for reducing complexity.



Inside-out analysis

- There are several companies per country.
- The units are not very integrated and data silos may exist.
- Back-office functions are decentralized in each unit.
- Roles and tasks are filled by multiple people.

III. The 3 LER phases

LER Implementation

The three phases



Phase

Feasibility study and business case

Approach

- Conduct a thorough **feasibility study** to assess the practicability and potential impact of a LER.
- Analyze the current **organizational framework**, identify **redundant or unnecessary units**
- Assess the **tax, legal, financial, and operational implications** of their elimination.
- Review of regulatory requirements.
- **Objective:** Develop a clear understanding of **the benefits, risks, and costs** as a basis for strategic decision-making in subsequent phases.



Phase

Preparation phase

Approach

- Develop a **detailed plan** for implementing the LER.
- The design of **the new organizational structure**, determination of **timelines**, and **assignment of stakeholders** are crucial.
- Formulate **risk management strategies** to address potential challenges and problems.
- Laying the foundation for a smooth transition and successful implementation.



Phase

Implementation phase

Approach

- Implementation of the **necessary legal, financial, and operational changes** to merge or liquidate the units.
- Ensuring **clear communication** with stakeholders throughout the process.
- **Monitoring** and **PMO** are essential.
- Many steps and deadlines are beyond the control of the company, e.g., regulatory authorities or commercial registers.
- This phase usually takes the longest (**several months to several years**).

LER Implementation



1. Consideration of local and business area-specific characteristics

Here, it is important to understand the unique operational, regulatory, and legal context of the (national) companies.



5. Strong sponsorship

Support for the program from an influential sponsor within the organization allows resistance within the organization to be overcome and ensures smooth transitions.



2. Comprehensive implementation and one-time cost analysis

Conduct a complete cost analysis, including direct and hidden costs, with the aim of preparing a budget and avoiding unforeseen costs.



6. Effective communication

Clear and regular communication to keep all stakeholders informed promotes understanding and support for the process within the organization.



3. Early involvement of stakeholders

Involving all relevant stakeholders at an early stage avoids the need for further coordination and analysis later on and helps to save time and resources.



7. Interdependencies and IT system harmonization

Consideration of the interdependencies between processes and systems, with priority given to system harmonization prior to the merger of the companies.



4. Defined and transparent decision-making process

This is necessary to increase efficiency and promote confidence in the LER program.



8. Phased approach

Adopting a phased approach to implementing the program, prioritizing "quick wins," helps boost morale and creates positive momentum.

IV. Use of AI

LER implementation

Use of AI 1/5

Feasibility phase

Centralized document repository

Upload and organize constitutional documents, shareholding structures, and corporate records for all entities across the group

Create a project-specific database to maintain all relevant documentation in one accessible location

Use folder structures to organize materials by jurisdiction, entity type, or business unit

Entity Assessment and Analysis

Upload existing entity charts, ownership diagrams, and corporate structure documentation

Create tabular reviews to systematically evaluate entities against reduction criteria (e.g., operational activity, regulatory requirements, intercompany transactions, employee count)

Extract key data points from constitutional documents across multiple entities to identify dormant or low-activity entities

Research Capabilities

Access jurisdiction-specific legal sources to understand merger, dissolution, and asset transfer requirements

Research regulatory constraints that might prevent or complicate entity elimination in specific jurisdictions

LER implementation

Use of AI 2/5

Phase 1: Impact assessment

Comparative Legal Analysis

Search across multiple jurisdictions to understand varying legal requirements for mergers, asset transfers, and liquidations

Compare statutory timelines, creditor protection procedures, and regulatory approval requirements

Research tax implications and reporting obligations across relevant jurisdictions

Contract and Agreement Review

Upload material contracts, financing agreements, and commercial arrangements

Systematically review agreements to identify change of control provisions, assignment restrictions, or consent requirements

Use tabular reviews to extract key provisions from multiple contracts simultaneously (e.g., termination rights, novation requirements, counterparty consent clauses)

Risk Identification

Review litigation documents, regulatory correspondence, and compliance materials

Identify entities with ongoing disputes, regulatory issues, or compliance obligations that might complicate elimination.

Assess contractual commitments and obligations that would need to be transferred or terminated

LER implementation

Use of AI 3/5

Phase 2: Action Plans and Playbooks

Template and Playbook Development

Draft jurisdiction-specific merger plans, asset transfer agreements, and liquidation procedures

Create standardized templates for board resolutions, shareholder approvals, and regulatory filings

Store playbooks and process documentation within project databases for easy team access

Workflow Documentation

Develop detailed implementation timelines with jurisdiction-specific requirements

Create tabular reviews tracking required steps, responsible parties, and deadlines for each entity elimination

Draft creditor notification templates, employee consultation materials, and stakeholder communications

Regulatory compliance planning

Research and document filing requirements with companies registries, tax authorities, and regulatory bodies

Prepare checklists for statutory approvals, third-party consents, and regulatory notifications

Draft regulatory submissions and approval applications

LER implementation

Use of AI 4/5

Phase 3: Execution

Project Management and Tracking

Create tabular reviews to monitor progress across all entity eliminations, tracking status, completion dates, and outstanding items

Maintain centralized records of all executed documents, regulatory approvals, and filed notices

Monitor deadlines and required actions across multiple jurisdictions simultaneously

Document Management

Store all executed merger agreements, asset transfer deeds, liquidation resolutions, and related documentation

Maintain organized records of regulatory approvals, tax clearances, and third-party consents

Version control for templates and standard documents used across multiple transactions

Collaboration Features

Share project databases with internal teams and external advisers across jurisdictions

Maintain consistent access to up-to-date documentation for all stakeholders

Enable efficient collaboration between legal, tax, finance, and operational teams

LER implementation

Use of AI 5/5

Cross-phase benefits

AI-Powered Efficiency

Quickly locate relevant provisions across constitutional documents, contracts, and regulatory materials

Quickly locate relevant provisions across constitutional documents, contracts, and regulatory materials

Summarize lengthy legal opinions, tax advice, and regulatory guidance

Consistency and Quality Control

Ensure consistent approach across multiple entity eliminations using standardized templates

Reduce risk of missed steps or requirements through systematic tracking

Maintain comprehensive audit trail of decisions and actions

Knowledge Management

Build institutional knowledge through documented playbooks and lessons learned

Create reusable materials for future entity reduction initiatives

Preserve precedents and templates for ongoing corporate simplification efforts

The platform's combination of document management, AI-powered analysis, systematic data extraction through tabular reviews, and legal research capabilities makes it particularly well-suited for managing the complexity, volume, and multi-jurisdictional nature of large-scale entity reduction programs.

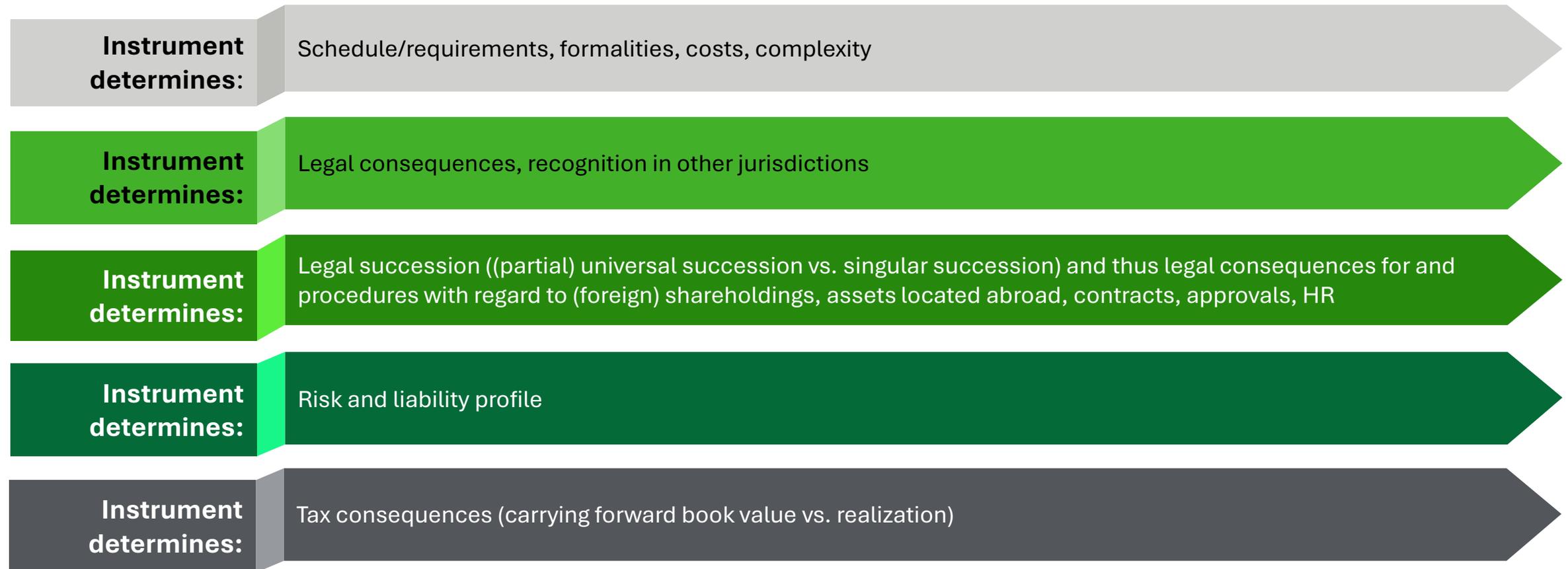
V. Design/Structuring options

Legal implementation

Why the choice of instruments is decisive as a project driver

Key question: Continuity and automatic transfer or selective transfer and risk separation?

No one-size-fits-all solution; individual cases must be considered separately



Quick check

Which direction are we heading in? Questions to ask before choosing an instrument



Target scenario:

Eliminate, integrate, unbundle, or isolate risks?



"Decision on direction":

Am I free to choose one of the legal entities involved as the "surviving legal entity"? Can I be guided by practical considerations when making the "directional decision"?



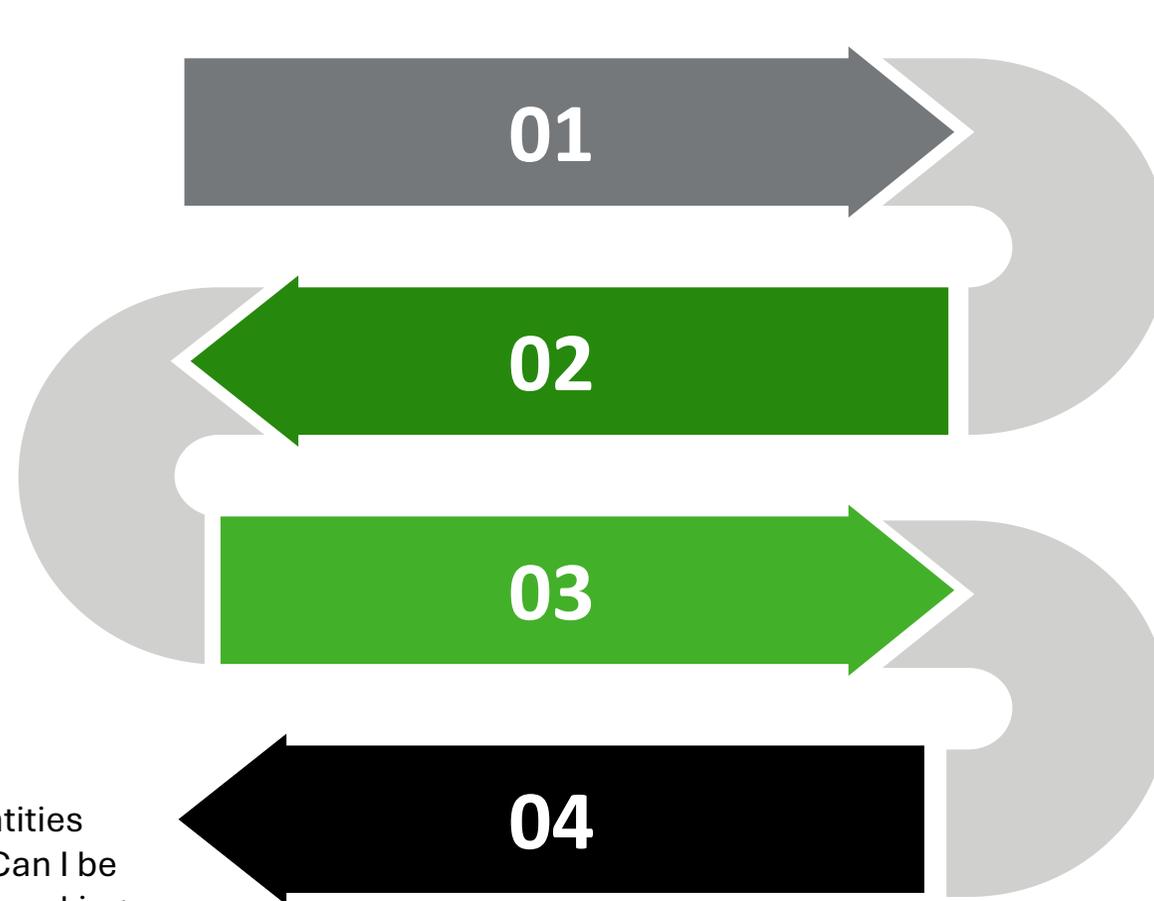
Legal consequences and legal succession:

Is universal or singular succession required?



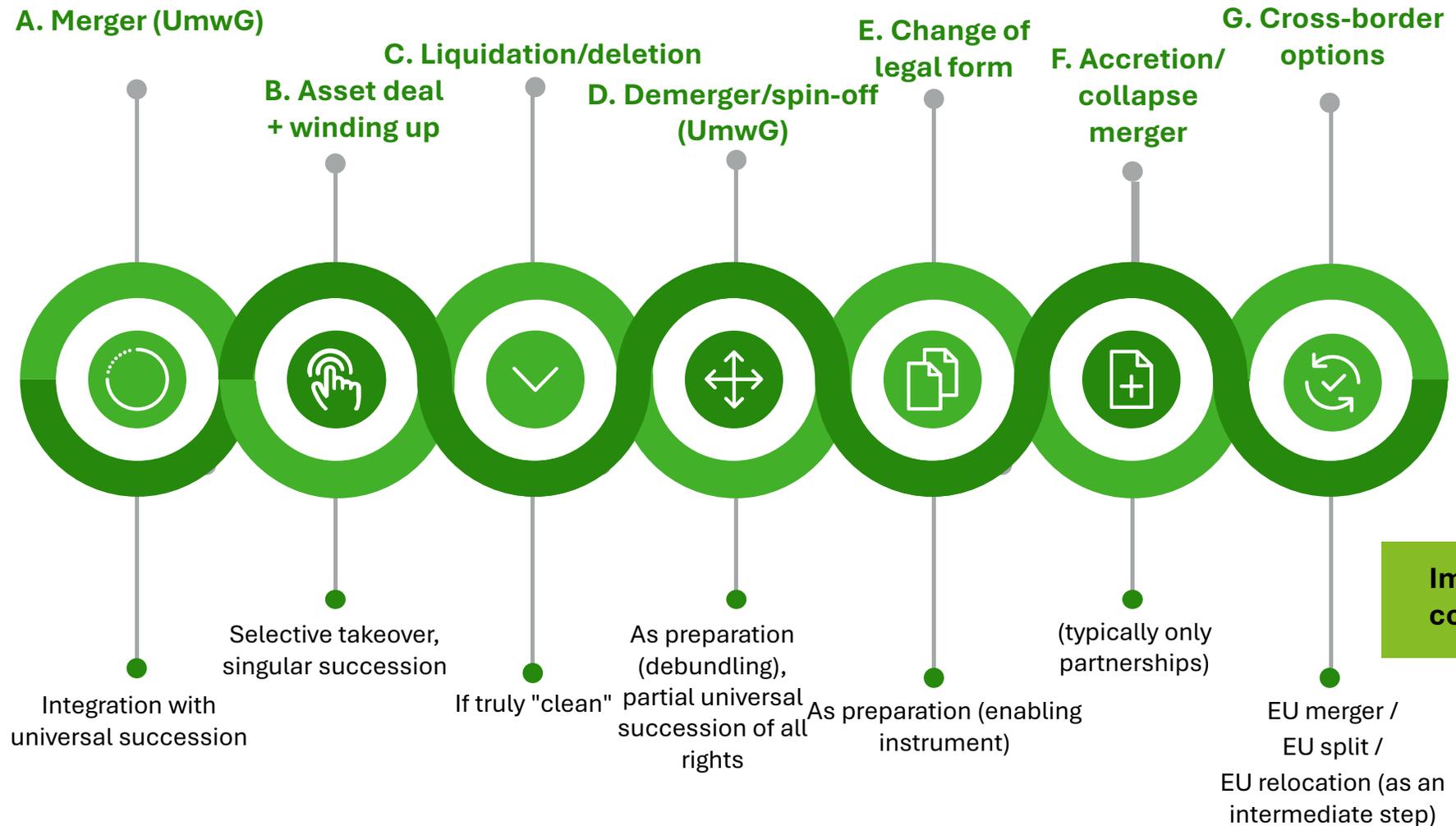
Restrictions:

Timing, approvals, co-determination, thresholds, financing/net assets



Toolbox

The toolbox, core routes (main LER tools), and enablers (preparation tool/supplements): Overview



Merger

When is it the method of choice?

Merger (domestic, possibly cross-border within the EU)

- **Pros:** universal succession, continuity, quick after registration, can be tax neutral, tax and commercial law retroactivity
- **Typical for:** operational integration, many contracts/licenses, "consent avoidance"
- **Cons:** full assumption of liability (indefinite), formal process, creditor protection

Procedure/formalities

- Merger agreement/plan, reports, audit if necessary (waiver possible), resolutions, works council information/notification (1-month period), employee information, merger balance sheet (audited if necessary)/register application (8-month period), registration



Effectiveness

- Upon registration with the commercial register – automatic transfer of all assets from that point on

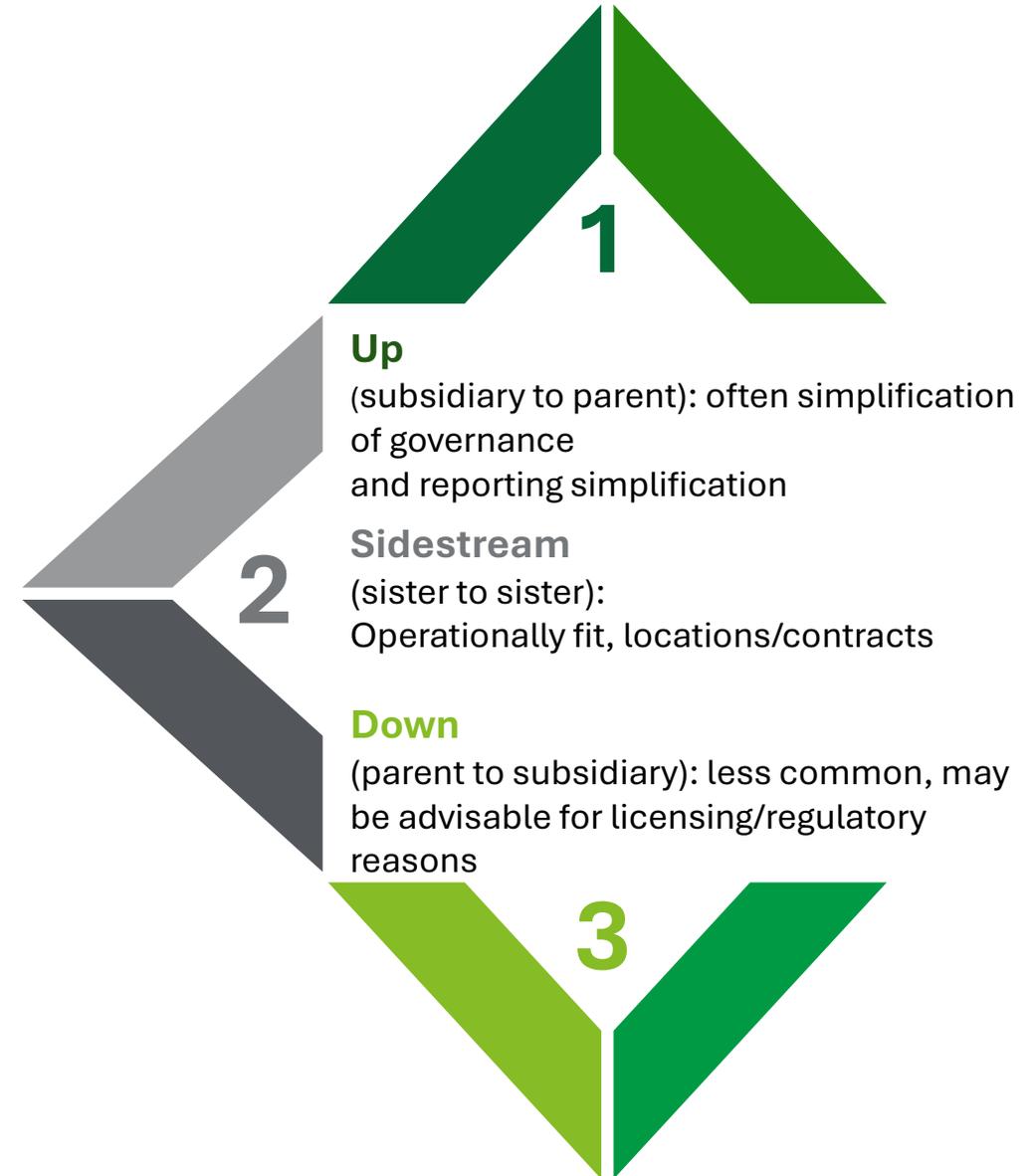
**Applies accordingly to demergers,
and to a limited extent also for changes of
legal form**

Direction of the merger (practical effects)

Upstream, Sidestream, Downstream

Checkpoints

- Public law approvals
- Intercompany agreements
(domination/profit and loss transfer agreements)
- Co-determination/threshold values
(Third-Party Participation Act, Co-Determination Act,
Supply Chain Due Diligence Act, etc.)
- Financing/collateral
(change of obligor, change of control, covenants, guarantees)
- Sensitive contracts
(insurances, subsidies, loan agreements)
- Balance sheet/net assets, liability estate



Asset deal + liquidation

When is it better than a merger?

Asset deal + liquidation

Pros:



Selective takeover/transfer, targeted risk management, risk exclusion, legacy issues can remain in the residual shell

Cons:



Singular succession – approvals, permits, registers/transfers – operationally complex, residual shell still needs to be wound up, time horizon, blocking /restrictive year

Alternative: Demerger + liquidation

Advantage:



Universal succession for transferred parts (partial universal succession)

Disadvantages



Joint and several liability (Section 133 UmwG, 5 years, limited to net assets), risk of misallocation (assets, contracts, employees), complex valuation and formalities

Typical pitfalls (in asset deals):

Non-transferable licenses, consent marathon, transfer of undertaking (Section 613a BGB), special liabilities (Section 25 HGB, Section 75 AO), "forgotten" ancillary rights (IP, data, insurance), risks of contestation (InsO, AnfG)

Liquidation/deletion/ex officio deletion

"Only when truly empty"

Liquidation (e.g., LLC)

- Suitable for: non-operational companies with largely no assets
- Core issue: liquidation, call to creditors, time (blocking year), remaining issues (taxes, lawsuits)
- Subsequently emerging liabilities, supplementary liquidation
- **For many CFOs, liquidation sounds "simple" – in practice, it is clean but very slow.**

Other legal systems:

Turbo liquidation (Netherlands) – faster, but potential for abuse

Ex officio deletion

- **Not a planning tool**, but a special case for companies without assets (3 years)
- Risk: issues that may resurface later (e.g., assets/claims)
- **"Not very gentlemanly"**

Time required for liquidation:

At least 12 months (with blocking year), but experience shows that it tends to take 1.5-2 years

Demerger/spin-off as preparation

Unbundling before elimination

Demerger/spin-off (UmwG) – preparatory tool ("enabler")

Objectives:

- Separation of business areas/units/assets prior to merger or liquidation
- Isolation of risks or "clean-up" of the asset/contract situation or unbundling of units

Legal succession:

- Partial universal succession in accordance with the demerger plan/agreement

Risks:

- Allocation errors (assets, liabilities, employees)
- Forgotten or indivisible assets (fallback provision § 131 UmwG)
- **Joint and several liability (Section 133 UmwG):** All legal entities involved are liable for 5 years (limited to net assets)
- Continued liability/creditor protection/formal efforts

Demerger/spin-off is not a substitute for merger or asset deal, but rather a preparatory instrument

Cross-border implementation

EU goes ahead, third countries only to a limited extent



EU/EEA (principle)

Cross-border conversions possible (mergers, demergers, transfers of registered seat/relocation), but (still) complex

- Multiple parallel procedures, different timelines, employee participation
- Abuse control: requirements sometimes vague, but manageable in practice
- **Increasingly tested and legally secure**



Third countries (e.g., UK, CH, NO, LI)

- Often no "genuine" universal succession across borders in the same sense
- Recognition highly jurisdiction-specific – **early clarification crucial**



Practical consequences

- Frequent: local asset deal, local liquidation, or EU relocation as an intermediate step
- **Clarify early:** recognition of legal succession, registration and approval logic
- **Takeaway:** Decide early on cross-border instruments, otherwise the schedule will collapse

Dealbreaker / Risk Check

Corporate/Finance



Liability transfer vs. risk separation:

Unknown legacy issues (e.g., environment, processes, warranties, pensions)

Personal public law approvals (and, under certain circumstances, certifications, homologations)

Company agreements (domination/profit transfer):
Continuity/termination and consequences – tax group

Financing/collateral:
Change of obligor, change of control, guarantees, covenants, cash pooling, consolidation/ increase of liability estate

Creditor protection mechanisms and subsequent liability risks in reorganisations (Section 133 UmwG regarding spin-off/demerger, contestation under the German Insolvency Code (InsO)/German Contestation Act (AnfG))

Sensitive contracts:
Long-term supply and purchase agreements, IT, cloud, software licenses, insurance, subsidies

In many LER projects, not the UmwG documents are the bottleneck, but rather financing documentation and corporate agreements

Threshold values and co-determination

LER can trigger or terminate obligations

Threshold values and governance effects (consider early on)

Co-determination
(DrittelbG / MitbestG):

Structure may influence connection and attribution

(> 500 employees / > 2,000 employees)

Supply chain due diligence obligations
(LkSG):

Scope may differ due to structural changes

(> 1,000 employees)

Audit/reporting

Structure can influence audit and consolidation issues

(Section 316 HGB)

Principle: Structural changes can shift obligations, but rarely "simply optimize them away"

Early coordination with HR and compliance is necessary, otherwise there may be surprises later on

Special warning

Over-indebted legal entities and red flags + takeaways

Red flags



Over-indebted or crisis-prone entities:

Instruments should only be selected after an insolvency law review and careful timing (Section 15a InsO – obligation to file for insolvency, managing director liability)



Ongoing tax audits, pension obligations, major lawsuits:

Legacy issues determine the tool



Non-transferable licenses and key contracts/sensitive contracts:

often the real bottleneck

3 takeaways



Choice of instruments

= Succession + Liability + Timeline + Taxes



If consent burden is high:

Merger often more efficient



If separating legacy issues:

Asset deal + liquidation,
But operationally challenging

Comparison matrix of the main instruments: Overview

Criterion	Merger	Demerger/spin-off	Asset deal + liquidation
Legal basis	Sections 2 et seq., Sections 20 UmwG	Sections 123 et seq., Sections 131, 133 UmwG	Sections 433 et seq.; Section 929; Sections 398 et seq. BGB (asset deal); Sections 60 et seq. GmbHG (liquidation)
Legal formalities	Merger agreement (Sections 4–6 UmwG), notarized; report/audit (Sections 8, 9, dispensable); notarized resolutions (Section 13 UmwG); works council submission ≥ 1 month (Section 5 (3) UmwG); registration; closing balance sheet (≤8 months, Section 17 (2) UmwG)	Demerger/spin-off plan (Section 126 UmwG) notarized (Sections 6, 125 UmwG); report/audit; notarized resolutions (Sections 13, 125 UmwG); works council submission ≥ 1 month (Section 126 (3) UmwG); registration (Section 131 UmwG); creditor protection (Section 133 UmwG); closing balance sheet (≤8 months, Sections 17 (2), 125 UmwG)	Purchase/transfer agreements (Sections 433 et seq. BGB); individual transfers (Section 929, Sections 398 et seq. BGB); usually in private form, notarial form possible/may be required (in the case of real estate); liquidation (Sections 60 et seq. GmbHG)
Legal succession	Universal succession	Partial universal succession	Singular succession
Liability/risks	Complete, unlimited (transferee legal entity) joint liability; assumption of all liabilities	Joint and several liability, 5 years, continued liability (Sections 133 et seq. UmwG)	Limited, but special liability (Section 25 HGB; Section 75 AO), non-transferable licenses, approvals
Time required	3 to 6 months	3 to 6 months	12+ months (with blocking year)
Complexity	Formally complex, operationally simple	Formally and organizationally complex	Operationally very complex
Third-party consent	Generally not required	Generally not required	Required (contracts, approvals)
Tax treatment	Carrying forward book value possible	Carrying forward book value possible	Realization (disclosure, hidden reserves; capital gains)

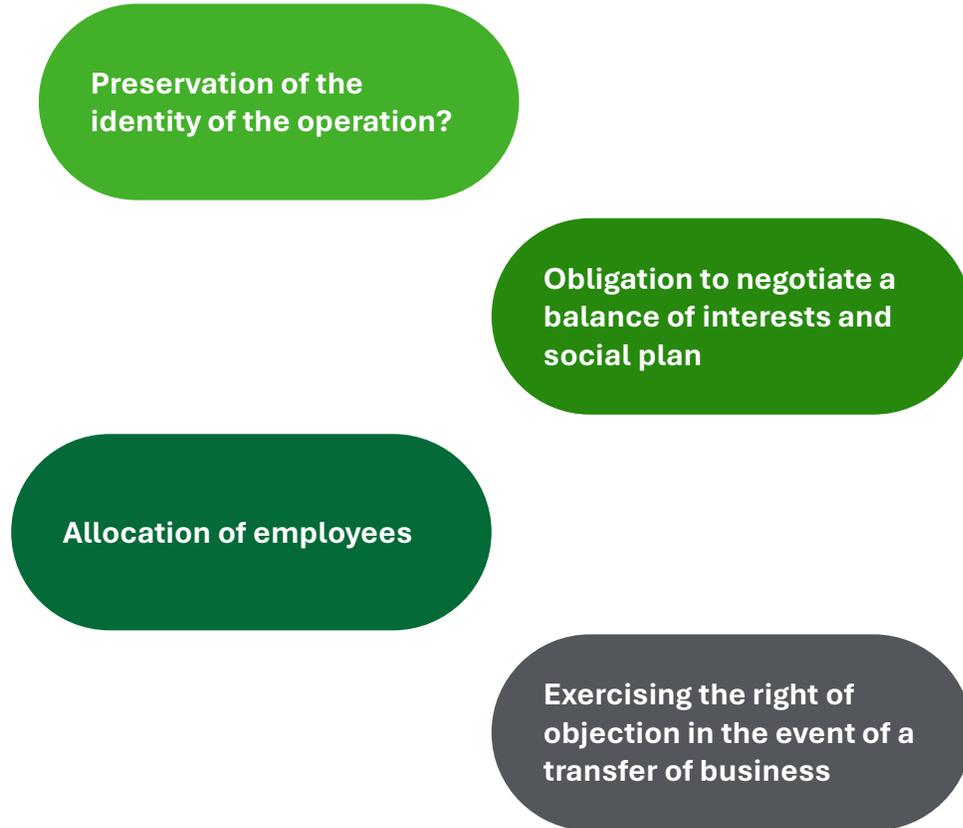
Comparison matrix of the main instruments: Overview

Criterion	Merger	Demerger/spin-off	Asset deal + liquidation
Operational continuity	Fully guaranteed	Guaranteed for the transferring business units	Interruption possible
Official approvals/licenses	Transition in principle; exceptions: personal/sovereign	Transfer only if assigned	Often not transferable → New application
Certifications	Not automatic → re-audit	Not automatic → new audit per unit	Never automatic → recertification
Advantages	Continuity; tax neutral	Ring fencing; carve-out	Selectivity; legacy issues remain
Disadvantages	Formalities; assumption of liability	Allocation risk/complex valuation	Third-party approval requirement
Opportunities	Synergies; rapid integration	Marketability; structural clarity	Clean acquisition; rapid readiness
Area of application	Standard instrument LER; integration	Structuring/preparation and unbundling/carve-out	Risk constellations, selective acquisition/selective takeover

VI. Employment law aspects

Employment law

Transfer of business and co-determination rights



Employment law

Information obligations & details in the documentation



Information obligations

- Economic committee
- European Works Council

Information in the contractual documentation, including

- Impact on corporate structure and employees; measures to secure employment relationships, if applicable
- Presentation of the consequences for employee representatives
- Effects on company pensions and pension entitlements
- Information on the employee participation procedure



Transmission/accessibility

Timely transmission/accessibility

Employment law

Analysis of collective and individual legal constellations



Analysis already at the planning stage

Collective regulations:

- Shop agreements
- General shop agreements (*Gesamtbetriebsvereinbarungen*)
- Collective bargaining agreements
- Reference clauses to collective bargaining agreements in employment contracts

Individual contracts:

- Transfer to home office
- Transfer to a foreign operation

- Impact on permanent establishment aspects, social security, and income tax

VII. Summary & Q&A



**Thank you very
much**
for your attention.

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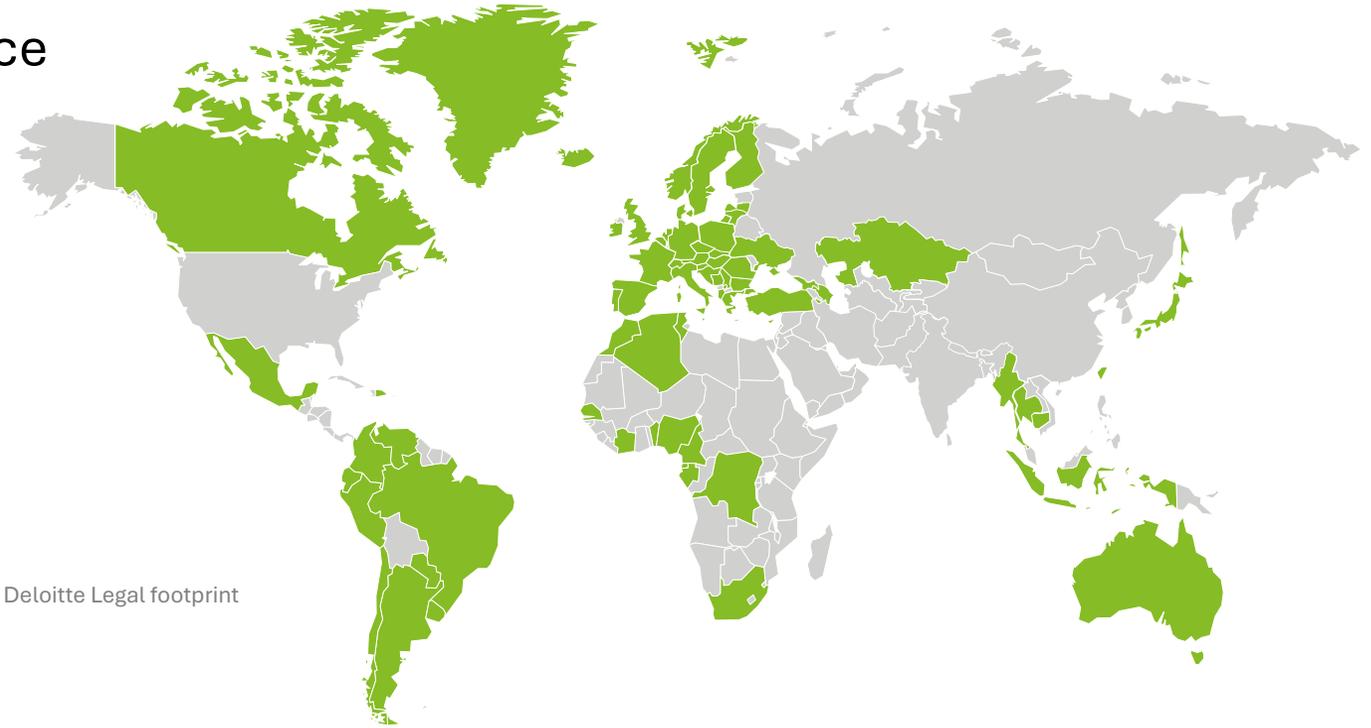
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