

International Corporate Structures

The monthly newsletter for clients and friends of LCN Legal and for anyone involved in creating and maintaining corporate structures.

September 2017



How to survive a mid-life crisis

It was a cold, clear morning in late September 2009, around 7.45 am. I was enjoying a mid-life crisis (I reserve the right to have more), and was standing in the top floor reception area of an office with a wide view over central London. I was waiting to see someone I had never met before – someone I had reached out to by email a few weeks earlier, asking for some personal guidance.

I was on a mission to find some role models for my professional life. Someone who had achieved the kind of success I wanted, but with no loss of humanity. If you also work in the corporate world, you may agree that such role models are not always easy to find. Hopefully you will find the insights below useful in your life, too.

I will spare the blushes of the man I met, and so won't name him or his area of legal work. One of my previous colleagues had mentioned his warmth and energy and also the transformation he had achieved for the group he led in his professional firm, a well-known law practice. The transformation was from a team in crisis, with a fragmented client base in financial distress, to one known for its strategic work with financial institutions, and for its innovative working practices.



You don't need to be brilliant. People are much more likely to recommend you because they like you and can rely on you.

My meeting didn't disappoint, even though it can't have been longer than 45 minutes. I still have the notes I took. Unsurprisingly, he said the first step is to decide what you want. In his case, he chose to focus on his department, and not on the management of the wider firm. He said it's useful to ask 'who likes me?' and 'who do I like?', so that you don't need to create artificial barriers between work life and personal life. Don't try to be someone you're not, especially in so-called 'client entertainment'. Share your personal passions and attract people who share them too.

Interestingly, he recommended creating relationships with your competitors; they will probably understand what you do better than anyone else, and may be inclined to say nice things about you, reinforcing your position in the market. In your office environment, cut out the distracting noise and engage only with issues concerning clients.

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Finally, he said you don't need to be brilliant. People are much more likely to recommend you because they like you and can rely on you. It's hard to imagine someone saying "that guy's a jerk but you should work with him because he's really clever".

I believe that those lessons are relevant to anyone in any position, not just professional advisers. We all have the power of choice, and we're all in the business of marketing ourselves and the value we bring. I'm looking forward to my next mid-life crisis!

Paul Sutton is co-founder of LCN Legal and a corporate lawyer with over 20 years' experience of international corporate structures, including as a Director of KPMG's law firm in the UK and as a corporate partner in international law firm Pinsent Masons. He has lead the legal aspects of group reorganisation projects involving assets totaling over US\$25 billion and is a contributor to the LexisNexis online Transfer Pricing resources.



Paul Sutton
Paul Sutton
Co-Founder, LCN Legal



Tax audits... using the grey matter

By **Ian Barron**

I have always found that a number of factors contribute to a successful tax audit outcome, not least of which is the ability to adapt to changing circumstances and to think creatively. I recall one particular audit in a Southern European country which illustrates the point. It always makes me smile when I think of how it was positively concluded.

This tax audit was on local matters only, so my team would not normally have had direct involvement. In such situations, the audits would be handled by the local finance team, with help from external advisers if needed. As the local Controller and team were highly proficient and as the issues were more factual than technical, I concluded that the local finance team would deal with the day to day audit with updates to my team, with no immediate need to engage our advisers. This proved to be the right decision and the audit was closed within the agreed timeframe, with only minor adjustments to filed returns.

However, I ended up having a far greater role than was ever envisaged – not from a technical perspective, but more to do with my appearance.

During the first week of the audit the tax authority team consisted of competent young tax officials, and our young team consisted of the Controller and two members of her staff.

The audit was going smoothly until the tax inspector in charge arrived to get an update. He was a very experienced taxman who happened to be approaching retirement age, had a head of grey hair and suffered from old fashioned ways. The trouble was that no matter how competent or thorough his team were, he treated them like his children and expected them to listen to him and follow his instructions. Unfortunately he also treated our Controller and her team the same way. Our Controller acknowledged he was courteous to them all, but he appeared to be unable to accept that young people actually knew what they were talking about.

Our Controller thought long and hard about the impasse that threatened to prevent closure of a straightforward audit. She came up with a solution to resolve the matter without necessitating lodging formal complaints against him.

She called me and explained the situation. She asked if I would go over there during the following week and sit in on the closing meetings with the tax inspector. I was surprised to say the least, as the issues were domestic so my input would be limited – and I only spoke English and the tax inspector didn't.

Then she confessed that I would be invaluable due to my seniority (in the company she said, but I think she was also referring to my age) but more so that I was

similarly blessed with a head of grey hair. In other words, a direct match for the tax inspector. Never having been flattered like this before I agreed to her request, but only after she agreed that my travel and hotel costs would be picked up by the local market.

The meetings went well. The tax inspector sat on one side flanked by his team, and the Controller insisted I sat directly opposite him flanked by her and her team. I had already been briefed on the issues by the Controller and we agreed on how to accept or reject the tax authority's position on each item.

Throughout the meetings, the tax inspector would only look at me for my reaction – it was funny as we couldn't talk to each other. Nevertheless, he went away happy to have closed the audit. It seems that although I was younger than him, he liked the idea that another senior person was present.

Although the Controller's brainwave won the day, she subsequently confessed to being slightly apprehensive about asking me to help in this way but it was so quirky and clever, there was no way I could refuse. One of my most enjoyable audits.

Ian Barron is a strategic tax consultant to LCN Legal. Prior to this, Ian had a long tax career at American Express where he was Vice President and Head of Corporate Tax for the EMEA Region for 19 years.

Book Review: The Pyramid Principle

By **Barbara Minto**

If you are reading this, you are probably a regular consumer of reports, memos and papers produced by colleagues and advisers. You may also be a regular author of such documents. You would probably agree that reading them is not always a pleasure, and writing them is not always easy. This book, *The Pyramid Principle* by Barbara Minto was first published in 1987, and proposes a blueprint for communicating complex ideas clearly in writing.

The Pyramid Principle contradicts received wisdom about business writing in a number of ways. It suggests that headings such as “introduction”, “background”, “assumptions” and “findings” should not be used in business memos, because they have no ‘scanning value’ – they do nothing to convey the ideas which are being communicated. In fact, Minto says that a conclusion should generally be unnecessary, because the whole structure of the document should be to summarise the relevant ideas first, and then lead the reader through the reasoning. The only purpose of a conclusion, she says, is to invoke an urge for action.

Minto prescribes a structure for the introduction to every memo which is ‘situation – complication – question – answer’. The ‘situation’ is a story, starting with a statement which the reader can be assumed to know already and to agree with. The purpose of describing the situation is to put the reader in the same place as the author, and to reinforce the relevance of the issues addressed in the document. The ‘complication’ is what has happened in relation to that situation, that has raised the question.

The question being answered is at the heart of any memo or report. According to Minto, the failure to be clear about that question is the downfall of much business writing. Examples of the ‘question’ include: Is X a good idea? How should Y be achieved?

The ‘answer’ is the resolution of the story begun in the ‘situation’. It forms the apex of the pyramid structure which Minto recommends. She says the answer should be in the form of a ‘key line’ of up to seven ideas which are at the same level of abstraction, and which are arranged in a logical order. (Why seven? Because there is a limit to the number of ideas that a reader can comprehend at the same time.) For example, if the question is ‘how?’, the key line for the answer should be ‘Step 1, Step 2, Step 3’ etc. If the question is ‘why’, the answer should be ‘Reason 1, Reason 2, Reason 3’ etc.

Quote of the month

“Be a gift to everyone who enters your life, and to everyone whose life you enter.”
Neale Donald Walsch

Minto says that “the clearest sequence is always to give the summarizing idea before you give the ideas being summarized.” This gives rise to the proposed pyramid structure. The first key line in the ‘answer’ operates at the highest level of abstraction. The next level down in the pyramid then expands, in turn, on each of the top line concepts, and applies the same structure to the sub-grouping: a summarizing thought, followed by a series of points at the same level of abstraction. And so on down the pyramid.

In addition to proposing a structure for business writing, *The Pyramid Principle* also provides tools for ensuring clarity of thought and clarity of expression. There isn’t the space to summarise them all here, but they include how to ensure that ideas in each key line are grouped coherently, how to order ideas in a logical way, how to distinguish between deductive and inductive reasoning, and how to test whether conclusions are valid.

With a clear structure in place, all that remains is to put it into words. “Your objective should be to dress your ideas in a prose that will not only communicate them clearly, but also give people pleasure in the process of absorbing them.”
A very worthwhile objective for us all!

New practical resource for utilising the Quoted Eurobond Exemption: legal due diligence checklist

LCN Legal has published a new free resource for corporates and their advisers which are planning to utilise the Quoted Eurobond Exemption to address UK withholding tax on interest payments. It’s a legal due diligence checklist, based on our experience of having advised on the issue of over GBP 12.8 billion of quoted Eurobonds.

The checklist is designed to flush out legal and practical issues which may affect the timing or feasibility of a proposed Eurobond listing, and to help the project avoid unexpected delays or complications.

To request your free copy, email us at info@lcnlegal.com, or call us on +44 20 3286 8868.

“A conclusion should generally be unnecessary, because the whole structure of the document should be to summarise the relevant ideas first.”



LCN Legal's charity partners XLP celebrate their 21st anniversary

'There's been a stabbing'... words you never want to hear. But in 1994, in an inner city playground in Southwark, London, there had been a stabbing and local youth worker Patrick Regan was asked to help the children cope with the aftermath. Patrick set up a lunch club, in the school, to help tackle knife crime.

After an article had been featured in 'The Times', and 17 people had pledged £25 per month, XLP was born. This year marks XLP's 21st anniversary, and its work has rapidly expanded since those early days. But the vision has always been the same: to encourage young people to choose positive alternatives to gangs, knives and dropping out of education.

Today XLP works with over 1,500 11-18 year olds each week, on a one-to-one basis, or in small groups, in 9 inner boroughs in London – with a focus on mentoring at-risk young people who are facing exclusion from school, or are at risk of involvement in gangs, crime and anti-social behaviour.

XLP aims to provide young people with positive role models. They recruit, train, and supervise mentors who live in the local community. They are then matched with a referred young person and commit to providing 2 hours of face-to-face time each week for a minimum of 12 months. Over 90% of the young people have either remained in school, or returned to school, and are doing well after 12 months with a mentor.

XLP offers ways for young people to positively express themselves, share the issues they face, develop self-esteem, set goals and work

hard to achieve them. Each week the charity visits 28 estates with three double decker buses, converted into mobile youth centres, targeting areas where there is too little or no youth work provision. The experienced youth workers aim to have multiple contact points with each young person, through also working in the schools and pupil referral units that the young people attend. Last year, XLP delivered in-class literacy and numeracy support, lunch clubs, assemblies, mentoring, and specialist lessons in some 50 different schools.

Arts activities and sports provide another crucial contact point, instilling discipline, promoting team work and the stimulating the young people to achieve goals.

"Without XLP and Kevin mentoring me, I'd probably still be angry and scared. I'd have no confidence." **Derek**

"I know that I can really trust and confide in the XLP youth workers and I know that if it wasn't for them, I wouldn't be where I am now". **Chelsea**
"XLP kept giving me opportunities... My confidence began to grow. I am now Head Girl at my school. Thanks XLP." **Tsote**

LCN Legal has pledged to donate US\$1,000 in cash to youth work charity XLP for every qualifying instruction in 2017 (see lcnlegal.com/csr for details). You can help us give more by recommending us for legal projects in our specialist areas of group structures and intercompany agreements, where we are acknowledged as experts. Just send us the details by email to info@lcnlegal.com, or call us on +44 20 3286 8868.



Intercompany Agreements Toolkit

LCN Legal is one of the very few independent law firms with a dedicated focus on helping multinational groups to put in place effective intercompany agreements. Because we don't give tax or transfer pricing advice, we are able to work collaboratively with corporates and their existing internal or external tax teams to get the job done as smoothly as possible.

We offer three levels of support:

- **Toolkits of tried and tested template intercompany agreements**, with telephone support from senior lawyers who specialise in this area. Our templates provide the peace of mind of working from documents which have been specifically created for the purpose and refined over a number of years, rather than hand-me-downs or freebies with no assurance of quality or relevance
- **Template agreements tailored for each applicable group**, using our standard documents and following a streamlined procedure to minimise the time spent by clients and their tax advisers to finalise the documents
- **Full service legal support**, including aligning the legal design of intercompany agreements with regulatory, corporate governance and risk objectives, hands-on support with due diligence and implementation, and assistance with setting up ongoing processes and reviews of intercompany agreements and the corporate structures to which they relate

For more information, email us at info@lcnlegal.com, or call us on +44 20 3286 8868.

Evolution of a Corporation: Samsung

1910 Lee Byung-chul is born the son of a wealthy family in Korea

1938 Lee Byung-chul sets up with the name Samsung ('3 stars') in Daegu, exporting dried fish, vegetables and fruit

1950s Samsung diversifies into areas such as sugar refining, textiles and insurance

1969 The Samsung Electronics division is created, mostly making TVs

1992 Samsung becomes the world's largest producer of memory chips

1988 Samsung introduces its first mobile phone

1987 Lee Byung-chul dies. His son Lee Kun-hee takes over, and Samsung is split into 4 business groups

1980 Samsung buys a telecommunications hardware company

1993 Management crisis meeting in Frankfurt: "Change everything but your wife and children." Group refocuses on electronics, engineering and chemicals

1995 Lee Kun-hee, upset about poor quality, orders 150,000 phones, fax machines & other devices to be burned in front of employees at factory in Gumi, South Korea

2012 Samsung becomes the world's largest mobile phone maker by unit sales

Testimonials for LCN intercompany agreements

"I worked with Paul Sutton for many years, in my role as Group Tax Manager of Sumitomo Electric Wiring Systems (Europe) Ltd (SEWS-E Ltd), and also for a period as SEWS-E Ltd Company Secretary. In this time I had extremely valuable assistance and advice from Paul, not only as regards general corporate law matters, but also particularly across a wide spectrum of legal aspects of SEWS-E Ltd group transfer pricing policies, implementation, inter-group agreements and legal compliance."

Martin L Kinsey, Former Group Tax Manager, Sumitomo Electric Wiring Systems (Europe) Limited