



Economic Substance Regulations – ADGM updates its members

The [Cabinet Resolution No. 58 of 2019](#) issued by the Ministry of Finance determined Regulatory Authorities for each of the Relevant activities, and included the free zones and financial free zones (that have issued licenses for the relevant activities) in the list.

Abu Dhabi Global Market ('ADGM'), as the Regulatory Authority for implementation and administering Economic Substance Regulations ('ESR') within the said free zone, updated its members on 3 February 2020 on certain key aspects of the scope and application of the ESR to registered businesses in ADGM.

We have summarised below the relevant updates:

- The deadline to file ESR notification for all registered businesses (i.e. Licensee) including exempt licensees in the ADGM is 31 March 2020 similar to the timeline provided by Dubai Investment Financial Centre ('DIFC'). While the notification template would be available in due course, the content of the notification is already set out in the ESR itself (i.e. whether or not the establishment carries a relevant activity, whether or not (some of its) gross income is subject to tax outside the UAE, and date of financial year-end).
- Licensees will have to submit the notification online through 'Lodge a General Document' service accessible at (www.registration.adgm.com).
- Licensees carrying out a relevant activity and earning income therefrom will be required to file an economic substance return by **31 December 2020**, for financial year ending on 31 December 2019. If the financial year end of a Licensee is different, for example, 31 March 2020, then the return filing would be required by **31 March 2021**. However, the Licensee would still have to file the notification by **31 March 2020**.
- It has been clarified that a Licensee can outsource any or all of its Core Income Generating Activities ('CIGAs') to third party service provider or related companies so long as the outsourced activities



are performed in the UAE. The outsourcing should be driven through contractual agreements that govern the relationship and responsibilities of each party.

- Pure equity holding companies will be subject to less stringent economic substance tests i.e. adequate employees and premises tests only (besides complying with the ADGM reporting and compliance requirements). “Directed and managed in the UAE” and “adequate expenditure” tests are not required to be met with.
- Adequate number of employees and premises test is satisfied:
 - Through a Corporate Service Provider or related company;
 - Directors can be counted as ‘equivalent full-time employees’; and
 - Registered offices or flexi desks can be counted as ‘premises’.

If you have an entity based in ADGM and would like our assistance in understanding the specific implications of the same to your business, please feel free to get in touch with us.

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