

Economic Substance Regulations

cBrain's F2 Solution for Managing and Enforcing Compliance with the Economic Substance Regulations (ESR)



ESR - Background

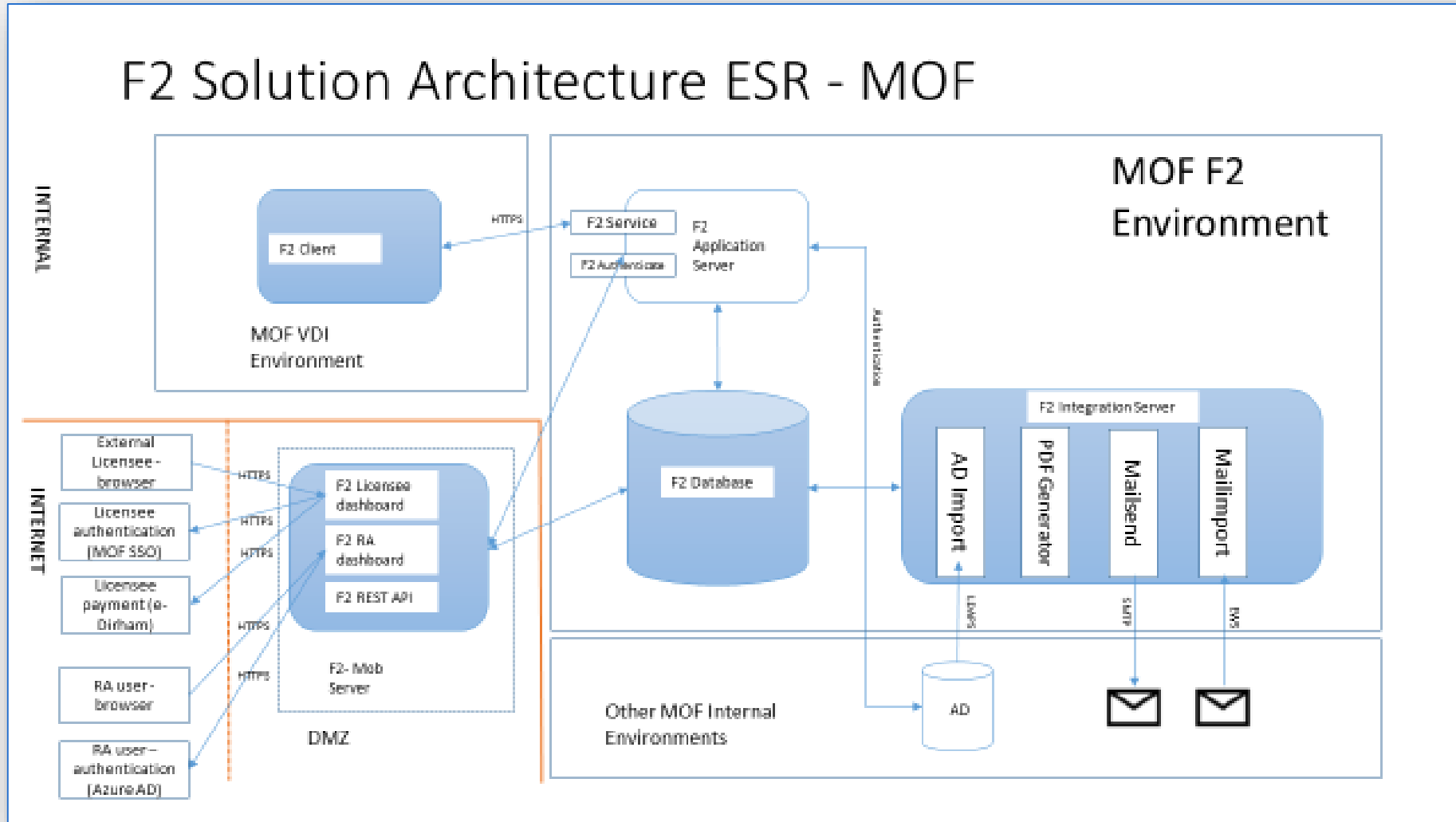
- **Regulations** to ensure corporations have an adequate 'economic presence' in-country, i.e., not just a 'shell company'.
- Intended to **combat base erosion and profit shifting** (BEPS).
- Applies to about **40,000 companies** in 11 relevant industries.
- Two-step annual filing process: **Notification and full Report.**
- Some companies are exempt from full Report.
- High-risk companies are selected for audit.
- **Companies** that meet certain criteria or fail to demonstrate economic substance are reported back to their home country's tax authorities.

✓ Key Accomplishments on the Project

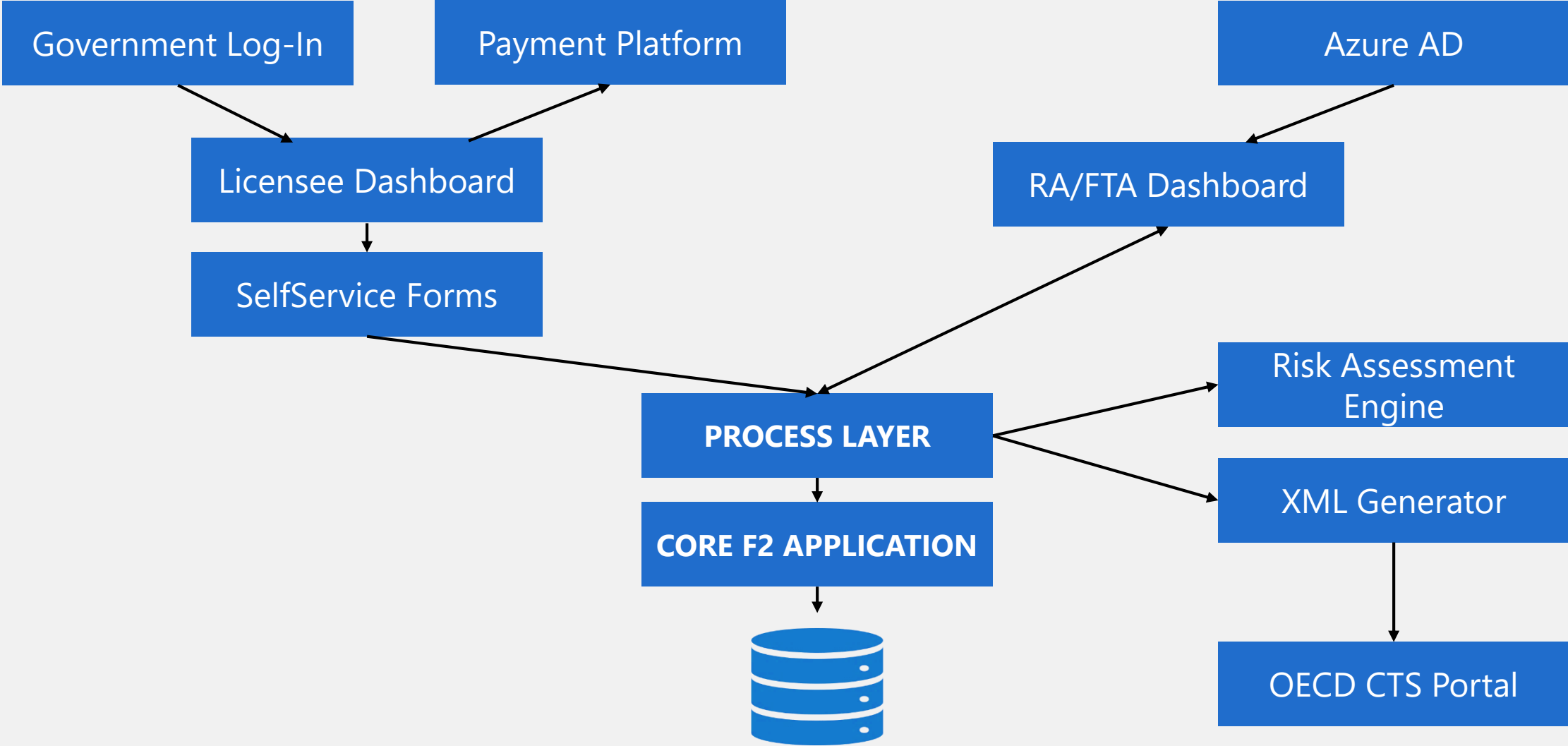
- Only **3 months** from contract award to system go-live.
- **39 different government agencies** with different domains and directories needed to access 1 unified solution to review cases.
- **Enforcing ESR** is shared responsibility across multiple stakeholders.
- **New digital identity system for corporations**, e.g., no CVR number or federal tax ID number was in place.
- Large number of reports would overwhelm auditors, without some tools to help them prioritize high-risk cases.
- **OECD reporting** schema for nominal tax jurisdictions (NTJ) was quite new and complex but now **significantly simplified**.

Infrastructure Architecture

F2 Solution Architecture ESR - MOF



Map of Services and Interfaces





Company (Licensee) Perspective



Log in from Ministry of Finance webpage with government account.

Login

User Name*

Password*

Remember me?

Login

[Forget Password?](#) [Create Account](#)



Company (Licensee) Perspective



Access dashboard to:

- Start a new Notification
- Manage existing filings

Licensee Dashboard - Main Page

[Submittals](#)[History](#)[Notification](#)

Licensee	Case Type	Progress Code	Financial period	Respond	Deadline	
Aramex	Notification	Amendment requested	2019		25/10/2020	View Summary
Aramex	ES Report	Amendment requested	2019		26/10/2020	View Summary



Company (Licensee) Perspective

- **User** is guided through intuitive forms to fill and submit the Notification and Report.
- **Notification** begins with questions that ensure the filing is linked to the company's previous filings.
- **System** builds a picture of the company's compliance history year after year – even if a different consultant or accountant is filing on their behalf.

Have you filed previously or been issued a penalty for failure to file?

Yes No

Details as per your previous submission

Licensee Name

Did you have a dual license? [?](#)

Commercial License/Trade License/Permit No. [?](#)

Licensing Authority [?](#)

Primary/Main Regulatory Authority [?](#)

Match found. Please proceed to enter your current information below.



Company (Licensee) Perspective

Licensee Dashboard - Main Page

Submittals History Notification

Licensee	Case Type	Progress Code	Financial period	Respond	Deadline
FTA Training	Penalty	Penalty annulled	2020	Pay Penalty	07/03/2021 View Summary
FTA Training	Appeal	Appeal granted	2020		07/03/2021 View Summary
FTA Training	ES Report	Form submitted	2020	Request for amendment	View Summary
FTA Training	Notification	Form submitted	2020	Request for amendment	View Summary

Company can also use the dashboard to:

- Pay penalties levied against them, via a link to a third-party payment platform.
- Respond to official information requests.
- File appeals of penalties they dispute.
- Request to amend their previous filings.



Regulatory Authority (RA) Perspective



**Log in with government email address and password.
Multi-factor authentication enforced.**

A screenshot of a Microsoft sign-in page. It features the Microsoft logo at the top left, followed by the text "Sign in". Below this is a text input field with the placeholder text "Email, phone, or Skype". Underneath the input field is a link that says "Can't access your account?". At the bottom right of the page is a blue button labeled "Next".

Microsoft

Sign in

Email, phone, or Skype

[Can't access your account?](#)

Next



Regulatory Authority (RA) Perspective

- Each of **37 authorities** sees a list of only filings from companies under their jurisdiction.
- **Case manager** can review the company's filing and accept, reject, transfer, or request more information.
- **All actions are logged and fully auditable.** Cases can be searched and filtered by status and keywords.
- **Users** in each authority with special permissions can cancel cases and generate overview reports.

F2 Search

Filter 1 - 1 < >

Older

Transferred to RA	cBrain	19/04/2021
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Request more information | Reject notification | Approve notification | Transfer | Upload file | Add internal comment

Information

Licensee:	cBrain	Case ID:	2020 - 822
Received:	19/04/2021	Deadline:	N/A
Keyword:	N/A	Status:	Transferred to RA

Action log

Action	Message	Date
RA transfer	testing transfer with access set to unit	27/11/2020

Documents

Filetype	Title	Access	Date
📄	Company Case.html	My authority	26/11/2020
📄	Summary of application.html	My authority	26/11/2020
📄	To Matthew Nichols - Confirmation of Economic Substance Not...	My authority	26/11/2020
📄	Summary.html	My authority	26/11/2020
📄	Notification form submitted.html	My authority	26/11/2020



Federal Tax Authority (FTA) Perspective



**Log in with government email address and password.
Multi-factor authentication enforced.**

Microsoft

Sign in

Email, phone, or Skype

[Can't access your account?](#)

Next



Federal Tax Authority (FTA) Perspective



FTA HAS ACCESS TO ALL FILINGS FROM ALL 37 AUTHORITIES.

Specific job roles within the FTA can perform distinct functions:

- **Auditors:** review high-risk ES Reports and provide a recommendation about their economic substance.
- **Senior Auditors:** review the Auditor’s decision and make a final determination on the case.
- **Appeal Managers:** review appeals submitted by companies against their penalties and grant or deny them.
- **FTA** can also request more information from the company at any point in the process.

The screenshot shows the F2 software interface. On the left is a navigation menu with options: Notifications, ES Reports (highlighted), My Audits, Penalties, Recommended penalties, Appeals, and My appeals. The main area displays a table of filings with columns for status, company name, and date. The selected row is 'ES test not met' for 'LICENSEE T' on '17/06/2021'. To the right, there is a toolbar with actions like 'Request more information', 'Fail ES Test', 'Pass ES Test', 'Initiate other penalties', 'Assign audit', 'Transfer', 'Upload file', and 'Add internal comment'. Below the toolbar are two sections: 'Information' and 'Risk assessment'. The 'Information' section shows details for 'LICENSEE T' including Case ID (2021 - 2481), Received date (17/06/2021), Deadline (31/12/2020), and Keyword (IP License; High Risk IP; Killer metric triggered; ES Test not met). The 'Risk assessment' section shows a Risk Score Threshold of Regular and various categories like Intellectual, Banking, Distribution, Holding, HQ, Insurance, Invest Fund, Lease, Lease Finance, Service, and Shipping.

Status	Company	Date
Awaiting Licensee reporting	Beta	23/06/2021
Awaiting Licensee reporting	Snow	23/06/2021
Deadline exceeded	France	18/06/2021
Last 30 days		
ES test not met	LICENSEE T	17/06/2021
Deadline exceeded	ABCD	17/06/2021
Deadline exceeded	EFGH	16/06/2021
Deadline exceeded	MNOP	16/06/2021
Deadline exceeded	Flakfortet	16/06/2021
ES test not met	LICENSEE T	16/06/2021

Category	Value
Licensee	LICENSEE T
Received	17/06/2021
Keyword	IP License; High Risk IP; Killer metric triggered; ES Test not met
Case ID	2021 - 2481
Deadline	31/12/2020
Status	ES test not met

Category	Value
Risk Score Threshold	Regular
Intellectual	0.371
Banking	-
Invest Fund	-
Distribution	-
Lease	-
Holding	-
Lease Finance	-
HQ	-
Service	-
Insurance	-
Shipping	-



Risk Assessment Engine

As shown below, a decision-support tool – the Risk Assessment Engine – helps prioritize companies for the FTA to audit.

- Companies that fail any of **13 key criteria** (*below right*) are flagged as ‘**Killer metric triggered**’ for mandatory audit.
- **The engine also calculates a detailed Risk Scorecard** (*below left*) with the normalized risk level (scale of 0 to 1) for each company compared to its peers in that industry, plus an overall threshold (Regular, Substandard, or Critical).

	A	B	C	D	E	G	H	I	J	K	L	M
1	Dimensi	Rule	Activation Flag	Criteria/Ratio	Calculation Method	Output	Peer Compared to	Weight	Absolute Score	Weighted Score	Minimum Theoretical Score	Maximum Theoretical Score
2	1	1	N	Income to expense ratio	Relevant gross income from the Relevant Activity / Relevant gross expenditure from the relevant activity	1,167	22	0.00%	0.000	0.000	0.000	0.000
3	1	2	N	Income to FTE ratio	Activity / Avg. number of FTE employee (incl. outsourced)	514.66	77	0.00%	0.000	0.000	0.000	0.000
4	1	3	Y	Expense to FTE ratio	Relevant Activity / Avg. number of FTE employee (incl. outsourced)	441,14	77	10.00%	0.400	0.400	0.100	0.500
5	1	4	Y	Outsourced FTE to total FTE ratio	Sum of avg. number of outsourced FTE employee across outsourcing providers / Avg. number of FTE employee (incl. outsourced)	0	11	10.00%	0.000	0.000	0.000	0.000
6	1	5	Y	Outsourcing expenses to total expenses ratio	Expenditure incurred on Outsourcing Providers / Relevant gross expenditure from the Relevant Activity	0	11	10.00%	0.000	0.000	0.000	0.000
7	2	6	N	Percentage change in Income to Expense ratio	Percentage change of Relevant Gross Operating Income / Relevant Gross Operating Expenditure (Current period vis-à-vis Last reportable period)							
8	2	7	N	Percentage change in Income to FTE ratio	Income / Avg. number of FTE employee (incl. outsourced) (Current period vis-à-vis Last reportable period)							
9	2	8	N	Percentage change in Expense to FTE ratio	Expenditure / Avg. number of FTE employee (incl. outsourced) (Current period vis-à-vis Last reportable period)							
10	2	9	N	Percentage change in Outsourced FTE to total FTE ratio	FTE employee / Avg. number of FTE employee (incl. outsourced) (Current period vis-à-vis Last reportable period)							
11	2	10	N	Percentage change in Outsourcing expenses to total expenses ratio	Outsourcing Providers / Relevant Gross Operating Expenditure (Current period vis-à-vis Last reportable period)							
12	3	11	Y	Claimed false exemption status in last five years	Licensee claimed exemption status but the claim was not accepted by a Regulatory Authority	N		-10.00%	0.000	0.000	0.000	0.000
13	3	12	Y	Missed Notification filing in current	Licensee failed to file a Notification on time	Y		-10.00%	0.000	0.000	0.000	0.000
14	3	13	Y	No. of times missed Notification filing in last five years	No. of times licensee failed to file a Notification on time in the last five years	1		-10.00%	0.000	0.000	0.000	0.000
15	3	14	Y	Late ESR Report filing in current	Licensee failed to file an ESR Report on time	Y		-10.00%	0.400	0.400	0.100	0.500
16	3	15	Y	No. of times missed ESR Report filing in last five years	No. of times licensee failed to file an ESR Report on time in the last five years	1		-10.00%	0.200	0.200	0.100	0.500
17	3	16	Y	pass the verification by RAs - in last five years	Average number of resubmissions to finalize ESR Report in last five years	0		-10.00%	0.100	0.100	0.100	0.500
18	3	17	Y	If current year reporting is the first reporting	If current ESR Report is the first ESR Report submitted by the Licensee	Y		-10.00%	0.300	0.300	0.100	0.300
19	ABSOLUTE RISK SCORE									2,300		
20	NORMALIZED RISK SCORE									0.3714	1,000	4,500

	A	B	C
1	Dimension	Rule Description	Determination
2	IP Business	Licensee carried out Intellectual Property business during the reportable period	Yes
3	High Risk IP Business	Licensee self certifies it is a High Risk IP Licensee and elects to rebut the presumption it has failed	Yes
4	Core Income Generating Activity (CIGA)	Licensee does not conduct any Core Income-Generating Activity (CIGA) in the UAE	No
5	Directed and Managed	No board meetings held in the UAE during the Reportable Period	No
6		No directors physically present in the UAE for the board meetings held in the UAE	No
7		No strategic decisions were made during the board meetings held in the UAE	No
8	Outsourcing	Board meetings minutes and company records are not maintained in the UAE	No
9		Board of directors do not have necessary knowledge and expertise to discharge their duties	No
10		Licensee does not have adequate supervision of the CIGA carried out by the Outsourcing Provider	No
11	Adequate Qualified Employees	The CIGA was not carried out exclusively in the UAE by the Outsourcing Provider	No
12	Adequate Operating Expenditure	No employee (incl. outsourced and contractual) in the UAE, but Licensee generates revenue	No
13	Compliance History	No operating expenditure in the UAE, but Licensee generates revenue	No
14	Audit Required?	Failed ESR test in last reportable period	No
15			Yes



Ministry of Finance (MOF) Perspective



IN THE F2 DESKTOP CLIENT, **MOF CAN ACCESS ALL CASES**, ADMINISTER THE SYSTEM, AND GENERATE DATA EXCHANGES VIA THE OECD CTS PORTAL.

MOF uses the case guide feature to **select parameters for the data exchange**, including the tax year, 1 of 7 reporting reasons under the NTJ schema, and one or more participating countries to receive the data.

Economic Substance Requirements - Exchange

- Exchange
 - Set values for WebPush task
 - Create case for OECD integration

Set values for WebPush task

Edit Save Cancel

Information

Year:

Reason:

Mode:

- Draft
- Final
- Draft Correction
- Final Correction

Country

Afghanistan:	<input type="checkbox"/>
Albania:	<input checked="" type="checkbox"/>
Algeria:	<input type="checkbox"/>
American Samoa:	<input type="checkbox"/>
Andorra:	<input checked="" type="checkbox"/>
Angola:	<input checked="" type="checkbox"/>
Anguilla:	<input type="checkbox"/>
Antarctica:	<input type="checkbox"/>
Antigua and Barbuda:	<input type="checkbox"/>
Argentina:	<input type="checkbox"/>
Armenia:	<input type="checkbox"/>
Aruba:	<input type="checkbox"/>
Australia:	<input checked="" type="checkbox"/>



Ministry of Finance (MOF) Perspective



F2 QUERIES THE DATABASE OF FILINGS, RETURNS THOSE THAT MATCH THE PARAMETERS, AND GENERATES XML FILES TO PACKAGE, ENCRYPT, AND UPLOAD TO THE OECD CTS PORTAL FOR EACH COUNTRY.

The system also includes **tools to correct previously sent XML files** – either automatically or upon request from the receiving country.

The screenshot displays a software interface with a top toolbar containing various icons for navigation, editing, and document management. Below the toolbar is a form with the following fields:

- Title: OECD Reporting NTJ401 NTJ804 2019
- Status: In progress
- Deadline: [Empty]
- Responsible: Ministry of Finance
- Letter date: [Empty]
- Case: 2021 - 2380
- Registered: Record No:
- M4: Don't show in MR4 for members, wh...
- Access: All
- Keyword: [Empty]
- Created date: 15-06-2021 21:02 by Matt Nichols
- External access: Open

On the right side, there is a document list:

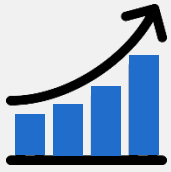
- Akttdokument
- UpdatedCases.csv
- AE_NTJ_BR-461382ad-c480-4fba-b54d-e9c4e31afd40.xml
- AE_NTJ_AR-58dc668f-dd96-4d5f-ba7f-4c0d538e44f9.xml

At the bottom, a Notepad window shows the following XML code:

```

<?xml version="1.0" encoding="utf-8"?>
<NTJ_OECD xmlns:xsd="http://www.w3.org/2001/XMLSchema" xmlns:xsi="http://www.w3.org/2001/XMLSchema-instance" version="1.0" xmlns="urn:oe.cd:ties:ntj:v1">
  <MessageSpec>
    <TransmittingCountry>AE</TransmittingCountry>
    <ReceivingCountry>AR</ReceivingCountry>
    <MessageType>NTJ</MessageType>
    <MessageRefId>AEAR-58dc668f-dd96-4d5f-ba7f-4c0d538e44f9</MessageRefId>
    <MessageTypeIndic>NTJ401</MessageTypeIndic>
    <ReportingPeriod>2019-12-31</ReportingPeriod>
    <Timestamp>2021-06-15T19:02:02.050</Timestamp>
  </MessageSpec>
  <NtjBody>
    <ReportableEntity>
      <Entity>
        <ResCountryCode>AE</ResCountryCode>
        <TIN>NOTIN</TIN>
      </Entity>
    </ReportableEntity>
  </NtjBody>
</NTJ_OECD>

```



Summary and Project Benefits

- Ensured the client remained in **compliance with OECD requirements** on a very tight timeline – 3 months from kick-off to go-live.
- **Enabled +30,000 companies to file within 1 month of launch.**
- Brought together **39 government agencies on 1 unified platform** – no information silos, 1 common source of truth.
- Onboarded **more than 200 government users** to manage cases.
- Staffed a level 1 help desk that provided timely (**< 1 day response time**) support in multiple languages.
- By linking filings using a 'company case', **built a first-of-its-kind register of all companies in the country.**

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