



**By email (carf@fstb.gov.hk)**

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Financial Services and the Treasury Bureau  
(Treasury Branch)  
24/F, Central Government Offices  
2 Tim Mei Avenue, Tamar  
Hong Kong

Attn: Ms Candy Yeung

Dear Sirs,

**Re. Consultation Paper - Implementation of Crypto-asset Reporting Framework and Amendments in relation to Common Reporting Standard in Hong Kong**

The Hong Kong Institute of Certified Public Accountants (“the Institute”) appreciates the opportunity to provide feedback on the proposals regarding the implementation of crypto-asset reporting framework (“CARF”) and amendments in relation to common reporting standard (“CRS”) in Hong Kong. The Institute’s Taxation Faculty Executive Committee has reviewed the proposals in the consultation paper (“CP”) and welcomes the Hong Kong SAR Government (“the Government”)’s proposals to implement the CARF and enhance the CRS administrative framework to align with the Organisation for Economic Co-operation and Development (“OECD”)’s international standards. We fully support the Government’s policy objective of enhancing tax transparency and strengthening the administrative framework, while maintaining Hong Kong’s competitiveness as an international financial centre. Our general and more specific comments are set out below for your consideration.

**1. General comments on the proposals**

Hong Kong has long been supportive of international efforts to enhance tax transparency and combat cross-border tax evasion. The city implemented the CRS, an international standard developed by the OECD for the automatic exchange of financial account information (“AEOI”) in 2016, and started its first exchange of information with its AEOI partners in 2018.

In the light of the rapid development of digital asset markets in recent years, in 2023, the OECD published the “*International Standards for Automatic Exchange of Information in Tax Matters: Crypto-Asset Reporting Framework and 2023 update to the Common Reporting Standard*”<sup>1</sup>, to provide for the automatic exchange of tax information on crypto-asset transactions with partner jurisdictions on an annual basis, and also incorporated into the CRS new digital financial products and enhanced requirements regarding reporting and due diligence. In view of the rapid growth of the crypto-asset market, Hong Kong has been identified as one of the immediately relevant jurisdictions. To ensure an effective global implementation of CARF on a

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<sup>1</sup> [https://www.oecd.org/content/dam/oecd/en/publications/reports/2023/06/international-standards-for-automatic-exchange-of-information-in-tax-matters\\_ab3a23bc/896d79d1-en.pdf](https://www.oecd.org/content/dam/oecd/en/publications/reports/2023/06/international-standards-for-automatic-exchange-of-information-in-tax-matters_ab3a23bc/896d79d1-en.pdf)

level playing field, the Global Forum on Transparency and Exchange of Information for Tax Purposes has invited all tax jurisdictions that host a relevant crypto-asset sector, and have been identified as immediately relevant to CARF, to implement it.

We note that, in the 2025 Policy Address (Supplement page 51)<sup>2</sup>, the Government has committed to introduce legislative proposals on CARF implementation into the Legislative Council (“LegCo”) in 2026, with the target of achieving automatic exchange of tax-relevant crypto-asset transaction information with other tax jurisdictions starting from 2028, to combat cross-border tax evasion and enhance international tax transparency. The CRS will also be updated to CRS 2.0, to address emerging risks and expand the scope of the framework to include central bank digital currencies, specified electronic money products, and indirect crypto-asset investments made through derivatives and investment entities, which are not reportable under the CARF.

As these frameworks have been finalised through international consensus, and Hong Kong has no discretion to diverge from them, the CP concentrates on areas where choices remain, including the introduction of mandatory registration requirements for reporting financial institutions (“RFIs”) and reporting crypto-asset service providers (“RCASPs”), and an enhanced penalty regime and record-keeping requirements, which are broadly aligned across both regimes. The proposed implementation of CARF and CRS 2.0 will start from 1 January 2027 and 1 January 2028 respectively. We support this proposed implementation as it will ensure that Hong Kong’s AEOI regime continues to be aligned with the prevailing international norms on a timely basis, while also demonstrating Hong Kong’s strong commitment to enhancing tax transparency.

To ensure effective implementation, it is important that Hong Kong’s adoption of CARF remains consistent with global standards on an ongoing basis. However, we understand that crypto-asset markets, including the types of crypto-assets offered, the entities and individuals active in, and the technology supporting, the markets, are evolving rapidly. It is anticipated that the OECD will continue developing guidance to support the consistent application of the CARF, including on the definition of Relevant Crypto-Assets and in particular the criteria for adequately determining that a crypto-asset can or cannot be used for “payment or investment purposes”. Therefore, we hope that ongoing guidance will be provided to ensure clarity, certainty and consistency with global standards.

## **2. Comments on the specific proposals in the CP**

### **RCASPs to collect and report information of reportable persons (Question 1 of the CP)**

The CP proposes that RCASPs must carry out due diligence procedures in respect of reportable persons for reporting purposes and they may conduct the same procedures in respect of non-reportable persons (similar to section 50B(3) of the Inland Revenue Ordinance (Cap.112) as applicable under the existing CRS), even though they are not required to report the information collected to the Inland Revenue Department (“IRD”). While we support this approach, as it can offer operational flexibility and promote a more comprehensive due diligence practice throughout the

<sup>2</sup> [https://www.policyaddress.gov.hk/2025/public/pdf/supplement/supplement-full\\_en.pdf](https://www.policyaddress.gov.hk/2025/public/pdf/supplement/supplement-full_en.pdf)

industry, in order not to create a misleading impression, RCASPs should be encouraged to make clear to users of their services that, while they are empowered to seek this information, this does not necessarily mean that a particular user is a reportable person.

*Mandatory registration for RCASPs and RFIs (Questions 3 & 8 of the CP)*

The CP proposes the introduction of the mandatory registration for all RCASPs that have a nexus with Hong Kong under CARF and all RFIs in Hong Kong (including those that do not currently maintain CRS reportable accounts). Given that relevant entities may not have reviewed their CRS obligations since the initial implementation in 2018, it is essential for the Government to actively promote and communicate the mandatory registration requirements to the industry. This will alert entities to revisit their compliance status and make informed decisions, including the early determination of the appropriate reporting nexus.

To reduce relevant entities' administrative burden, we suggest adopting batch registration arrangement, enabling multiple RCASPs and RFIs to be registered in a single submission. The annual registration deadline should also be fixed at, say, 31 January or 31 March, instead of rolling deadlines. This could help relevant entities to improve their planning and alignment with other jurisdictions.

To avoid potential registration delays, the IRD should also consider simplifying the service provider appointment process, e.g., streamlining Form IR1459 (Notification of Details of Person Authorized to Register/ Operate an AEOI Account) by allowing digital submission to facilitate quicker processing.

We understand that e-Certs are required for the registration on the AEOI Portal and, as mentioned in the CP, the IRD will explore whether the current login mechanism can be enhanced, such that RFIs or their service providers can choose to access the AEOI Portal by logging into new tax portals without using e-Certs. Since it would take some time and additional charges for the relevant entities to apply for e-Certs to meet the proposed mandatory registration requirement, we support exploring alternatives to the current e-Cert requirement for authentication and registration on the tax portals. Among other things, the IRD should consider simplifying the registration and nil reporting processes for RFIs without CRS reportable accounts. In addition to removing the e-Cert requirement for registration, the issuance of dummy business registration numbers should also be considered, as this would facilitate RFIs with limited business operations in Hong Kong to comply with the new requirements.

*Penalty framework for CARF and the enhanced penalty framework for CRS (Questions 4 & 10)*

The CP proposes that a service provider ("SP") engaged to fulfil reporting and due diligence obligations of an RCASP or RFI will be subject to penalty provisions, ranging from a level 3 fine of HK\$10,000 to a level 5 fine of HK\$50,000, and also potentially, a term of imprisonment of up to three years. As we have done in relation to similar proposals in the past, we would argue not to include these penalties for SPs, as RCASPs and RFIs ultimately bear the responsibility for any non-compliance and the SP role is only to assist them in fulfilling their legal obligations. Incorporating penalties for SPs, particularly criminal penalties, sends a confusing message to other stakeholders as to where the legal responsibility lies. For this reason, we also

continue to advocate for removing the existing penalty provisions against SPs under the CRS. As a minimum, we recommend that penalties for SPs be limited to cases involving wilful misconduct.

At the same time, if penalties on SP are retained, we suggest that the Government consider distinguishing penalties for SPs that solely support RCASPs and RFIs in CRS and/or CARF reporting conversion and submission, rather than those providing end-to-end compliance support, which may include due diligence under CRS and/or CARF. The definition of “service providers” should also be refined to include only those undertaking obligations on behalf of RCASPs and RFIs.

The Government should consider the option of establishing a statutory maximum penalty that may be applied to a single breach, or a single calendar year. This approach is quite common in AEOI regimes and does not imply that the overall penalty amounts will necessarily be low. For example, the Inland Revenue Service in the United States typically imposes upper limits penalties for information returns, while allowing for unlimited penalties in cases of “intentional disregard”. While an uncapped amount may be difficult to communicate and embed in internal risk frameworks, an appropriate upper limit is more concrete and can be more effective at conveying the seriousness with which a tax authority views potential non-compliance.

We understand that proposed sanctions for non-compliance by RFIs and RCASPs are based on “each financial account involved” and “each crypto-asset user or controlling person involved”. This indicates that an inadvertent error in systems or processes could lead to significant penalties, especially if it affects a large number of customers. We look forward to seeing IRD guidance on where penalties may be mitigated or reduced.

We note that an “administrative penalty” mechanism is proposed as an alternative to prosecution for both CARF and CRS. While this approach will provide a cost-effective method for the IRD to administer compliance, the basis for applying either one mechanism or the other should not be entirely discretionary. We hope that the IRD will provide additional guidance to clarify the circumstances under which cases would result in criminal prosecution versus administrative penalties.

#### *Filing CARF Returns (Questions 5 & 6 of the CP)*

According to the CP, the IRD will issue electronic notices to all RCASPs with an active account in the CARF Portal annually in January for the filing of CARF Returns. To allow sufficient time for the IRD to extract relevant data for exchange purposes, the CP proposes requiring RCASPs to file a CARF Return within five months after the calendar year to which the information relates. We suggest establishing a fixed annual filing deadline, e.g., 31 May, rather than a post-notice deadline, to enhance predictability and facilitate group-wide planning.

We understand that RCASPs may develop their own computer software for generating data files in accordance with the data specifications issued by the IRD. Alternatively, they may use the data preparation tool accessible in the CARF Portal. We appreciate the IRD’s recognition of options, as this flexibility will benefit RCASPs of all sizes. Furthermore, we recommend the early release of comprehensive guidance and staged testing to facilitate a smooth system adoption.



Dual reporting under CARF and CRS 2.0 (Question 7 of the CP)

The CP proposes adopting the default treatment regarding the requirement for RFI to report the gross proceeds from the sale or redemption of financial assets under CRS, irrespective of whether such gross proceeds have been reported under CARF. The CP mentions that the optional treatment, allowing RFIs to omit CRS reporting if the proceeds are reported under the CARF, could introduce additional complexity and technical challenges. We understand that the Government aims to reduce the implementation burden for these entities by adopting the default treatment. However, we believe that the optional approach could provide greater flexibility for RFIs to manage their reporting obligations according to their operational needs and system capabilities. Furthermore, with the default treatment, there is the added risk that, if an RFI inadvertently misreports the same information, it could end up being legally liable under two different regimes. We recommend, therefore, adopting the optional approach to allow RFIs to opt out of CRS reporting of gross proceeds, if these amounts have already been reported under the CARF, as this will reduce data duplication, the reporting burden, and potential liabilities, as well as the IRD's processing workload, while maintaining tax transparency.

To conclude, while we broadly welcome the proposed CARF and CRS 2.0, we hope that the Government will consider and address the issues raised in this submission and provide sufficient clarification and guidance before proceeding with them. Since the proposed measures could have significant implications for the operations of financial institutions and RCASPs in Hong Kong, we would suggest that the Government promotes the initiatives to the industry actively, and allows sufficient time for them to put in place any updated processes and systems to meet the additional due diligence and reporting requirements.

Should you have any questions on this submission, please do not hesitate to contact Peter Tisman at [peter@hkicpa.org.hk](mailto:peter@hkicpa.org.hk).

Yours faithfully,

Peter Tisman  
Director  
Advocacy & Practice Development

PMT/SC/pk