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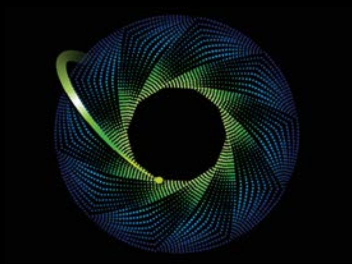

Hong Kong Tax Newsflash

Implementation of Crypto-Asset Reporting Framework and Amended CRS in Hong Kong

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The Hong Kong Government has recently released a consultation paper "Implementation of Crypto-Asset Reporting Framework (CARF) and Amendments in relation to Common Reporting Standard (CRS) in Hong Kong", jointly issued by the Financial Services and the Treasury Bureau (FSTB) and the Inland Revenue Department (IRD). This initiative underscores Hong Kong's commitment to global tax compliance and its response to evolving digital asset markets. The public is invited to provide feedback by 6 February 2026.

CARF: A New Era of Crypto-Asset Transparency

CARF provides a mechanism for the reporting and automatic exchange of tax information on crypto-assets by source jurisdiction[1] to the jurisdiction of residence of the crypto-asset users[2] and their controlling persons on an annual basis.

As outlined in the consultation paper, Hong Kong aims to commence its first CARF-based information exchanges with partner jurisdictions in September 2028, and Reporting Crypto-Asset Service Providers (RCASPs) will be required to collect the information required under CARF starting from 1 January 2027.

CARF introduces comprehensive reporting obligations for RCASPs — defined as any individual or entity that, as a business, executes exchange transactions involving crypto-assets for or on behalf of customers. This includes any individual or entity making available a trading platform, centralized and decentralized exchanges, brokers, dealers, and operators of crypto-asset automated teller machines (ATMs).

RCASPs will be required to:

- Identify users and controlling persons who are tax residents in reportable jurisdictions;
- Collect self-certifications and conduct due diligence on the users, taking into consideration of anti-money laundering (AML) / know your customer (KYC) procedures;
- Report detailed transaction data, including but not limited to, full name, gross amounts, number of units, and fair market value for:
    - Exchanges between crypto-assets and fiat currencies;
    - Exchanges between different crypto-assets;
    - Transfers of crypto-assets (including staking, airdrops, and peer-to-peer transfers).

[1] The jurisdiction in which tax information on crypto-assets is collected.
[2] An individual or entity that is an account holder or a customer of a Reporting Crypto-Asset Service Provider for the purposes of carrying out transactions.

Most crypto-assets are within the scope of CARF, except for central bank digital currencies (CBDCs) and low-risk specified electronic money products (SEMPs), which will be covered under the amended CRS requirements (to be discussed below).

Mandatory Registration and Compliance Infrastructure

All relevant RCASPs with a reporting nexus to Hong Kong[3] must register through a new CARF Portal, irrespective of whether the RCASP has any CARF information to report. This mirrors similar proposals for reporting financial institutions (RFIs) under the amended CRS requirements.

An RCASP that does not have any CARF information to report in a particular year will still be required to file a nil return and provide explanations for the nil reporting. For RCASPs that have CARF information to be reported, data must be submitted in XML format, either generated through self-developed systems (subject to IRD's validation) or via data preparation tool accessible in the CARF Portal. Encryption using digital certificate (e-Cert) will be required.

Penalty Provisions under the Proposed CARF

To ensure robust compliance with the new reporting obligations, the consultation proposes a graduated penalty framework for RCASPs. The proposed administrative penalties for failures are summarized as follows:

<table>
<tr><th>Offences</th><th>Proposed penalties</th></tr>
<tr><td>Failure to register an account in the CARF Portal</td><td rowspan="2">Conviction to a fine at level 3 (HK$10,000) and a further fine of HK$500 for each day of continuing offence after conviction</td></tr>
<tr><td>Failure to file a CARF return</td></tr>
<tr><td>Failure to comply with the requirements for carrying out due diligence obligations</td><td rowspan="3">Conviction to a fine at level 3 (HK$10,000) or HK$1,000 for each crypto-asset user or controlling person involved, whichever is the higher</td></tr>
<tr><td>Making an incorrect or incomplete return or providing incorrect or incomplete information or statements</td></tr>
<tr><td>Failure to notify IRD of the discovery of misleading, false or inaccurate return, information or statements</td></tr>
<tr><td>Failure to comply with any other obligations (e.g. notifying IRD of change of contact details in case of dissolution or termination of business, providing information required and keeping sufficient records).</td><td>Conviction to a fine at level 3 (HK$10,000)</td></tr>
</table>

Under certain circumstances, particularly intentional omissions, falsification of information, or willful non-compliance, criminal penalties would apply, including a maximum fine of HK$100,000 and up to three years' imprisonment. Such penalties could also be applied to service providers engaged or persons employed by an RCASP. These penalty provisions aim to deter non-compliance while aligning with international enforcement standards, and reinforcing Hong Kong's commitment to tax transparency in the rapidly evolving digital asset ecosystem.

Strengthening the CRS Regime: Modernization and Compliance

As part of its broader effort to strengthen the framework for CRS and align with the requirements of the OECD, the Hong Kong government also proposed amendments to the existing CRS regime. These modifications are intended to

[3] An RCASP would be regarded as having a reporting nexus to Hong Kong if it is:
(a) a tax resident in Hong Kong;
(b) incorporated in and have legal personality or obligations to file tax returns in Hong Kong;
(c) managed from Hong Kong; or
(d) having a regular place of business in Hong Kong.

address deficiencies noted in the OECD's peer review, update reporting standards for digital products, and enhance administrative oversight.

Mandatory Registration and Enhanced Reporting Requirements

A key proposal is the mandatory registration requirement for all RFIs in Hong Kong on the automatic exchange of information in tax matters (AEOI) Portal for CRS reporting purposes, irrespective of whether RFIs have any information to report to the IRD. The new requirement, which will take effect starting from 1 January 2027, will allow the IRD to maintain a comprehensive and current registry of reporting entities, thereby enhancing communication, compliance monitoring, and audit preparedness.

In addition, starting from 1 January 2028, RFIs will be required to report additional information under new CRS schema requirements, such as:

- Account type (e.g. depository account, custodial account, etc);
- Indication of joint account and the number of joint account holders;
- Specific roles of controlling persons (e.g., settlor, trustee, beneficiary);
- Indication of 'new' or 'pre-existing' account;
- Whether a valid self-certification is provided.

These enhancements will improve both the accuracy and usability of exchanged information, while also ensuring that RFIs remain compliant with relevant standards.

Expansion to Digital Money and Investment Entities

The consultation also proposes updating the scope of reportable accounts to reflect the evolving financial landscape:

- CBDCs and SEMPs held in accounts will be treated as depository accounts under CRS, subject to due diligence and reporting.
- A new category of excluded account to exempt low-risk digital money products (e.g. SEMP accounts with average balance below US$10,000 in any consecutive 90-day period) to minimize compliance burdens.

Furthermore, the definition of investment entities will be expanded to include crypto-assets as a category of eligible investments.

Dual Reporting and Strengthening Enforcement

Notably, the government confirms that dual reporting may apply for certain crypto-asset transactions, e.g. the gross proceeds from sales or redemptions of relevant crypto-assets.

The government proposes not adopting the CRS optional relief (which would exempt RFIs from reporting gross proceeds if already reported under CARF) as RFIs/RCASPs may use separate IT systems for CARF and CRS. While there could be overlaps, not adopting the CRS optional relief may reduce implementation complexity and the administrative burden for RFIs which are also RCASPs.

To reinforce compliance, the CRS amendments also propose:

- Six-year record retention for all due diligence and reporting documentation;
- Responsibility for record keeping even after dissolution of RFIs (assigned to former directors or officers);
- Enhanced penalty provisions in respect of RFIs' non-compliance (similar to "Penalty Provisions under the Proposed CARF" above), including administrative fines at level 3 (HK$10,000) and graduated penalty scaled according to number of days of continuing offence or number of involved financial accounts;
- A maximum fine of HK$100,000 and up to three years' imprisonment for any intentional misconduct.

What's next?

With legislation expected to be introduced into the Legislative Council in early 2026, stakeholders have a critical window to respond to the consultation by 6 February 2026 and shape the final rules. Key consultation questions include but limited to:

- Views on mandatory registration for RCASPs and RFIs;
- Preference for self-developed software vs. IRD's data tool;
- Feedback on penalty structure and administrative penalties;
- Opinions on dual reporting under CARF and CRS.

Our observations

The consultation paper demonstrates Hong Kong's proactive approach to aligning with international tax transparency standards, especially in light of the rapid development of digital assets. By implementing the CARF and enhancing the CRS regime, the government is not only meeting its international obligations but also upholding our standing as a reputable international financial centre.

The introduction of mandatory registration requirements for both RCASPs and RFIs represents a transition from a self-assessment framework to a more robust regulatory oversight regime. This new requirement will align the approach of most other participating jurisdictions and strengthen the IRD's capacity to monitor compliance, conduct targeted reviews, and engage effectively with RCASPs and RFIs to achieve overall compliance.

The proposed amendments to penalty provisions have increased significantly, especially for RFIs with large number of account holders. This amendment reflects an enhanced focus on compliance requirements and to better align with international standards.

We welcome the Hong Kong government's proactive measures and encourage market participants to contribute to the consultation process. It is also advisable for key stakeholders, particularly RCASPs and RFIs, to:

- Assess whether they fall within the scope of RCASP or expanded RFI definitions;
- Review the registration requirements which may be applicable to RFIs in company groups which have not maintained reportable accounts;
- Review and enhance client onboarding and KYC processes for alignment with new due diligence requirements;
- Plan for system upgrades, data collection, and integration with the CARF Portal and new CRS schema requirements;
- Prepare for potential dual reporting obligations under CARF and CRS.

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