



Hong Kong Tax Newsflash

Draft Legislation on the Crypto-Asset Reporting Framework (CARF) and Amended Common Reporting Standard (CRS) Gazetted

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Following the public consultation between December 2025 and February 2026 (Consultation)¹, the Hong Kong Government has gazetted the Inland Revenue (Amendment) (Crypto-Asset Reporting Framework and Amended Common Reporting Standard) Bill 2026 (the “Bill”) on 22 May 2026. This follows the earlier gazetting of the Inland Revenue (Amendment) (Automatic Exchange of Information) Bill 2026 in March 2026. The Bill introduces a comprehensive legal framework to implement the Organisation for Economic Co-operation and Development (OECD)’s Crypto-Asset Reporting Framework (CARF) and the amended Common Reporting Standard (CRS 2.0), reinforcing Hong Kong’s commitment on international tax transparency and compliance with OECD requirements.

The Bill focuses on two parallel but complementary reporting obligations:

- CARF, a new regime proposed to be effective from 1 January 2027, will require Hong Kong Reporting Crypto-asset Service Providers (HKRCASPs) to conduct due diligence and report on transactions involving relevant crypto-assets.
- CRS 2.0, proposed to be effective from 1 January 2028, will enhance and modify the current CRS requirements, including but not limited to, expanding the scope of existing CRS reporting to include holdings of crypto-assets, central bank digital currencies (CBDCs), and specified electronic money products (SEMPs).

This legislative proposal is based on the latest OECD framework and addresses the rapid growth of the digital asset market and enhances international tax transparency.

It is important to note that this Bill is distinct from the earlier Inland Revenue (Amendment) (Automatic Exchange of Information) Bill 2026 gazetted in March 2026, which focuses on strengthening the administrative and compliance framework for the existing CRS regime. The Legislative Council (LegCo)’s Bills Committee (Committee) has completed its scrutiny of the Inland Revenue (Amendment) (Automatic Exchange of Information) Bill 2026 and the Bill would be scheduled for Second Reading debate at the LegCo. The Committee has also proposed several Committee Stage Amendments (CSAs) and urged to strike a balance in implementation, in order to avoid “over-implementation” that could undermine Hong Kong’s tax competitiveness.

Key Features of the Crypto-Asset Reporting Framework (CARF)

The Bill establishes a new and comprehensive reporting regime for crypto-assets, effective from 1 January 2027.

¹ For details, please refer to our [Hong Kong Tax Newsflash Issue 255](#).

Scope of Relevant Crypto-Assets

CARF applies to “relevant crypto-assets,” defined as digital representations of value that rely on cryptographically secured distributed ledger or similar technology to validate and secure transactions. These assets must represent a right to value that can be traded or transferred digitally, including both fungible and non-fungible tokens.

However, the following are explicitly excluded from CARF:

- Central Bank Digital Currencies (CBDCs): Digital fiat currencies issued by a central bank.
- Specified Electronic Money Products (SEMPs): Digital money products that meet specific regulatory and exchangeability criteria, such as stablecoins pegged to a single fiat currency.
- Crypto-assets which a Reporting Crypto-asset Service Provider (RCASP) adequately determines cannot be used for payment or investment purposes.

(Note: CBDCs and SEMP would be covered under CRS 2.0 to be discussed later.)

Definition and Nexus of HKRCASPs

An RCASP is an individual or entity that provides, as a business, a service of effectuating exchange transactions for or on behalf of customers, including by way of acting as a counterparty to, or as an intermediary of, the exchange transactions, or by making available a trading platform. This includes:

- Crypto-asset exchanges;
- Brokers and dealers in relevant crypto-assets;
- Operators of crypto-asset automated teller machines (ATMs), etc.

An RCASP is regarded as an HKRCASP if it meets any one of the following nexus criteria:

1. An individual or entity that is a tax resident in Hong Kong
2. An entity that is incorporated or organized under the laws of Hong Kong and has a legal personality or a tax filing obligation in Hong Kong
3. An entity that is managed from Hong Kong
4. An individual or entity that has a regular place of business in Hong Kong

An RCASP with a Hong Kong branch is subject to CARF obligations only for the relevant transactions conducted through that branch. However, if the HKRCASP has branches in non-partner jurisdictions, the RCASP remains fully subject to the reporting and due diligence requirements in Hong Kong with respect to the relevant transactions effectuated through those branches.

In cases where an RCASP complies with the specified requirements in a partner jurisdiction with a higher reporting nexus, it is not required to comply with the due diligence and reporting requirements in a jurisdiction.

Due Diligence and Self-Certification Requirements

HKRCASPs must implement due diligence procedures on all crypto-asset users and their controlling persons (for certain entities) to identify any reportable user or person and collect the required information. For new crypto-asset users and their controlling persons (who onboarded on or after 1 January 2027), a self-certification must be obtained prior to account opening. For pre-existing crypto-asset users and their controlling persons (who have established a relationship with the RCASP as of 31 December 2026), self-certifications must be collected by 1 January 2028.

Key requirements of due diligence procedures include:

- Obtaining complete self-certifications confirming tax residency and Tax Identification Numbers (TINs), where required
- Verifying the reasonableness of self-certifications or documentary evidence, and taking further measures to ascertain the jurisdiction of residence of the account holder or controlling person (including through raising

further questions or ascertaining the reasonableness of responses accompanied by relevant supporting documentation, if any), particularly where:

- A tax residence is claimed in a jurisdiction with a potentially high-risk citizenship or residence-by-investment (CBI or RBI) scheme as identified by the OECD
- A TIN is missing despite being issued to all tax residents in the claimed jurisdiction as per the information disseminated by the OECD
- Anti-money laundering (AML) / know your customer (KYC) updates conflict with the information provided in the self-certification
- For individuals with tax residencies in multiple jurisdictions, tiebreaker rules do not apply. All jurisdictions of tax residence must be declared.

HKRCASPs may rely on due diligence already performed under CRS if they are also Reporting Financial Institutions (RFIs), but must ensure consistency across regimes.

Transaction Reporting Obligations

CARF is a transactional reporting regime, requiring HKRCASPs to report the following “relevant transactions”:

- Exchanges between relevant crypto-assets and fiat currencies;
- Exchanges between relevant crypto-assets of the same or different forms;
- Transfers of relevant crypto-assets, including transfers of relevant crypto-assets in consideration of goods or services for a value exceeding HK\$390,000.

A transfer includes any movement of a relevant crypto-asset from or to the crypto-asset address or account of the crypto-asset user (other than one maintained by the RCASP on behalf of the same crypto-asset user) unless the RCASP can determine it is an exchange transaction.

For each reportable year, the HKRCASP must report:	
For each reportable crypto-asset user and any of their controlling persons who are reportable persons	<ul style="list-style-type: none"> • Name • Address • Jurisdiction(s) of tax residence • TIN(s) • Date and place of birth (for individual) • Role of controlling person (for controlling person)
For each type of the relevant crypto-asset which the HKRCASP has effectuated relevant transactions during the year	<ul style="list-style-type: none"> • Name of each type of the relevant crypto-asset • Aggregate gross amount (or fair market value) net of transaction fee of the relevant crypto-asset • Aggregate number of units • Number of relevant transactions

Dual Reporting Relief

Where an HKRCASP is also a Reporting Financial Institution (RFI) under CRS, gross proceeds from the sale or redemption of crypto-assets may be reportable under both CARF and CRS 2.0. To avoid duplication and based on the response from the Consultation, the Bill has proposed allowing RFIs to choose whether or not to report such information under CRS if it is already reported under CARF.

Mandatory Registration for RCASPs

All HKRCASPs are required to register on the Inland Revenue Department (IRD)'s CARF Portal, regardless of whether they have any CARF information to report. The registration must be made on or before 31 January of the calendar year following the calendar year in which the entity first meets any nexus criteria of being an HKRCASP.

Record-Keeping Requirements

All HKRCASPs are required to keep sufficient records of the information required for a CARF return for a period of six years after the due date by which the CARF return is required to be furnished. If the HKRCASP is dissolved, every person who was a director (or if there was no director, a trustee or person who was responsible for the management) of the HKRCASP immediately before the dissolution must ensure records are retained for the full six-year retention period and notify IRD within one month after its dissolution. HKRCASPs that have ceased business but have not been dissolved are also subject to the six-year record keeping requirement and must notify the IRD within one month after its cessation.

Strengthened Penalties and Enforcement

The Bill introduces robust and multi-layered sanctions in respect to HKRCASP's non-compliance and penalties calculated based on the number of crypto-asset users or controlling person involved for certain offences. Service providers and former directors of dissolved HKRCASPs may also be subject to penalties under the Bill.

The key proposed penalties for CARF are summarized as follows:

Offences	Penalties
Failure to register an account in the CARF Portal	Liable to a fine at level 3 (HK\$10,000) and a further fine of HK\$500 for each day of continuing offence after conviction
Failure to file a CARF return	
Failure to carry out due diligence obligations	Liable 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
Making an incorrect or incomplete return or providing incorrect or incomplete information or statements	
Failure to notify IRD of the discovery of misleading, false or inaccurate returns, information or statements	
Failure to keep sufficient records for a specified period	Liable to a fine at level 3 (HK\$10,000)
Failure to notify IRD of cessation / recommencement of being an RCASP within a specified timeframe	
Failure to notify IRD of change of address upon cessation of being an RCASP within a specified timeframe	
Failure to notify IRD of dissolution of RCASP within a specified timeframe	
failure to notify IRD of change of contact details in the case of dissolution within a specified timeframe	
A person who provides, knowingly or recklessly, misleading, false or incorrect information in a material particular to RCASPs in making self-certification	
An RCASP which knowingly or recklessly provides misleading, false or inaccurate information in a material particular when furnishing returns, statements or	Liable to a fine at level 4 (HK\$25,000) or HK\$5,000 for each crypto-asset user or controlling person involved, whichever is higher

information, or having no reasonable ground to believe that the information is true or accurate	
An RCASP which provides misleading, false or inaccurate information in a material particular when furnishing returns, statements or information with intent to defraud	<p>On summary conviction: Liable to a fine at level 5 (HK\$50,000) or HK\$10,000 for each crypto-asset user or controlling person involved, whichever is higher, and imprisonment for 6 months</p> <p>On indictment: Liable to a fine at level 6 (HK\$100,000) or HK\$20,000 for each crypto-asset user or controlling person involved, whichever is higher, and imprisonment for 3 years</p>

CARF Implementation Timeframe

Action	Timeline
HKRCASPs to commence due diligence procedures for new and pre-existing crypto-asset users and keep relevant information and documentation	From 1 January 2027 (and by 1 January 2028 for pre-existing crypto-asset users)
IRD to issue CARF Returns to RCASPs	In January 2028
HKRCASPs that meet any of the reporting nexus to commence registration with IRD	By 31 January of the calendar year following the calendar year in which the entity first meets any nexus criteria (e.g. by 31 January 2028 for HKRCASPs that first meet the nexus in 2027)
First CARF return filing	In June 2028 (5 months from the issuance of CARF returns)
IRD to exchange information with CARF partners	In September 2028

Key Features of the Amended Common Reporting Standard (CRS 2.0)

While the introduction of the CARF represents a new chapter for Hong Kong's tax transparency regime, the amendments to the existing CRS are equally significant. The amended CRS, also referred to as CRS 2.0, modernize Hong Kong's long-standing AEOI framework to address the evolving landscape of digital assets and strengthen compliance requirements.

The amendments expand the definitions of financial assets and investment entities to cover relevant crypto-assets. At the same time, the definitions of depository account and depository institution are updated to include CBDCs and SEMP. Such amendment aligns the treatment of digital assets with traditional financial instruments for reporting purposes. In addition, CRS 2.0 introduces enhanced due diligence, additional reportable information, and strengthened administrative requirements, reflecting the OECD's latest requirements and Hong Kong's commitment to maintaining a robust AEOI system.

Expanded Scope of Financial Assets and Coverage for Digital Money Products

One of the fundamental changes under CRS 2.0 is the broadened definition of "financial asset" expressly include relevant crypto-assets.

The definitions of depository account and depository institution are also updated to cover CBDCs and SEMP. This expansion ensures that certain digital assets held in depository accounts are subject to CRS requirements and

annual reporting, even if they are not transacted. For example, a depository account now includes one that holds SEMP or CBDCs for a customer.

Enhanced Due Diligence

CRS 2.0 introduces additional due diligence requirements, effective from 1 January 2028, to improve the quality and reliability of self-certifications and reduce the risk of misclassification and undocumentation.

Key enhancements include:

- **No reliance on tiebreaker rules:** For account holders having tax residence in multiple jurisdictions. RFIs must report all jurisdictions of residence without application of tiebreaker rules under the relevant income tax treaty.
- **Validation of TINs:** RFIs must verify whether a TIN is reasonably expected to be issued in the relevant jurisdiction of residence. If a TIN is missing despite being issued to all tax residents in the relevant jurisdiction as per the information disseminated by the OECD, the self-certification is considered unreliable and further review is required.
- **Prohibition on Blind Reliance:** A self-certification cannot be accepted if it is known or reasonably known to be unreliable, including where it contradicts information obtained during AML / KYC checks or relates to a jurisdiction offering a potentially high-risk CBI or RBI scheme without further verification.
- **Treatment of New Accounts:** In exceptional circumstances, if a self-certification cannot be obtained at onboarding, the pre-existing account procedures shall apply until a valid self-certification is obtained.

These enhancements provide clear expectation and guidance which require RFIs to apply additional due diligence on top of the reasonableness reviews under the existing CRS.

Additional Reporting Requirements

CRS 2.0 mandates the reporting of additional data fields to provide more detailed information and facilitate risk assessment by the IRD. RFIs must now include the following reportable information in their annual CRS reporting:

- Whether the account is new or pre-existing
- Whether a valid self-certification was obtained
- Whether the account is a joint account and the number of joint account holders
- The type of financial account (e.g., depository, custodial)
- The role of controlling persons in passive NFEs
- The role of equity interest holders in investment entities that are legal arrangements (e.g., trusts, partnerships)

Excluded Accounts

To reduce compliance burden on low-risk arrangements, the Bill introduces two new categories of excluded accounts under CRS 2.0:

- **Low-value SEMP Accounts:** Depository accounts holding SEMP with a rolling average 90-day end-of-day account balance or value during any period of 90 consecutive days not exceeding HK\$78,000
- **Capital contribution accounts:** Accounts used solely for company formation or capital increases, provided:
 - Any amount held in the account are blocked until an independent confirmation regarding foundation or capital increase is obtained.
 - The account is closed or transformed into an account in the name of the company within 12 months.
 - Repayment of any amounts resulting from a failed foundation or capital increase (net of service provider fees and similar fees) are made solely to the persons who contributed the amounts.

Additionally, a new category of Non-Reporting Financial Institution (NRFI) is introduced for qualified non-profit entities that obtain confirmation from the Commissioner of Inland Revenue.

Enhanced Administrative and Compliance Framework

The enhanced administrative framework for the CRS was covered in the Inland Revenue (Amendment) (Automatic Exchange of Information) Bill 2026 gazetted in March 2026, which will come into effect on 1 January 2027 prior to the substantive CRS 2.0 amendments under the current Bill. This earlier legislation bill strengthened the foundation of Hong Kong's AEOI regime by introducing mandatory registration for all RFIs, regardless of whether they have reportable accounts, expanded record-keeping obligations, and strengthened the penalties and enforcement framework. Please refer to our previous Tax Newsflash² for details.

Implementation Timeframe of CRS2.0 and Enhanced Administrative and Compliance Framework

Action	Timeline
Mandatory registration for all RFIs that remain unregistered by 31 December 2026	From 1 January 2027 <ul style="list-style-type: none"> By 31 March 2027 for existing RFIs that remain unregistered by 31 December 2026 By 31 January of the following calendar year in which the financial institutions first become RFIs
Enhanced record-keeping requirements	From 1 January 2027
Enhanced penalties and enforcement framework	From 1 January 2027
RFIs to commence additional due diligence procedures under the CRS 2.0	From 1 January 2028
RFIs to file CRS returns to IRD with additional information on reportable accounts under the CRS 2.0	In June 2029
IRD to exchange information with CRS partners with additional information on reportable accounts under the amended CRS	In September 2029

What's Next?

The Bill is expected to complete its LegCo reading and passage by end of 2026, with implementation of CARF and CRS 2.0 on 1 January 2027 and 1 January 2028 respectively. It is expected that the IRD will issue updated CRS and CARF guidelines in due course.

Our Observations

The Bill marks a pivotal advancement in Hong Kong's tax transparency regime, introducing two parallel reporting frameworks in relation to digital assets: the CARF and CRS 2.0. CARF brings RCASPs into the AEOI ecosystem for the first time. HKRCASPs will be required to conduct due diligence and report transactional information on exchanges and transfers of relevant crypto-assets starting from 1 January 2027. CRS 2.0 complements this by expanding the scope of existing annual financial account reporting to cover CBDCs, SEMPAs, and relevant crypto-assets, effective from 1 January 2028.

These new and amended requirements ensure comprehensive coverage of information exchange in relation to digital assets—both transactions and balances—across the financial ecosystem. These substantive changes are

² For details, please refer to our [Hong Kong Tax Newsflash Issue 264](#).

supported by the enhanced administrative framework introduced in the earlier Inland Revenue (Amendment) (Automatic Exchange of Information) Bill 2026, effective from 1 January 2027.

Recommended Actions

For RFIs and RCASPs, the proposed CARF and CRS 2.0 requirements imply immediate action. RFIs and RCASPs must consider the following actions:

- Assess on RCASPs/RFIs status and nexus under both regimes.
- Classify digital assets (distinguishing between CARF-reportable assets and those under CRS 2.0) and determine the products/assets that may be affected under both regimes.
- Establish/Enhance policy and procedures to meet the due diligence requirements.
- Upgrade systems and processes for transaction tracking and expanded data reporting.
- Implement internal controls/procedures and arrange internal trainings.
- Register the RFIs and RCASPs and get ready for the commencement of the regimes

With the first CARF returns due in June 2028 and CRS 2.0 returns due in June 2029, readiness must be achieved well in advance.

We will continue to monitor the developments and provide further updates once the Bill is enacted and IRD releases further guidelines. Stakeholders with questions on impact assessment or preparation are welcome to contact our team.

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