

Hong Kong (SAR) Tax Alert

January 2026 | Issue 2



The proposed implementation of CARF and CRS 2.0 in Hong Kong

Summary

The HKSAR Government has launched a public consultation on the implementation of the new Crypto-Asset Reporting Framework (CARF) and related amendments to the Common Reporting Standard (CRS 2.0) promulgated by the OECD in Hong Kong SAR (Hong Kong).

The government plans to complete the necessary legislative amendments in 2026 to enable the CARF rules to be effective from 2027 and the additional CRS2.0 due diligence requirements to be applicable from 2028, respectively.

As an international financial centre, Hong Kong adheres to the latest global initiatives as part of its commitment for tax transparency, including those for crypto-asset transactions. Following the 2025 Policy Address¹, the HKSAR government published a consultation paper² in December 2025 on the implementation of the OECD's new CARF and CRS 2.0 within Hong Kong's domestic framework. The consultation paper provides an overview of CARF and CRS 2.0, sets out the government's proposals on implementing the two global initiatives in Hong Kong and seeks views on various administrative issues. The consultation period lasts for 2 months until 6 February 2026.

1. Overview of CARF

CARF is a new tax transparency framework for the reporting and automatic exchange of information in respect of crypto-assets. Reporting crypto-asset service providers (RCASPs) are required to collect the requested information and report to the relevant tax authorities on a routine basis for the first time.

Covered crypto-assets

- “Crypto asset” is defined under CARF as a digital representation of value that relies on a cryptographically secured distributed ledger or a similar technology to validate and secure transactions. All crypto assets (including cryptocurrencies, stablecoins, etc) fall within the scope of CARF, except the following:
 - central bank digital currencies (CBDCs);
 - specified electronic money products (SEMPs); and
 - crypto-assets that cannot be used for payment or investment purposes.

¹ The 2025 policy address can be accessed via this link: <https://www.policyaddress.gov.hk/2025/en/policy.html>

² The consultation paper can be accessed via this link: [https://www.fstb.gov.hk/tb/en/others/CARF_Consultation_Paper_\(Eng\)_finalised_\(cln\).pdf](https://www.fstb.gov.hk/tb/en/others/CARF_Consultation_Paper_(Eng)_finalised_(cln).pdf)

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RCASPs

- A RCASP refers to any individual or entity that, as a business, provides services executing exchange transactions in relation to crypto-assets for or on behalf of customers. Examples of RCASPs could include crypto-asset brokers / dealers / market makers, operators of certain crypto-asset automated teller machines, and certain crypto-asset exchanges, etc.

Covered transactions under CRAF

- The following types of transactions are reportable under CARF:

- any exchange between covered crypto-assets and fiat currencies;
- any exchange between one or more forms of covered crypto-assets; and
- transfer of covered crypto-assets.

Reporting and due diligence requirements

An RCASP is required to apply due diligence procedures to identify reportable persons and report prescribed information in respect of reportable users and reportable transactions.

- In broad terms, the RCASP is required to:
 - obtain self-certifications from its crypto-asset users and confirm the reasonableness of such self certifications for identifying the users' jurisdictions based on the information obtained, including any documentation collected from AML/KYC procedures. This would be similar to the requirements under CRS;
 - report aggregated transaction data for each type of covered crypto-assets, including the type of covered crypto-assets, aggregate fair market value, etc. Please note that transaction-level reporting is required under CARF, which differs from the reporting of annual financial position under CRS.
- The consultation further elaborates that the RCASP should not rely on a self-certification or documentary evidence obtained from a crypto-asset user where it knows or has reason to know that it is incorrect or unreliable (e.g. in the case of inconsistent information or a missing taxpayer identification number). The RCASP should either obtain a valid self-certification or a reasonable explanation with documentary evidence before providing services to the crypto-asset user.

Implementation timeline

The HKSAR government is planning to implement CARF in Hong Kong starting from 1 January 2027. RCASPs will be required to collect the requested information under CARF starting from 2027. The Inland Revenue Department will begin to exchange the information collected with partner jurisdictions in the OECD CARF framework starting from 2028.

2. Overview of CRS 2.0

The amendments to the existing CRS framework (i.e. CRS 2.0) as outlined in the consultation paper include the followings:

Reportable assets

The scope of reportable assets is now expanded under CRS 2.0. The changes include:

- Digital money products including SEMPs and CBDCs will now be covered.
- Depositary entities under CRS are expanded to include digital money providers that hold SEMPs and CBDCs for the benefit of customers. Depositary accounts are expanded to include accounts representing SEMPs and CBDCs held for customers;
- The scope of derivatives under CRS is also expanded to derivative contracts referencing crypto-assets, as is the scope of investment entities, which will include investment entities carrying out activities of investing in crypto-asset.

Expansion of reporting requirements

- Reporting under CRS is expanded to cover (i) the role of controlling person in relation to the entity account holder and the role(s) of equity interest holders in an investment entity, (ii) declaration of whether the account is a pre-existing or new account and whether a valid self-certification has been obtained, (iii) whether the account is a joint account and the number of joint holders, and (iv) the type of financial account.

Updates to due diligence procedures

The HKSAR government intends to implement the CRS 2.0 due diligence procedures from 1 January 2028, with the first exchange of data under CRS 2.0 in 2029. Reporting financial institutions (RFIs) would have one additional year to enhance their CRS 2.0 compliance procedures compared to the CARF implementation timeline. Key updates under the proposed CRS 2.0 rules include:

- RFIs must apply substantially similar AML/KYC procedures if such procedures are inconsistent with the 2012 FATF Recommendations.
- In cases where a valid self-certification has not been obtained for pre-existing accounts, RFIs are required to temporarily determine the residence of the account holders and/or controlling persons as part of the due diligence procedures. It should also be noted that one of the additional CRS 2.0 reporting data fields include the availability of a valid self-certification.
- For account holders who are tax resident in two or more jurisdictions, the account holder is required to self-certify their tax residence in all jurisdictions and be treated as tax resident in all identified jurisdictions. For example, in tiebreaker scenarios, all jurisdictions of tax residence should be disclosed and the account holder should be treated as tax resident in all identified jurisdictions for CRS 2.0 information exchange.
- Similar to CARF, RFIs should not rely on a self-certification or documentary evidence where they know or have reason to know that it is incorrect or unreliable. RFIs should either obtain a valid self-certification or a reasonable explanation with documentary evidence before providing services to the account holders.

3. The proposed administrative framework of CARF / CRS

The consultation paper seeks views on the below proposed administrative amendments under CARF and CRS, in response to feedback from the OECD's second peer review of Hong Kong's administrative framework for implementing CRS. The below updates to CRS will be implemented starting from 1 January 2027.

- **Record-keeping requirements** – RCAsPs / RFIs are required to retain records for at least six years from the last day of the relevant reporting period or the CARF/CRS return due date, whichever is later. In addition, the six-year retention period will remain in force even if the RCAsPs/RFIs are dissolved or ceased business.
- **Mandatory registration requirement** – All RCAsPs with a reporting nexus in Hong Kong are required to register an account in the CARF Portal, regardless of whether the RCAsPs have any CARF information to report. A similar mandatory CRS registration requirement applies to all RFIs in Hong Kong.
- **Penalty provisions** – The revamped penalties scale under the CRS framework is now proposed to be calculated based on the number of financial accounts involved instead of a fixed penalty amount. The penalty proposal under CARF will be aligned with the enhanced penalty provisions under CRS. An “administrative penalty” mechanism (which mirrored from Section 82A of the Inland Revenue Ordinance) will be put in place for both CARF and CRS.

KPMG Observations

In response to the evolving landscape of crypto-assets and the increasing need for tax transparency, Hong Kong is acting swiftly to align with the global standard. Both CARF and CRS2.0 would bring further compliance and reporting implications for RCASPs and RFIs in Hong Kong. In particular, the implementation of CARF in less than one year would pose challenges to RCASPs on customer onboarding process and system enhancement for the new reporting requirements. For Hong Kong RFIs, there would be tightened requirements on due diligence and reporting from 2028 which would impact internal process (including the follow up on self-certification for existing clients), customer communication, and staff training. Financial institutions should conduct a gap analysis and plan for a smooth transition to avoid penalties.

- **Operational Adjustments** – Financial institutions may need to invest in technological solutions and platforms capable of managing complex transaction-level reporting requirements under CARF, including automated data collection capabilities.
- **Impact on account opening** – Financial institution and RCASPs may need to revisit the existing client onboarding questionnaires and due diligence procedures to incorporate the additional information and enhanced scrutiny requirements, e.g. for account holders potentially with multiple tax residencies or with a declared tax residency position inconsistent with that obtained from AML/KYC procedures.
- **Customer communication** – Inform clients about CARF requirements and the expanded scope of CRS reporting, particularly regarding the tightened rules on tax residency determination. Provide guidance on the information they may need to supply, such as updated and expanded self-certifications regarding residence(s) or roles undertaken in relation to underlying entities.

The upcoming implementation of CARF and CRS 2.0 outlined in the consultation paper will have significant implications for the operational landscape of financial institutions and RCASPs in Hong Kong. Entities should closely monitor any changes in rules, assess their current compliance frameworks, and prepare for a smooth transition for the additional tax transparency compliance requirements.

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