



Hong Kong releases consultation paper on CARF and CRS 2.0

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In brief

The Organisation for Economic Co-operation and Development (OECD), through the promulgation of the amended Common Reporting Standard, commonly referred to as CRS 2.0, and the Crypto-Asset Reporting Framework (CARF)¹, has established global standards aimed at enhancing tax transparency and combating evasion in respect of crypto-assets through automatic exchange of information (AEOI). CRS 2.0 expands reporting data points to address emerging risks, while CARF focuses on crypto-asset transactions, closing transparency gaps in the digital asset space.

Hong Kong has long aligned its CRS framework with OECD standards, implementing due diligence and reporting requirements. The Financial Services and the Treasury Bureau and Inland Revenue Department (IRD) have recently launched a public consultation on the upcoming implementation of CARF and CRS 2.0 regulations in Hong Kong². Stakeholders were invited to provide feedback during the consultation period, which ran until 6 February 2026.

As these frameworks have been finalised through international consensus, Hong Kong has no discretion to diverge from them. The consultation paper therefore concentrates on areas where choices remain, and the key points for consideration include:

- The introduction of mandatory registration requirements for reporting financial institutions (RFIs) and reporting crypto-asset service providers (RCASPs)
- Enhanced penalty regime and record keeping requirements which are broadly aligned across both regimes

In addition, the consultation paper confirms the proposed timeframe for the rollout of CARF from 1 January 2027 and CRS 2.0 enhancements from 1 January 2028, as well as the newly proposed registration deadlines.

Hong Kong's thoughtful CARF and CRS 2.0 consultation ahead of rollout signals a strong commitment to enhancing tax transparency and growing its financial ecosystem responsibly. Feedback from the OECD peer review has been taken into account as Hong Kong looks to enhance its local compliance framework. We welcome this proactive engagement and look forward to deeper collaboration across the industry.

This news flash provides a summary of these two new international standards, outlines the consultation questions seeking stakeholders' views and highlights their implications for affected businesses.

In detail

Implementation of CRS in Hong Kong

Hong Kong has long supported international efforts to enhance tax transparency and combat cross-border tax evasion. Since June 2016, Hong Kong has implemented the CRS, an international standard developed by the OECD for the automatic exchange of financial account information between tax authorities. Under the CRS, Hong Kong RFI must apply due diligence procedures to identify reportable accounts held by tax residents of reportable jurisdictions, collect the required information, and submit returns to the IRD. The IRD then exchanges this information with the tax authorities of Hong Kong's AEOI partner jurisdictions with which Hong Kong has a reciprocal exchange relationship. The first exchange of information occurred in 2018, and there are now more than 120 reportable jurisdictions.

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The OECD has introduced two major initiatives to enhance international tax transparency in respect of crypto-assets: the CARF and the CRS 2.0. Hong Kong has been identified as immediately relevant given its status as a leading international financial centre and the increasing significance of crypto-asset activities carried out by entities with nexus to Hong Kong. To ensure that Hong Kong's AEOI regime remains fully aligned with global standards in a timely and effective manner, a two-month public consultation on the implementation of the CARF and the CRS 2.0 was launched in December 2025. As these frameworks have been finalised by international consensus, Hong Kong has no discretion to deviate. The consultation therefore focuses solely on areas where optionality remains.

Introduction of CARF

The CARF is a new OECD framework designed to capture information on crypto-asset transactions and holdings, recognising the rise of digital assets and their potential misuse for tax evasion and financial crimes. CARF is significant because it extends tax transparency principles to the rapidly growing crypto-asset sector, closing gaps left by traditional reporting standards.

Who is affected by CARF?

Both individuals and entities can be RCASPs if they, as a business, provide services effectuating exchange transactions in relevant crypto-assets for or on behalf of customers. This intentionally broad definition allows for the rapidly developing market and includes:

- centralised and certain decentralised crypto-asset exchanges
- crypto automated teller machines (ATM) operators
- crypto-asset brokers, dealers and market makers, whether acting as intermediaries or principals

Which crypto-assets are covered?

The CARF defines crypto-assets broadly as digital representations of value that rely on cryptographically secured distributed ledgers or similar technologies to validate and secure transactions. This encompasses:

- cryptocurrencies
- stablecoins
- derivatives issued as crypto-assets
- certain non-fungible tokens that represent rights to value, membership or property

However, the following are excluded from the scope of the CARF (and some of these are subject to reporting under CRS 2.0):

- central bank digital currencies (CBDCs)
- specified electronic money products (SEMPs)
- crypto-assets that cannot be used for payment or investment purposes

For instance, certain stablecoins may qualify as SEMP, and an assessment may be required to determine whether their reporting falls under CARF or CRS 2.0.

What transactions are subject to reporting?

The CARF requires transaction-level reporting for:

- exchanges between relevant crypto-assets and fiat currencies;
- exchanges between one relevant crypto-asset and another; and
- transfers of relevant crypto-assets (including retail payment transactions where the value of the transaction exceeds USD 50,000).

Nexus criteria

The CARF sets out the nexus criteria for determining whether an RCASP is subject to the reporting and due diligence requirements in a jurisdiction. These criteria include:

- tax residency
- incorporation or organisation under the laws of the jurisdiction where the entity has legal personality or is subject to tax reporting requirements
- management from that jurisdiction; or
- a regular place of business in the jurisdiction

As some RCASPs may have a nexus with more than one jurisdiction, CARF contains a hierarchy of nexus rules to avoid duplicative reporting. Where there are multiple jurisdictions where a nexus exists, the above list constitutes a hierarchy of rules, and the jurisdiction with the strongest link (i.e. a nexus highest on the list) should be considered the primary jurisdiction for reporting purposes.

Reporting requirements and due diligence

The CARF specifies the information to be reported and establishes the due diligence procedures to identify crypto-asset users and controlling persons, and to determine their tax jurisdictions for reporting and exchange purposes. The due diligence procedures build on the self-certification process of the CRS, as well as existing Anti-Money Laundering and Know Your Customer (AML/KYC) obligations. However, RCASPs should not rely on a self-certification or documentary evidence where they know, or have reason to know, that it is incorrect or unreliable, for example, when it conflicts with other information the RCASP holds about the user. In such cases, the RCASP should either obtain a valid self-certification or a reasonable explanation with supporting documentation before providing services that effectuate transactions for the crypto-asset user.

Implementation timeline

Hong Kong is looking to implement the CARF with effect from 1 January 2027 with the first reporting taking place in June 2028. Registration for RCASPs is currently set to be completed by December 2027 or January 2028.

The consultation paper indicates that the HKSAR Government (Government) will seek authorisation from the Central People's Government (CPG) to sign the Multilateral Competent Authority Agreement on Automatic Exchange of Information under CARF (CARF MCAA). The CARF MCAA, based on the Convention on Mutual Administrative Assistance in Tax Matters, provides a standardised and efficient mechanism to facilitate the automatic exchange of information under the CARF.

From CRS to CRS 2.0

The CRS 2.0 is the updated version of the CRS, designed to address emerging risks and expand the scope to include SEMP, CBDCs and indirect crypto-asset investments made through derivatives and investment entities, which are not reportable under the CARF. In addition, amendments have been made to strengthen the due diligence and reporting requirements, introduce a carve-out for genuine non-profit organisations, create a new excluded account category for capital contribution accounts, and establish requirements for full jurisdiction self-certification in tie-breaker scenarios. Furthermore, CRS 2.0 follows the same approach as CARF by requiring RFIs not to rely on a self-certification or documentary evidence in certain circumstances. These include situations where an RFI has doubts about a person's claimed tax residency in a jurisdiction offering a potentially high-risk citizenship or residence by investment (CBI/RBI) scheme, when a self-certification lacks a tax identification number that contradicts OECD-published information, or when updated AML/KYC information conflicts with the self-certification. This framework is important because it enables jurisdictions to detect and deter cross-border tax evasion, thereby promoting fair taxation globally.

Implementation timeline

To allow RFIs sufficient time to meet the amended CRS requirements and update compliance systems, the consultation paper proposes that CRS 2.0 will take effect on 1 January 2028. RFIs would be required to register with the IRD by January 2027, commencing additional due diligence procedures under CRS 2.0 in January 2028, and be ready for enhanced reporting in June 2029.

Similarly, the Government will seek CPG's authorisation to sign the Addendum to the CRS Multilateral Competent Authority Agreement, which provides an updated legal basis for participating jurisdictions to exchange the broadened scope of information under CRS 2.0.

How CARF and CRS 2.0 interact?

While CARF shares many similarities with CRS 2.0, there are important distinctions. The table below summarises the key features of each framework.

	CARF	CRS 2.0
Scope of coverage	Crypto-asset transactions facilitated by RCASPs	Financial accounts maintained by RFIs; expanding CRS to encompass SEMP, CBDCs, and crypto-asset exposures accessed via derivatives and investment vehicles
Reporting entity	RCAPs (which may include individuals)	RFIs
Reporting granularity	Transaction-level values	Account balances and payment/proceeds information

Consultation questions

The consultation paper raises several questions, primarily concerning administrative aspects of implementing CARF and CRS 2.0 in Hong Kong, including:

- 1. Identifying and collecting information on both reportable and non-reportable persons:** The consultation paper indicates an intention to follow the existing CRS regime and introduce legislative provisions requiring RCASPs to identify and collect information only in respect of reportable persons, i.e. individuals or entities resident in a reportable jurisdiction. It also proposes to permit RCASPs to adopt a ‘wider approach’ by applying the same procedures in respect of non-reportable persons, subject to compliance with Hong Kong’s applicable regulatory and data privacy regimes, in order to facilitate future reporting should these persons become reportable. The consultation paper seeks to understand the likely approach adopted by RCASPs in this regard.
- 2. Record-keeping requirements and penalty provisions:** The consultation paper seeks views on the proposed enhanced record-keeping requirements and a strengthened penalty framework, which are broadly consistent in their application across both the CARF and CRS 2.0.

At present, RFIs are required to keep sufficient due diligence records for a period of six years from the completion of due diligence procedures, and records supporting the correctness and accuracy of the returns for a period of six years from the filing of returns. The paper proposes refining this record-keeping period, requiring that under both regimes records be retained for at least six years from the last day of the relevant reporting period or the CARF/CRS return due date, whichever is later.

The paper further proposes a new requirement under which the six-year retention period will remain in force even if an RCASP/RFI is dissolved or ceases business. If dissolution occurs before the end of the period, directors or equivalent must ensure that records are preserved until expiry of the period and notify the IRD within one month of dissolution and/or any change in contact details.

An RCASP/RFI that has terminated business but not been dissolved remains subject to record-keeping obligations and must notify the IRD within one month of termination and of any subsequent change in contact details to ensure that records remain accessible for inspection.

In line with the existing CRS regime, it is proposed that RCASPs may engage service providers to perform registration, reporting and due diligence obligations. However, reliance on service providers would not constitute a reasonable excuse for failing to comply. Similar to the existing CRS regime, the paper proposes penalty provisions for offences committed by RCASPs, service providers and others. Three categories of penalties are envisaged: non-compliance, submission of incorrect returns and defrauding with intent. Additionally, if a person knowingly or recklessly provides a materially false, misleading or incorrect statement in a self-certification collected by an RCASP, such person will be liable on conviction to a fine.

Following OECD peer review comments, the paper proposes strengthening the CRS penalty regime with new offences and graduated penalties based on the number of financial accounts involved or the number of days of continuing failure. The penalty-related proposals for CARF are intended to align with the enhanced CRS regime. In addition, an administrative penalty mechanism is proposed under which RCASPs/RFIs would be subject to administrative penalties in lieu of prosecution, thereby improving the timeliness and cost-effectiveness of enforcement actions.

- 3. Mandatory registration for all RCASPs and RFIs:** Hong Kong intends to require all RCASPs with a reporting nexus to Hong Kong to register an account in the CARF Portal, regardless of whether they have CARF information to report or are subject to reporting and due diligence obligations in Hong Kong (recognising that some may also have a nexus with other jurisdictions). RCASPs with no CARF information to report in a particular year would still need to file a nil return and provide reasons.

Similarly, in line with other CRS jurisdictions, Hong Kong proposes a mandatory registration requirement under which all entities within the CRS definition of RFI will be required to register with the AEOI Portal for CRS reporting purposes, irrespective of whether or not they have information to report. This will enable the IRD to ascertain the population of RFIs in Hong Kong. However, this requirement would not apply if the relevant CRS data, including nil reporting, is reported by another RFI.

Moreover, the paper recognises the challenges posed by the requirement to hold a digital certificate (i.e. e-cert) for authentication and registration purposes, particularly in light of the mandatory registration requirements, and indicates that alternative solutions for registration will be explored.

While CRS 2.0 is intended to take effect from 1 January 2028, the paper indicates that proposed amendments to the existing CRS regime, covering mandatory registration requirements for RFIs, record-keeping requirements and enhanced penalty provisions, will be implemented with a commencement date of 1 January 2027.

- 4. Dual reporting under the CARF and CRS 2.0:** Anticipating that certain RCASPs and RFIs may have reporting obligations under both regimes, the consultation paper proposes adopting the default treatment. Under this approach, RFIs would be required to report gross proceeds from the sale or redemption of financial assets under the CRS, regardless of whether such proceeds have been reported under the CARF. The paper notes 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.
- 5. Proposed filing mechanism for CARF returns:** The consultation paper outlines the IRD's plans to support RCASPs in developing and testing self-developed reporting solutions, while also proposing an IRD-provided data preparation tool for CARF reporting. It seeks stakeholder views on whether they prefer to use self-developed solutions or the IRD tool.

Suggested next steps

Businesses involved in the crypto-asset ecosystem and not already subject to the rules of an early adopting jurisdiction³ should first assess whether they fall within the scope of CARF. If they are in scope, they should then evaluate whether their current activities, systems and customer onboarding processes align with the anticipated requirements. Early assessment will be critical to ensure compliance readiness ahead of Hong Kong's first expected exchange of information in 2028.

Existing RFIs under CRS should conduct a gap assessment to identify areas requiring attention before CRS 2.0, and review technology platforms to address potential system gaps in due diligence, data management and reporting given the expanded data elements. These steps are essential to ensure timely and effective compliance once CRS 2.0 is implemented in Hong Kong.

The takeaway

CRS 2.0 and CARF collectively address and close the transparency gap between conventional financial instruments and crypto-assets. The proposed adoption of the CARF and CRS 2.0 in Hong Kong is intended to align with global efforts to combat tax evasion in the crypto-asset space. The consultation paper sets out clear timelines for the adoption of both CARF and CRS 2.0, providing much-needed certainty for RFIs and RCASPs. Stakeholders may also consider making submissions to ensure that practical concerns are addressed in the implementing legislation and that the regulatory environment remains conducive to growth in Hong Kong's digital asset industry. Alternatively, we are happy to relay any relevant comments that you may have to the Government. In addition, if you require assistance in assessing how the proposed changes may affect you, please do not hesitate to contact us.

Endnotes

1. The OECD's CARF and CRS 2.0 can be accessed via this link:
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
2. The consultation paper on CARF and CRS 2.0 can be accessed via this link:
[https://www.fstb.gov.hk/tb/en/others/CARF_Consultation_Paper_\(Eng\)_finalised_\(cfn\).pdf](https://www.fstb.gov.hk/tb/en/others/CARF_Consultation_Paper_(Eng)_finalised_(cfn).pdf)
3. As of December 2025, 48 jurisdictions have committed to implement the CARF in 2026 in time to commence exchanges in 2027. The list of committing jurisdictions can be found in this link:
<https://www.oecd.org/content/dam/oecd/en/networks/global-forum-tax-transparency/commitments-carf.pdf>

Let's talk

For a deeper discussion of how this impacts your business, please contact:

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Hong Kong Tax News Flash

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