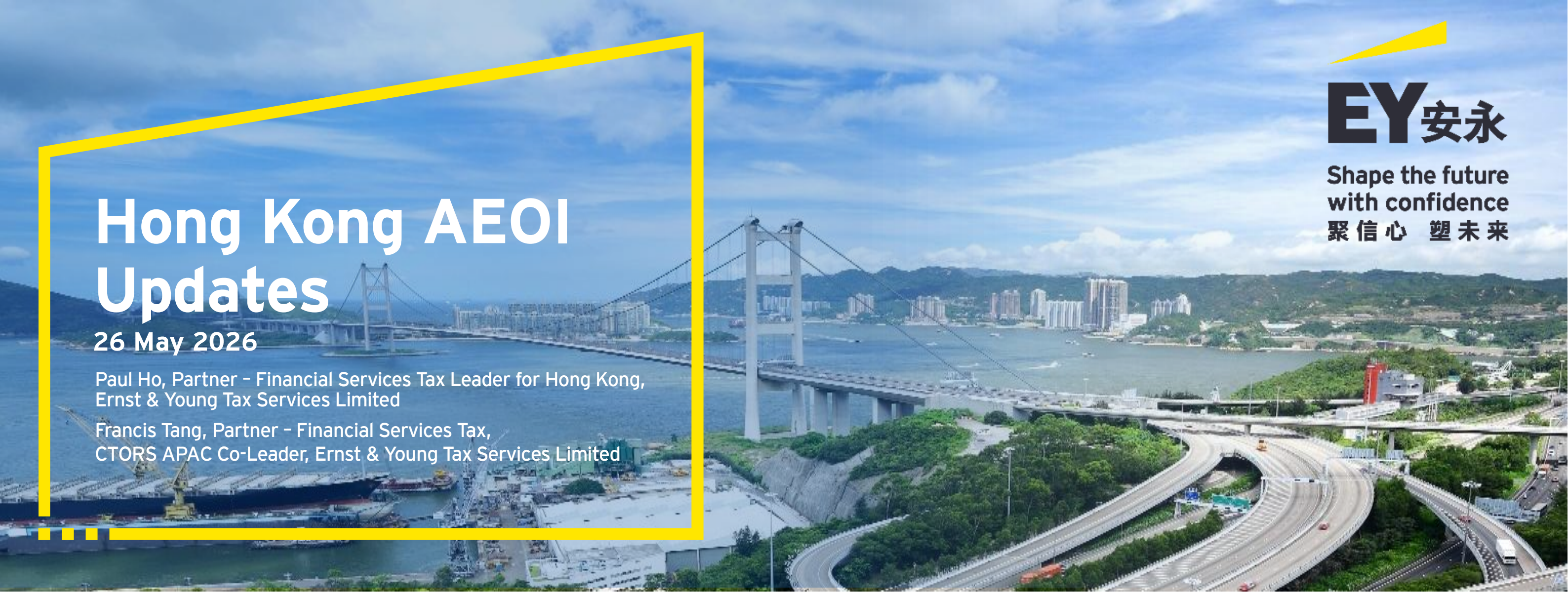

Hong Kong AEOI Updates

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The Inland Revenue (Amendment) (Crypto-Asset Reporting Framework and Amended Common Reporting Standard) Bill 2026 ("the CARF/CRS2.0 Bill" or "the Bill")[1], which aims to implement the Crypto-Asset Reporting Framework (CARF) and the latest amendments to the Common Reporting Standard (CRS2.0) developed by the Organisation for Economic Co-operation and Development (OECD) in Hong Kong, was gazetted on 22 May 2026 and will be introduced into the Legislative Council (LegCo) for a first reading on 3 June 2026[2].

The Inland Revenue (Amendment) (Automatic Exchange of Information) Bill 2026[3] ("the Enhanced Administration Bill"), which aims to enhance the relevant administrative framework – including requiring reporting financial institutions (RFIs) to register with the Inland Revenue Department (IRD) to strengthen identification, enhancing due diligence record-keeping requirements and increasing penalties to bolster deterrence, was gazetted earlier on 27 March 2026, received its first reading on 1 April 2026[4] and is scheduled for its second reading in LegCo.

The CARF/CRS2.0 Bill, together with the Enhanced Administration Bill broadly aligns with most of the features proposed in the consultation paper jointly issued by the Financial Services and the Treasury Bureau (FSTB) and the IRD on 9 December 2025 ("the Consultation Paper"), on which we provided our observations in our previous article[5].

The passing of the CARF/CRS2.0 Bill together with the Enhanced Administration Bill will allow Hong Kong to introduce CARF and CRS2.0 in a timely manner in 2027 and 2028, respectively, as committed by the Hong Kong SAR Government.

[1] https://www.legco.gov.hk/yr2026/english/brief/tsybr200800360c_20260520-e.pdf
[2] https://www.info.gov.hk/gia/general/202605/20/P2026052000240.htm
[3] https://www.elegislation.gov.hk/hk/2026/03/27/supp3/1!en
[4] https://www.legco.gov.hk/en/open-legco/press/yr2026/pr20260330-1.html
[5] https://www.ey.com/content/dam/ey-unified-site/ey-com/en-cn/technical/hong-kong-tax-alerts/documents/ey-hong-kong-aeoi-updates-dec-2025.pdf

The following table summarizes the latest implementation timeframe proposed by the CARF/CRS2.0 Bill, the Enhanced Administration Bill and the Consultation Paper:

In relation to CARF	Effective date
Hong Kong Reporting Crypto-asset Service Providers (HKRCASPs) to commence due diligence procedures	From 1 January 2027
HKRCASPs to complete due diligence procedures on pre-existing crypto-asset users	By 1 January 2028
Existing HKRCASPs that meet any reporting nexus to Hong Kong to commence registration with the IRD	By January 2028
CARF returns filing	Notification issuance by the IRD in January 2028 Submission by RCASPs by June 2028
IRD's first exchange of information with CARF partners	In September 2028
In relation to CRS2.0 and other strengthened measures (for both CARF and CRS2.0)	**Effective date**
Enhanced sanctions	From January 2027
Mandatory registration for all existing RFIs in Hong Kong currently without registration	By March 2027
RFIs to commence additional due diligence procedures under CRS2.0	From January 2028
File CRS Returns with additional information as required under amended CRS	June 2029 in respect of 2028 data
IRD's first exchanged of amended CRS information with CRS partners	September 2029

Key features of the CARF

- In-scope digital assets

In line with the commitment to full alignment with the OECD's CARF, the Bill proposes that relevant crypto-assets transacted using distributed ledger technologies or similar technologies will fall within scope. Central bank digital currencies (CBDCs)[6] and specified electronic money products (SEMPs)[7], however, will be specifically excluded from the ambit of CARF, but will be included within the extended coverage of the proposed CRS2.0.

As such, it is important to distinguish whether a digital asset should be regarded as a relevant crypto asset that falls within the scope of both CARF and CRS2.0. whereas a traditional financial asset, a CBDC or a SEMP, will only be in-scope of CRS2.0 (or the original CRS for certain traditional financial assets that are tokenized).

The above will necessitate an asset-by-asset classification approach, given the definition of relevant crypto-assets and the latest interpretations in the OECD's FAQ. This will create complexity for firms transacting in multiple types of assets, such as cryptocurrencies, stablecoins, tokenized asset classes. In addition, asset classifications may change from time to time, for instance, in the event of new disintermediation applications.

[6] CBDC refers to any digital fiat currency issued by a central bank.
[7] In general, there are several fiat-exchangeability and regulatory conditions to be met in order to qualify as a SEMP, with the HK$78,000 account-level reporting exclusion.

<u>In-scope HKRCASPs (Hong Kong Reporting Crypto-asset Service Providers)</u>

- nexus rule; and
- mandatory registration

The term Reporting Crypto-asset Service Provider is broadly defined as any individual or entity that, as a business, provides services that effect exchange transactions of relevant crypto-assets for and on behalf of customers.

This represents a fundamental departure from the original CRS or CRS2.0, which generally applies to "holding financial assets for the others" only. By contrast, CARF captures a much broader range of activities, including the "effectuation of exchange transactions for the others", meaning that simply facilitating such transactions, without necessarily holding the relevant crypto-assets for the others, may bring an entity within scope.

Dealers, brokers, counterparties, custodians, asset managers, trustees, family offices and any persons that are involved in the effectuation of crypto-assets for the others should analyze and document their exposure to CARF and CRS2.0 at the same time.

The nexus rules capture HKRCASPs that are Hong Kong tax resident individuals or entities; entities incorporated or organized under the laws of Hong Kong or managed in Hong Kong; entities that are tax filers in Hong Kong; individuals or entities that have a regular place of business in Hong Kong; and Hong Kong branches. This is unless such HKRCASPs are already complying with CARF in another partner jurisdiction by virtue of the hierarchy of the nexus rules there. In any case, an RCASP that operates through a Hong Kong branch will be subject to CARF obligations in Hong Kong.

Any HKRCASPs that have a Hong Kong nexus shall be subject to mandatory registration requirements.

Global mapping and monitoring of CARF nexus criteria are important for organizations with multinational and regional footprints, particularly those deploying various applications of distributed ledger technology or equivalent technologies. In addition, extraterritorial CARF obligations should take into account local data privacy restrictions. This is relevant to both crypto-native firms and traditional intermediaries.

- CARF due diligence procedures

As expected, starting from 1 January 2027, obtaining valid self-certification from customers, with reasonableness duly verified, will form the cornerstone of CARF due diligence obligations. This requirement extends to pre-existing customers as well; however, HKRCAPS will have an additional year to complete such requirements for all such customers.

The proposed CRS2.0 due diligence requirements will also apply to CARF due diligence obligations. These include additional steps in relation to (1) potentially high-risk citizenship- or residence-by-investment scheme cases; (2) cases where no tax identification number (TIN) is provided despite TINs should have been issued to all residents in the relevant jurisdictions; (3) amendments to applicable AML/KYC procedures and the need to obtain additional information; and (4) non-reliance on tiebreaker rules, among others.

- CARF reporting

CARF reporting, unlike CRS reporting, is a transactional reporting requirement that captures the aggregate gross amounts paid (or fair market value), net of transaction fees, in respect of acquisitions and disposals of relevant crypto-assets against fiat currency by reportable crypto-asset users, together with their required particulars, including tax residencies and tax identification numbers.

Where gross proceeds are reported under CARF, the Bill proposes allowing the OECD option of not reporting such information again for CRS purposes should an HKRCASP also be subject to reporting obligations under CRS. This was one of the recommendations made in EY's submission to the Consultation Paper.

As the Bill proposes to empower the IRD to specify the reporting format, it is expected that the IRD will localize the OECD's CARF schema in a timely manner and update it from time to time.

- Data retention

The general data retention requirement is proposed to be six calendar years post-due diligence and post-reporting, respectively.

Regardless of any dissolution, the Bill proposes that the data retention requirements will be passed to the directors, trustees, or persons responsible for management immediately before such dissolution, with the flexibility to appoint a third-party custodian.

Annex D of the Bill addresses one of the recommendations made in EY's submission to the Consultation Paper in respect of merger and acquisition (M&A) cases, indicating that the record-keeping requirements are to be passed to the successor entity. This may still be subject to further guidance and clarification given the variability of M&A structures.

- Acknowledgment of the OECD's guidance publications

The Bill also proposes introducing Section 50Y of the Inland Revenue Ordinance (IRO) to provide that the CARF in Hong Kong is to be applied and interpreted in the way that best secures consistency with the OECD's CARF requirements and related guidance, including its FAQ publications, as updated from time to time.

This provides a statutory basis for HKRCASPs and the IRD to rely on the latest OECD interpretations and guidance, thereby mitigating local variations and reducing the risk of the framework becoming outdated.

This proposal also reflects one of the comments raised in EY's submission to the Consultation Paper.

Key features of the CRS2.0

- Expansion the scope to digital assets

The Bill proposes an expansion of the definition of Financial Assets to include relevant crypto-assets, where the term "relevant crypto-assets" has the same meaning as that used in CARF. In addition, CBDCs and SEMPs held in financial accounts will only be covered by CRS2.0 but not CARF. Correspondingly, the respective definitions under Financial Institutions and Financial Accounts are proposed to be updated.

Again, it is important to distinguish whether a digital asset should be regarded as a relevant crypto-asset that falls within scope for both CARF and CRS2.0., whereas a traditional financial asset, a CBDS or a SEMP, will only be in-scope of CRS2.0. (or the original CRS for certain traditional financial assets that are tokenized).

The above will necessitate an asset-by-asset classification approach, given the definition of relevant crypto-asset and the latest interpretations in the OECD's FAQ. This will create complexity for firms transacting in multiple types of assets, such as cryptocurrencies, stablecoins and tokenized asset classes. In addition, asset classifications may change from time to time, for instance, in the event of new disintermediation applications.

- CRS2.0 due diligence procedures

The proposed CRS2.0 due diligence requirements introduce additional steps in relation to: (1) potentially high-risk citizenship- or residence-by-investment scheme cases; (2) cases where no TIN is provided despite TINs should have been issued to all residents in the relevant jurisdictions; (3) amendments to applicable AML/KYC procedures and the need to obtain additional information; and (4) non-reliance on tiebreaker rules, among others.

Certain of the above changes were previously set out in the OECD FAQ and other published guidance. These provisions will now become legally binding, ensuring greater global consistency. RFIs will have no grounds for non-adoption.

- CRS2.0 reporting

The proposed CRS2.0 reporting requirements set out new categories of information, as summarized in the following table, which are also expected to apply to CARF:

Additional reporting requirements		Implications
1	Whether a valid self-certification has been obtained for each account holder or controlling person	▪ Robust due diligence process and the relevant control and system in place is even more crucial than before for declaring the existing of valid self-certification in the CRS return for each reportable account.
2	Whether the account is a pre-existing account or a new account	▪ It would be readily apparent to tax authorities if a new account lacks a valid self-certification, particularly in light of the enhanced new reporting requirements relating to the validity of self-certifications. Accordingly, robust due diligence procedures for onboarding new accounts should be implemented and consistently applied.
3	Whether the account is a joint account, including the number of joint account holders	▪ Robust identification and tagging of joint accounts are required.

4	Types of financial accounts	■ Financial account definitions are never straightforward when it comes to real life applications on complex financial products and services. ■ Product and activity analyses become even more important than any time before given the new reportable information on the types of Financial Accounts
5	Role(s) of each controlling person of a Passive Non-Financial Entity (NFE)	■ The reporting of the role of a controlling person will soon be changing from "optional" to "mandatory" where information is electronically searchable. Therefore, RFIs should ensure robust process is in place for accurately identifying and classifying the types of Controlling Persons.
6	Role(s) of each Equity Interest Holder of an Investment Entity that is a legal arrangement	■ RFIs that are Investment Entities are required to report the role(s) of each equity interest holder that is a legal arrangement (e.g., limited partnership, trust) if such information is electronically searchable.

It is expected the IRD will localize the OECD's CRS schema in a timely manner, and update it from time to time.

The expanded CRS reporting requirements introduce more granular information that enhances transparency around both due diligence quality and overall reporting accuracy across compliance operations. In light of these changes, together with the newly proposed sanctions, RFIs should reassess their overall CRS compliance risk profile and ensure that sufficient resources and controls are implemented in a timely manner.

- Acknowledgment of the OECD's guidance publications

The Bill also proposes to update Section 50L of the IRO to the effect that the IRD is allowed to provide guidance on the interpretation of the OECD's CRS2.0 and its FAQ publications, as updated from time to time. This is somewhat different from the proposed Section 50Y of the Bill for CARF purposes.

Enhanced administration and sanctions

The Enhanced Administration Bill proposes to strengthen administrative measures and sanction rules. The relevant amendments will take effect from 1 January 2027. Addressing the OECD's comments in a timely manner will help Hong Kong maintain a favourable rating in the peer review and safeguard Hong Kong's reputation as an international financial centre.

- Mandatory registration for all RFIs in Hong Kong

Under the current legislation, the registration requirement is triggered only when an RFI commences maintaining its first reportable financial account. In recent years, the IRD has issued a substantial volume of enquiry letters and questionnaires to numerous entities to validate and substantiate their positions on non-registration.

To strengthen the ability to identify all the RFIs in Hong Kong – one of the core measures of effective CRS implementation – the Enhanced Administration Bill proposes the introduction of a mandatory registration for all RFIs, commencing in 2027. Compared with the timeline suggested in the Consultation Paper, the Enhanced Administration Bill provides a slightly extended initial deadline of 31 March 2027 for existing RFIs that have not yet registered for AEOI purposes, while a deadline of 31 January in subsequent years will apply to newly established RFIs. In addition, a nil return requirement will be introduced for RFIs that do not maintain any reportable accounts on an ongoing basis.

In this regard, relevant entities are recommended to carefully understand and document their CRS classification as soon as possible and prepare for the upcoming mandatory registration requirements and nil reporting requirements, where applicable.

Licensed entities, investment fund vehicles and holding structures, trustees and trusts, etc. should plan ahead to meet these new requirements before the upcoming deadline of March 2027 and keep abreast of the latest developments in the IRD AEOI portal.

- Data retention

The existing general data retention requirement of six calendar years post-due diligence and post-reporting, respectively, will continue to apply.

Regardless of any dissolution, the Enhanced Administration Bill proposes that the data retention requirements will be passed to the directors, trustees or persons responsible for management immediately before such dissolution, with the flexibility to appoint a third-party custodian.

Annex D of the Bill addresses one of the recommendations made in EY’s submission to the Consultation Paper in respect of M&A cases, indicating that the record-keeping requirements are to be passed to the successor entity. This may still be subject to further guidance and clarification given the variability of M&A structures.

- Enhanced sanction rules

The following table highlights the key proposed enhance sanctions which will take effect from 1 January 2027:

Offences	Penalty scale
Without reasonable excuse: - Failure to establish, maintain or apply the due diligence procedures; and - Failure to notify the IRD the discovery of misleading, false or inaccurate information in a return Providing incorrect or incomplete information when furnishing returns, statements or information without reasonable excuse	HK$10,000 or HK$1,000 for each financial account or crypto-asset user or controlling person involved, whichever is the higher
Failure to register without reasonable excuse Failure to file a CRS/CARF return	HK$10,000 and a further fine of HK$500 will be imposed for each day of continuing offence after conviction
Knowingly or recklessly providing misleading, false or inaccurate information in a material particular when furnishing returns, statements or information or having no reasonable ground to believe that the information is true or accurate	HK$25,000 or HK$5,000 for each financial account or crypto-asset user or controlling person involved, whichever is the higher
Providing misleading, false or inaccurate information in a material particular when furnishing returns, statements or information with intent to defraud	Liable on summary conviction, HK$50,000 or HK$10,000 for each financial account involved whichever is the higher, and imprisonment of six months; on indictment, to a fine of HK$100,000 or HK$20,000 for each financial account involved, whichever is the higher, and imprisonment of three years
For offences committed by directors of RFIs/RCASPs (or trustees or persons who are responsible for the management, if there is no director) immediately before dissolution without reasonable excuse for or within a specific timeframe: - Failure to keep sufficient records - Failure to notify IRD of dissolution of RFI/RCASP - Failure to notify IRD of change of contact details in case of dissolution	HK$10,000

Key takeaway

The progression of legislative steps – from the issuance of the Consultation Paper to the tabling of the CARF/CRS2.0 Bill and the Enhanced Administration Bill in LegCo – demonstrates the strong commitment of the Hong Kong Government to the timely and full implementation of CARF and CRS2.0.

From now until the new rules take effect, there is no longer time to remain on the sidelines. In fact, EY has observed that various organizations have already begun active preparation for the implementation of CARF and CRS2.0.

As a well-established international financial center, Hong Kong serves a diverse customer base with multinational and cross-border profiles, supported by a wide range of financial products and services. In recent years, Hong Kong has been actively positioning itself as a regional digital economy hub. Against this backdrop, the implementation of CARF and CRS2.0 by relevant intermediaries in Hong Kong will be far from straightforward, requiring careful planning and efficient execution starting today.

Talk to us – the EY CTORS Team in Hong Kong – about your plans to comply with CARF and CRS2.0.

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