

OECD Issues New Crypto-Asset Reporting Framework (CARF) and Amendments to the Common Reporting Standard (CRS)

October 2022



In brief

The OECD published the final guidance on the [Crypto-Asset Reporting Framework \(CARF\) and Amendments to the Common Reporting Standard \(CRS\)](#) on 10 October 2022 - setting forth a global tax transparency compliance framework with model rules for the automatic reporting and exchange of taxpayer information between countries relating to financial accounts and crypto-assets.

The CRS, which was adopted in 2014 was designed to promote tax transparency with respect to financial accounts held abroad and requires the collection and automatic exchange of information of the identity of account holders, as well as the balance and the income paid or credited to the accounts on an annual basis.

However, the rapid development of the crypto market and the growth in the use of digital assets for investment purposes means that there is a gap in the CRS as transactions related to these digital assets are not comprehensively covered by the standard. Additionally, the Crypto-Asset market has given rise to a new set of intermediaries, such as Crypto-Asset exchanges and wallet providers, which may currently only be subject to limited regulatory oversight. Tax administrations therefore do not have adequate visibility on when taxpayers engage in tax-relevant transactions in, or hold, Crypto-Assets especially due to the ability of digital assets being issued, recorded, transferred, and stored in a decentralized manner, without the need to rely on traditional financial intermediaries or central administrators.

Recognizing the importance of addressing the above-mentioned tax compliance risks with respect to Crypto-Assets, the OECD amended the CRS and developed the stand-alone CARF as a complementary compliance framework intended to address this gap. Like the CRS, the CARF contains model rules that can be enacted as domestic legislation and related commentary to support legislative implementation.

Coordinated implementation timelines for both the CARF and the amended CRS will be agreed at a future date to avoid overlapping rules and the potential for duplicate reporting.

In detail

Crypto-Asset Reporting Framework

The CARF is intended to achieve transparency with respect to crypto-asset transactions through the annual, automatic exchange of crypto-asset transaction information among the participating jurisdictions whose tax residents hold or engage in crypto transactions. “Crypto-assets” for purposes of the CARF refers to a digital representation of value that relies on a cryptographically secured ledger or similar technology to validate and secure transactions.

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Crypto-Assets can be transferred and held without interacting with traditional financial intermediaries and without any central administrator having full visibility on either the transactions carried out, or the location of CryptoAsset holdings.

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Crypto-assets are assets that can be held and transferred in a decentralized manner, without the intervention of traditional financial intermediaries, including stablecoins, derivatives issued in the form of a crypto-asset, and certain non-fungible tokens.

The CARF covers (1) crypto-assets subject to reporting, (2) intermediaries and services providers subject to tax information reporting, (3) transactions (and related information) subject to reporting, and (4) due diligence procedures to identify crypto-asset users (directly or indirectly) and to determine the relevant tax jurisdictions for reporting and exchange purposes. The three types of transactions subject to reporting are (1) exchanges between relevant crypto-assets and fiat currencies, (2) exchanges between one or more forms of relevant crypto-assets, and (3) transfers (including retail payment transactions) of relevant crypto-assets (subject to a de minimis limit).

We can expect the scope of transactions subject to reporting to evolve, and it is anticipated that the OECD will continue to develop guidance — in particular as it relates to reportable retail payment transactions and crypto-assets that can or cannot be used for payment or investment purposes.

The CARF builds on global Financial Action Task Force (FATF) rules developed to prevent money laundering, terrorist financing, and the financing of proliferation of weapons of mass destruction. The scope of crypto-assets covered under the CARF is expected to be consistent with the scope of crypto-assets covered by the FATF Recommendations. The CARF reporting requirements apply to entities or individuals in the business of effectuating crypto-asset transactions, since they are considered to be in the best position to determine the value of crypto-asset transactions. These intermediaries and other service providers are expected to fall under FATF's definition of virtual asset service provider.

CRS Amendments

The OECD also released amendments to the CRS intended to expand its scope and modernize its operation to comprehensively cover digital financial products taking into account feedback from implementing jurisdictions and financial institutions with reporting obligations. This feedback focused on expanded definitions, improved tax due diligence procedures, and more detailed reporting obligations.

Key changes to the CRS relate to the expanded definition of financial assets and investment entities intended to ensure that derivatives that reference crypto-assets and that are held in custodial accounts and investment entities are subject to CRS reporting requirements. There are adjustments to 'day two' due diligence procedures requiring the determination of tax residence on 'day one' and the potential to utilize Government Verification Services as a source of identity and tax residency. In relation to expanded reporting obligations, future CRS reports are expected to include whether the account is a preexisting account or a new account, whether a valid self-certification has been obtained, and the type of financial account and the role of controlling persons.

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Amendments to the CRS have been made to strengthen the due diligence and reporting requirements and to foresee a carve-out for genuine non-profit organisations.

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Digital Asset Industry in the Middle East

The Middle East is one of the fastest growing crypto markets in the world, with the UAE's share in the global market being around US\$25 billion transactions. Some of the key drivers of growth for crypto adoption in the UAE include a friendly regulatory regime, an increase in private wealth and comparatively high consumer trust. Due to the massive growth that the digital asset industry has seen in the Middle East, combined with the constant government support, countries in the region can be expected to officially adopt the CARF.

With the introduction of CARF as a complementary compliance framework to the CRS, the region is expected to see model rules which can be enacted into local law as domestic legislation and added requirements around the legislative implementation of the CARF. It is therefore imperative for Middle East businesses to be prepared ahead of any new obligations they might be expected to meet given the introduction of the global tax transparency compliance framework.



Next Steps

The OECD continues to work on creating an implementation package to ensure consistent domestic and international application and effective implementation of the CARF. The implementation package is expected to consist of:

A framework of bilateral or multilateral competent authority agreements or arrangements for the automatic exchange of information collected under the CARF;
Information Technology solutions to support the exchange of information under CARF and the amendments to CRS; and
A further elaboration of the requirements under CARF to ensure effective implementation by the participating jurisdictions.

Work will also progress to put in place the appropriate mechanisms to automatically exchange information pursuant to the amended CRS. Finally, coordinated implementation timelines for both the CARF and amended CRS will be agreed.

How Can We Help?

PwC can help assess the impact on different groups that may be affected by the CARF and the amendments to the CRS by providing the following services in relation to:

- Conducting an analysis of any entities in the group that may have reporting requirements, identify relevant reporting jurisdictions, and monitor legislative developments as local CARF legislation is adopted;
- Reviewing user and investor onboarding processes so that the necessary know-your-customer (KYC) information is gathered and an appropriate governance and due diligence framework is in place; and
- Understanding how the transaction information is gathered and performing an analysis on whether systems are in place to gather, report, and maintain the information.

Let's talk

If you would like to discuss further the Crypto-Asset Reporting Framework or the Common Reporting Standard Amendments in the Middle East, please contact:

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Thank you