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Crypto-Asset Reporting Framework (CARF)

AI and Blockchain Policy Conference

16 November 2023

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Overview of Presentation

1) Introduction to Crypto-Assets
2) Crypto-Assets and Tax Transparency: The Development of the CARF
3) CARF: Scope, Intermediaries and Reporting Requirements
4) Implementing the CARF: Key Considerations for Jurisdictions
5) Next Steps
6) Questions

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Introduction to Crypto-Assets, Tax Transparency and the CARF

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The Crypto-Asset Ecosystem

Hard or soft forks

Staking

Stablecoins

Hash

Cryptology

Forging

Mining

DeFi

ICOs

Exchanges

NFTs

Token

Airdrops

Wallet provider

DFAs

CBDCs

Crypto-Asset Prices Subject to Large Swings

Crypto-Assets

- Crypto-Assets represent a significant new development in international finance.
- Differing from traditional fiat currencies, multiple types of Crypto-Assets currently exist.

Payment tokens/virtual currencies

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Crypto-Assets and Tax Transparency: The Development of the CARF

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Addressing Risks to Tax Transparency

Rise in popularity of crypto-assets

Scandals

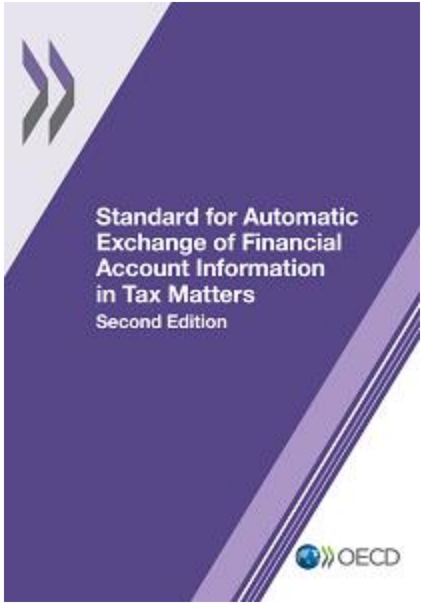
Pseudonymous nature

The need to address the tax transparency risks posed by crypto-assets

Crypto-Assets: Risks to Global Tax Transparency

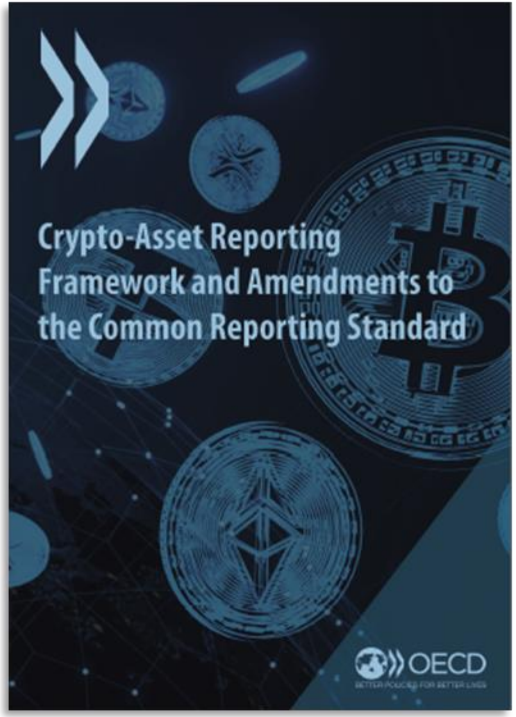
- Growth of Crypto-Asset market risks eroding progress made under international tax transparency standards for the automatic exchange of tax information (AEOI)

- Crypto-Assets and intermediaries facilitating such transactions are generally not covered under AEOI



Development of the CARF

- In 2021, the G20 called for updating the international standard on AEOI to bring tax transparency to Crypto-Asset markets.
- In June 2023, the OECD published the CARF as an integral part of the international standards on AEOI.
- In response to the G20 Leaders' Declaration, the Global Forum is now working to ensure the implementation of the CARF.



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CARF: Scope, Intermediaries and Reporting Requirements

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Key Features of the CARF

1. What Crypto-Assets are in scope?	Crypto-Assets that can be used for payment or investment purposes, other than CBDCs and e-money in crypto form
2. Which intermediaries are subject to reporting?	Individuals and Entities effectuating Exchange Transactions as a business (exchange platforms, brokers/dealers, crypto-ATM operators etc.)
3. How will taxpayers be documented?	Due diligence based on self-certifications (in line with AML/KYC requirements)
4. What information is reported?	Annual aggregate reporting by Crypto-Asset type on crypto-to-crypto and crypto-to-fiat exchanges, as well as transfers, including to un-hosted wallets

CARF: Crypto-Asset Definition

- "Crypto-Asset" means a digital representation of value that relies on a cryptographically secured distributed ledger or a similar technology to validate and secure transactions.

- Elements of "Crypto-Asset" definition:
  - "digital representation of value" (…) that can be traded or transferred (mirroring FATF definition of Virtual Asset and including certain NFTs).
  - "cryptographically secured distributed ledger technology" (…) "to validate and secure transactions" (refers to decentralised technology supporting Crypto-Assets).
  - "similar technology" (includes new asset classes that may emerge in the future and operate similar to Crypto-Assets).

Relevant Crypto-Assets in Scope

- The following Crypto-Assets are not covered by the CARF:
  - Central Bank Digital Currencies;
  - Specified Electronic Money Products (e-money); and
  - Crypto-Assets that cannot be used for payment or investment purposes.

- *All other Crypto-Assets not falling into one of the three exceptions above are considered "Relevant Crypto-Assets" for the CARF.*

Intermediaries in Scope: Reporting Crypto-Asset Service Providers (RCASP)

- A “Reporting Crypto-Asset Service Provider” is:
  - any individual or Entity that, as a business,
  - provides a service effectuating Exchange Transactions for or on behalf of customers.

- The term “Exchange Transaction” means any:
  - exchange between Relevant Crypto-Assets and Fiat Currencies; and
  - exchange between one or more forms of Relevant Crypto-Assets.

Examples of Reporting Crypto-Asset Service Providers

- Individuals or Entities offering, as a business, the following services are RCASPs:
  - Crypto-Asset exchanges;
  - brokers and dealers in Crypto-Assets;
  - Crypto-Asset ATMs;
  - intermediaries purchasing Crypto-Assets from an issuer, to resell and distribute such Crypto-Assets to customers; and
  - making available a trading platform that provides the ability for customers to effectuate Exchange Transactions on such platform.

Documenting Taxpayers: Due Diligence Rules

- The due diligence rules are designed to be consistent with the AEOI Standard and FATF Recommendations.

- The CARF contains due diligence procedures that require RCASPs to:
  - identify their Crypto-Asset Users and obtain valid self-certifications;
  - determine the relevant tax jurisdictions for reporting purposes; and
  - collect relevant information to comply with the reporting requirements under the CARF.

- To determine the Controlling Persons of an Entity Crypto-Asset User, the RCASP must apply AML/KYC Procedures in line with FATF Recommendations.

Reporting Requirements

- The following transactions are reportable under the CARF:
  - exchanges between Relevant Crypto-Assets and Fiat Currencies;
  - exchanges between one or more forms of Relevant Crypto-Assets; and
  - transfers of Relevant Crypto-Assets (including Reportable Retail Payment Transactions and transfers to un-hosted Crypto-Asset wallets).

- For each customer, RCASPs must report on an aggregate basis, valued in fiat currency and categorised by Crypto-Asset type for:
  - Crypto-Asset-to-Crypto-Asset exchanges;
  - Crypto-Asset-to-fiat currency exchanges; and
  - Crypto-Asset Transfers.

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Implementing the CARF: Key Considerations for Jurisdictions

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Key Considerations for Implementation

- Jurisdictions implementing the CARF will need to:
  - Implement the necessary legal framework;
  - Complete the technical implementation; and
  - Ensure RCASPs fulfil their obligations
- This process will take time and will be sequenced appropriately.

Key Considerations: Legal Implementation

- The first implementation aspect is domestic legal implementation:
  - Implementing the CARF's definitions and due diligence and reporting requirements
  - The CARF is drafted as a piece of model legislation and *countries can either reference or transpose the CARF directly into their domestic legal frameworks to create obligations on RCASPs*

- Secondly, the CARF MCAA provides an international legal framework to support exchanges

The Global Forum stands ready to develop tools and provide guidance and support

Key Considerations: Ensure Compliance

- **Identify the RCASPs with sufficient links to the jurisdiction.**
  - **This could, for example, be done by relying on licensing or registration regimes (either existing or new), reviewing incorporation records or by carrying out an awareness raising campaign.**
- **Oversee the effective implementation of the requirements.**
- **Strong measures to ensure information is always collected.**

The Global Forum stands ready to develop tools and provide guidance and support

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Next Steps

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Collective statement by 48 countries to implement the Crypto-Asset Reporting Framework

Armenia, Australia, Austria, Barbados, Belgium, Belize, Brazil, Bulgaria, Canada, Chile, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Liechtenstein, Lithuania, Luxembourg, Malta, Mexico, Netherlands, Norway, Portugal, Romania, Singapore, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, the United Kingdom, and the United States of America; the Crown Dependencies of Guernsey, Jersey, and Isle of Man; and the United Kingdom's Overseas Territories of the Cayman Islands and Gibraltar.

Next Steps

- In line with the Statement of Outcomes from its 2022 plenary, the Global Forum has established a "CARF Group" to take forward its work on the CARF.

- The CARF Group is focusing on how to build on the Global Forum's existing commitment and monitoring processes to ensure a widespread implementation of the CARF.

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Questions?

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Thank you

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