



# From innovation to obligation – the Crypto-Asset Reporting Framework (CARF) and CRS 2.0



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# CARF Introduction

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# Background

## FATCA

- The Foreign Account Tax Compliance Act (FATCA) regime aims to minimise offshore tax evasion by creating enhanced due diligence and information reporting requirements.
- Obligations under FATCA were effective beginning July, 1, 2014.
- FATCA is a filter on top of Chapter 3 withholding and reporting.
- Non-compliance with FATCA may result in a 30% withholding tax on all payments of the **non-compliant person's U.S. source FDAP** income.
- The U.S. Treasury / IRS accordingly describe **FATCA as a “reporting regime”**.
- Foreign jurisdictions (i.e., non-U.S.) are able to sign intergovernmental agreements (IGAs) with the U.S. for FATCA implementation for relaxed due diligence and withholding obligations. More than 110 countries have signed or agreed in substance FATCA IGAs with the U.S.

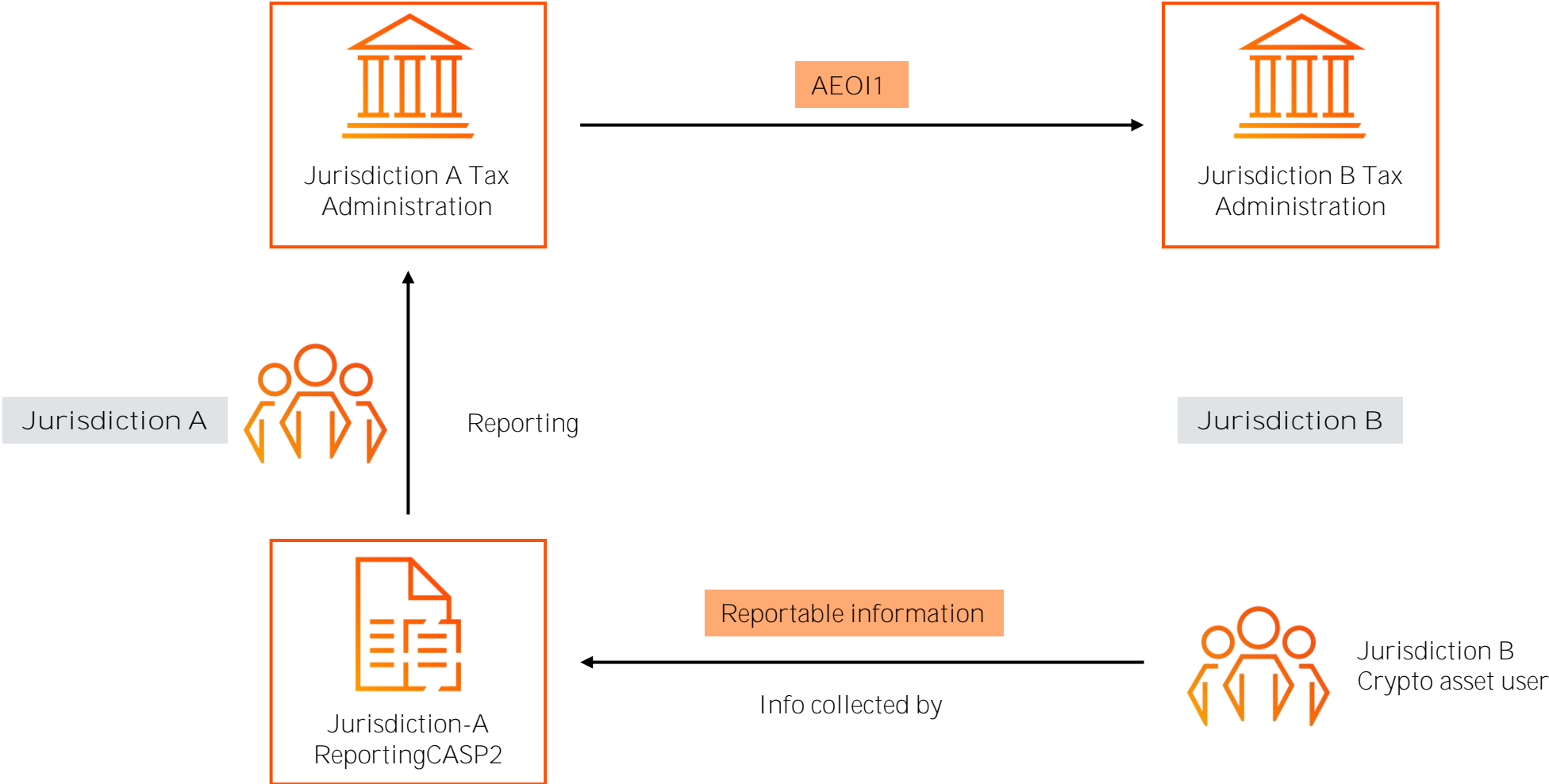
## CRS

- CRS is global standard for the exchange of financial account information between participating countries
- Developed by the Organisation for Economic Co-operation and Development (OECD) for Automatic Exchange Of Financial Account Information (AEOI)
- Under CRS, a jurisdiction agrees to provide financial account information to other Participating Jurisdictions with respect to tax residents of those other jurisdictions.
- CRS is considered an effective tool to counter tax evasion and increase voluntary tax compliance.
- Draws on FATCA concepts and processes.
- CRS account due diligence obligations are similar but not identical to those under FATCA.
- Applies in participating jurisdictions – date of go live depends on when the country decided to begin participation

## CARF and CRS 2.0

- CARF is the Crypto Assets Reporting Framework which has again been written by the OECD
- It sits alongside significant changes to the CRS with the new framework being referred to as **‘CRS 2.0’**
- Response to perceived weaknesses in current frameworks
- Similarly, US have introduced 1099-DA reporting to cover digital assets
- CARF and CRS 2.0 likely to come in via phased timelines depending on jurisdiction
- CARF draws on CRS concepts but there are key differences in terms of transaction-based reporting rather than account-based reporting
- CRS 2.0 brings additional financial institution types into scope as well as amending the information required to be reported

# Recap on How AEOI works



- 1. Automatic exchange of information
- 2. Crypto asset service provider

# What is CARF?

CARF is an OECD framework designed to standardise tax reporting and enhance global transparency for crypto-asset transactions.

It applies to entities and individuals effectuating crypto-asset transactions for customers.

Due diligence procedures build on existing AML/KYC and CRS self-certification obligations.

Transactional data must be collected, reconciled and appropriately classified to ensure accurate reporting of aggregated data.



## CARF timeline

2025



Regulatory readiness,  
client scoping,  
pilot tooling

2026



Systems deployed,  
onboarding,  
validations begin

2027



First wave of  
reporting to  
tax authorities

**Waiting until 2027 could attract penalties for noncompliance.**



# CARF in detail

## Scope of Crypto-Assets to be covered

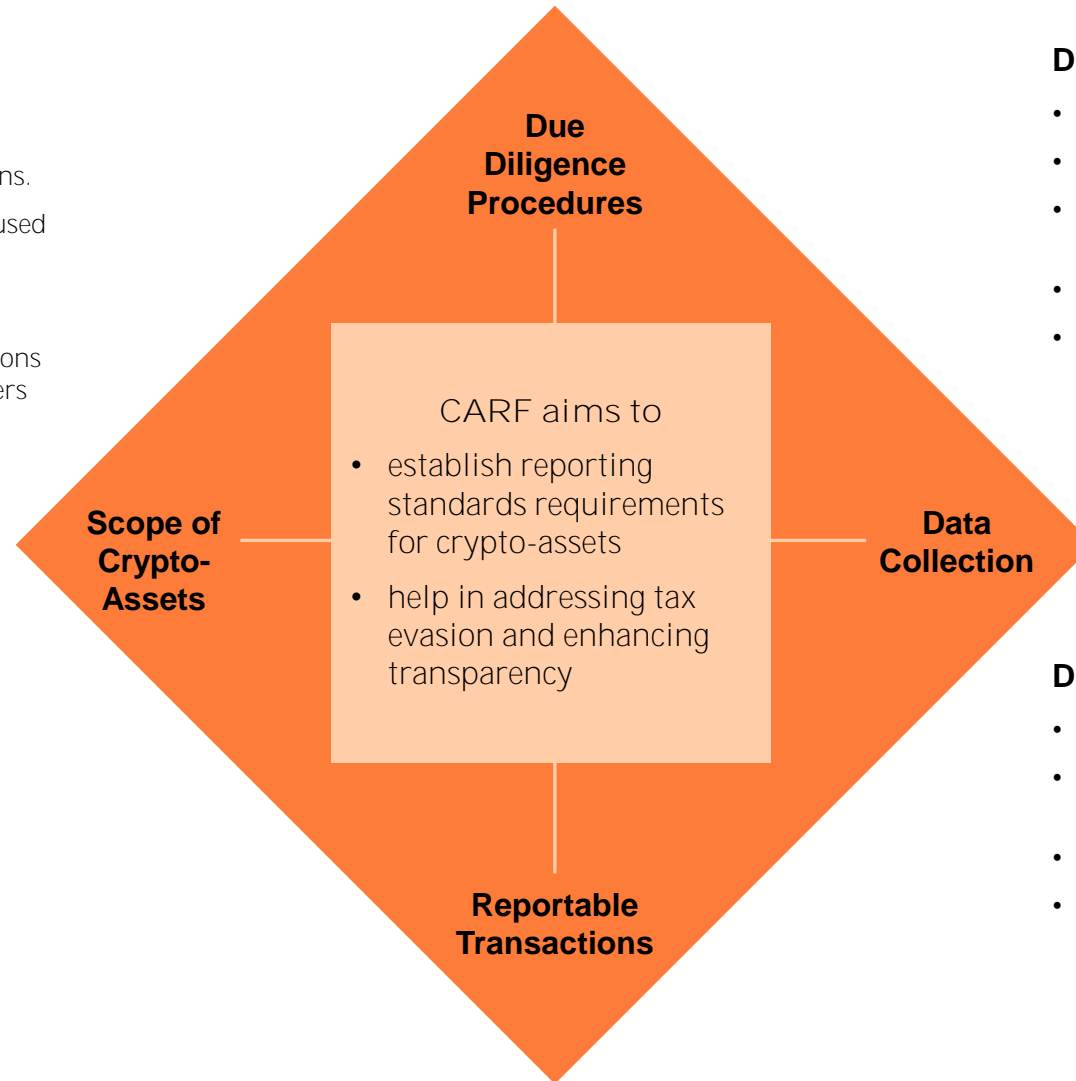
- digital representation of value that relies on a cryptographically secured distributed ledger or a similar technology to validate and secure transactions.
- Exclusions – SEMP, CBDCs, NFTs that cannot be used for payment or investment purposes?

## Covered entities / individuals

- Service providers that effectuate exchange transactions in relevant crypto-assets for or on behalf of customers as a business
- Determining Nexus (Primary Reporting and registration only)

## Reportable Transactions

- Crypto-Asset-to-Fiat Currency transactions
- Crypto-Asset-to-Crypto-Asset transactions
- Reportable Retail Payment Transactions



## Due Diligence Procedures

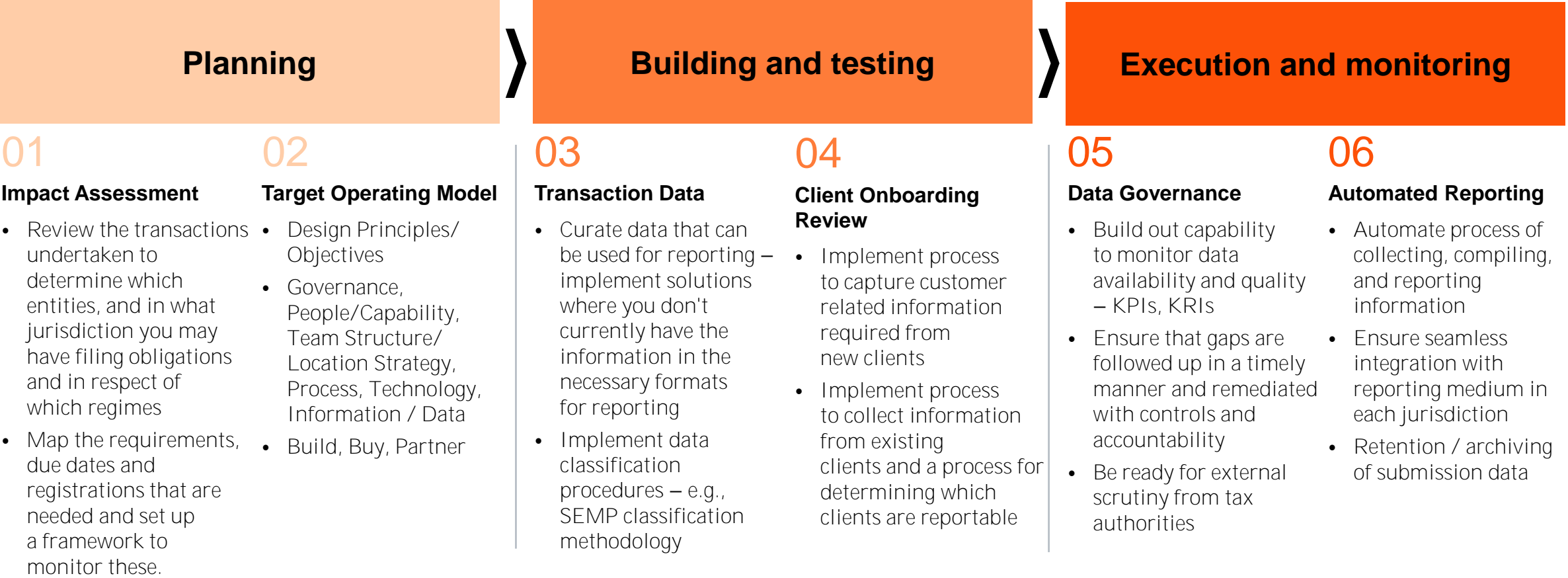
- Identification of Reportable Accounts
- Account Classification
- Due Diligence for Pre-existing & New Individual & Entity Accounts
- Enhanced Measures for Higher Risk Accounts
- Documentation and Regular Updating of Information

## Data collection and reporting requirements

- Identifying information
- Transaction details - Will differ based on product / service
- Wallet Information
- Value of Assets

# Business planning

Businesses need to prepare and plan ahead to ensure success with the new customer information reporting requirements



**Knowledge Management**

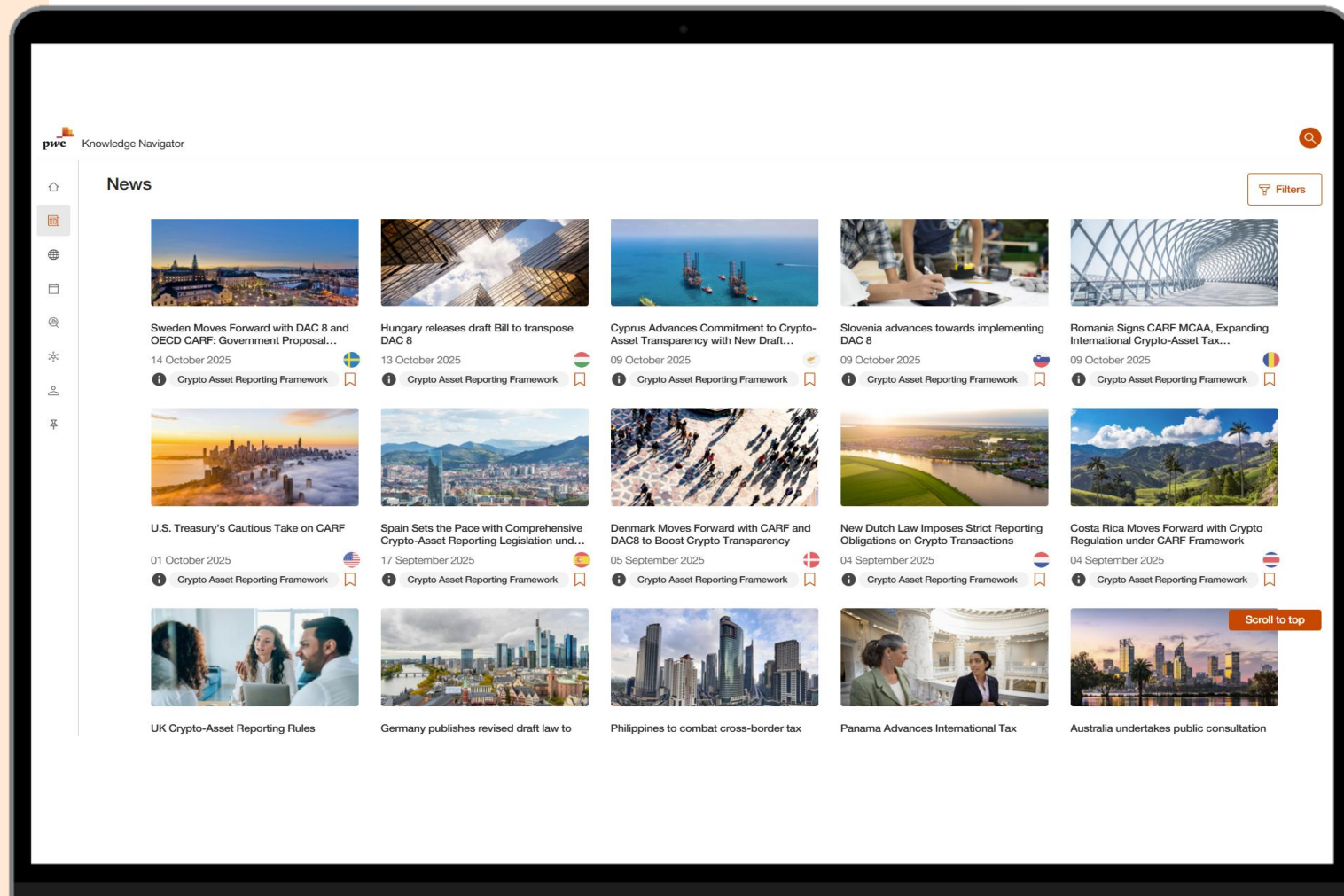


**Transformation**



**Technology and Ongoing Compliance**

# PwC's Knowledge Navigator



# Where – CARF Nexus Waterfall

## CARF

Tax Residence

1

Incorporation

2

Management

3

Regular place of  
business

4

Branch

5

## DAC8 (e.g. EU)

MICA License

A

EU Customers

B

# Roadmap for DAC8 reporting



## DAC8

Reporting Crypto-Asset Service Providers are required to carry out due diligence procedures and fulfil reporting requirements if they have effectuated reportable crypto-asset transactions.

### Case study

A crypto-asset exchange is located in a third country. On this platform crypto-assets like stablecoins can be traded. A wallet-holder who is resident in an EU Member State buys stablecoins on this platform.

### Question

Does DAC8 apply?

## 01

Crypto-Asset Service Provider or Crypto-Asset Operator?

Nexus-Rules relevant in case a Crypto-Asset Operator effectuates transactions

## 02

What are reportable crypto-assets?

Any crypto-asset as defined in MiCAR, except CBDC, E-Money and crypto-assets that cannot be used for payment or investment purposes

## 03

Are stablecoins in scope?

In case they do fulfil the criteria of E-Money, they are out of scope of DAC8 but DAC2 (CRS 2.0).

## 04

Distinction between DAC8 (CARF) and DAC2 (CRS 2.0)

Determination if DAC8 or DAC2 applies is important, because DAC8 reporting is transaction based.

# Technical issues raised by the industry

1

Nexus rules and staggered implementation

2

Treatment of stablecoins

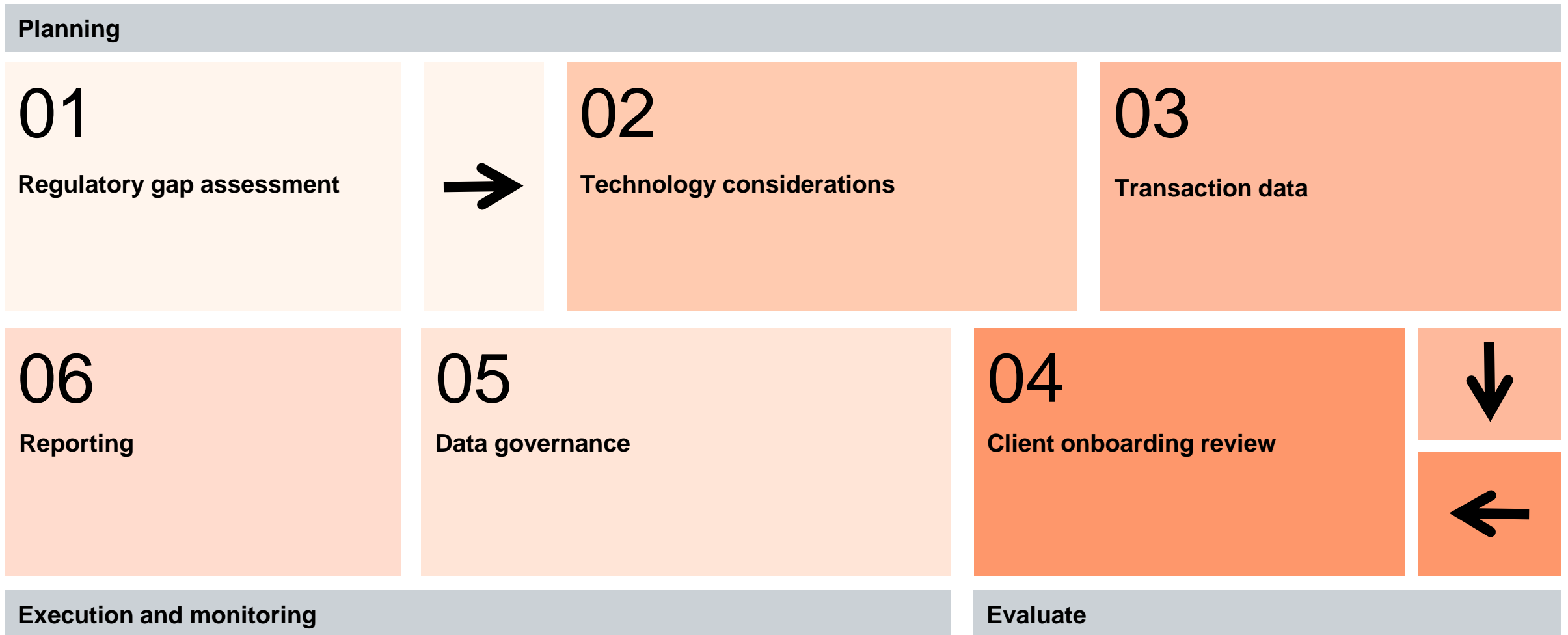
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Treatment of tokenized financial assets



# Practical Challenges (1 of 2)

Businesses need to prepare and plan ahead to ensure success with the new customer information reporting requirements



# Practical Challenges (2 of 2)



Determining who is the RCASP? E.g. in payments workflows.



Customer classification and dealing with transition and capturing customer data



Who needs to report? Where do they need to report? What if there is nexus with several jurisdictions at the same time?



Non-compliance risks / penalties - in the UK £ 300/ customer



CARF demands a new operating model and governance framework. Data security.



Specified e-money products (SEMPs). There is debate about stablecoins and which stablecoins meet this exemption?



Overlapping regimes with distinct reporting differences – Data out of scope under CARF may be reportable under CRS.



NFTs – and assessing if these can be used for payment or investment purposes. Especially how to track the low value (US\$200) and no meaningful trading volume exclusion.





# CRS Updates

# 2

# FATCA and CRS Overview



## Entities in scope

review their

## Investors/clients

to identify

## Reportable accounts

and then

## Report the relevant information

While main principles under CRS should not change, CRS 2.0 will affect processes and systems and will bring new entities into scope



# CRS 2.0: New reporting elements

## Main changes in reporting schema

Indicate whether the accounts reported were opened with a valid self-certification and whether they qualify as pre-existing or new accounts.

01

Category of Financial Accounts maintained and the role of Controlling Person/Equity holder in trust structures.

02

Financial Institutions will need to chase regularly the investors who did not provide their TINs (at least twice and at every documentation renewal process).

03

## Expected impacts



### Review of the documentation

Identification of gaps and remediation for clients/investors with incomplete documentation.  
Enhancement of the review process to ensure plausibility.



### Controls from foreign tax authorities

Would allow tax authorities to raise more precise queries on reported clients/investors. May lead to review risk profile of investigated clients/investors.



# CRS 2.0: New Entities

## E-Money Institution



### Depository Institution:

Definition extended to Entities that hold e-money or Products or Central Bank Digital Currencies (“CBDC”) for the benefit of customers.

## Crypto service providers



### Custodian Institution:

Definition extended to Entities that hold crypto-assets for the benefit of customers.

Coordination with CARF rules required for reporting purposes

## Crypto funds



### Investment Entity:

Definition extended to Entities which are investing, administering, or managing Reportable Crypto-Assets on behalf of other persons or the gross income of which is primarily attributable to investing, reinvesting, or trading in Reportable Crypto-Assets

## Operational Impacts

- 01 Assessment of products in scope
- 02 New client on-boarding process
- 03 Remediation to be made for existing clients

# FATCA/CRS audits by Tax Authorities

While CRS 2.0 will facilitate the detection by Tax Authorities of gaps in Financial Institution governance, we are seeing focus being placed on the following points at audit:

- 01 The written procedures, manuals, and guides applied by, or on behalf of, Financial Institution in fulfilling its FATCA/CRS reporting and due diligence obligations.
- 02 The register of actions taken and evidence used to ensure the execution of reporting and due diligence procedures.
- 03 A detailed description of the features of the products, services, and/or activities offered by Financial Institution.
- 04 A detailed technical description of the IT system used by, or on behalf of, Financial Institution to fulfill its reporting and due diligence obligations.
- 05 The templates of self-certifications used by, or on behalf of, Financial Institution in the context of its due diligence obligations.
- 06 A brief description of the internal and/or external control process, if any, established to identify and address the risks of non-compliance of Financial Institution with its reporting and due diligence obligations as well as the latest reports prepared in this context.
- 07 A brief description of any additional measures implemented by Financial Institution to ensure the proper fulfillment of its reporting and due diligence obligations (e.g., staff training, annual certification of client relationship managers).
- 08 Review of a large sample of financial accounts incl. FATCA/CRS and AML documentation.



# Questions

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# Thank you