

EMAIL SUBMISSION TO: eo.policy@hmrc.gov.uk

To whom it may concern,

Re: HMRC Open Consultation on Cryptoasset Reporting Framework, Common Reporting Standard amendments, and seeking views on extension to domestic reporting

About Global Digital Finance (GDF)

GDF is the leading global members association advocating and accelerating the adoption of best practices for crypto and digital assets. GDF's mission is to promote and facilitate greater adoption of market standards for digital assets through the development of best practices and governance standards by convening industry, policymakers, and regulators.

The input to this response has been curated through a series of member discussions, industry engagement, and roundtables, and GDF is grateful to its members who have taken part.

As always, GDF remains at your disposal for any further questions or clarifications you may have, and we would welcome a meeting with you to further discuss these matters in more detail with our members.

Yours faithfully,

Elise Soucie - Director of Global Policy & Regulatory Affairs - GDF



Response to the Consultation Report: Executive Summary

GDF convened its members to analyse the HM Revenue & Customs (HMRC) Open Consultation on the Cryptoasset Reporting Framework, Common Reporting Standard amendments, and seeking views on extension to domestic reporting. GDF also engaged with other industry bodies to convene and streamline industry feedback. We support in particular the UK Finance response to this consultation and echo several similar points of feedback in our response.

Overall GDF is supportive of the aim of the consultation and of the UK's support for implementing the Organisation for Economic Co-operation and Development's (OECD's) rules and commentary for both the Cryptoasset Reporting Framework (CARF) and amendments to the Common Reporting Standard (CRS 2.0) which have now been agreed at the international level to ensure consistency across jurisdictions. Broadly, GDF is supportive of the consultation and of HMRC's proposals for domestic implementation of both the rules and optional elements. GDF firmly believes in the importance of jurisdictional implementation of global principles and rules as this supports consistency and transparency across digital finance markets. In turn, this also supports responsible innovation and consistent and appropriate regulator outcomes for market participants. We also appreciate HMRC working in a timely manner to implement the OECD rules and proposals. The UK working towards its stated timelines, both for domestic and global implementation of regulatory frameworks for digital assets is crucial for providing clarity to the financial services sector, and we believe the consultation paper (referred to henceforth as the CP) is an important step towards that end. As such, the response to this CP looks to provide suggestions of areas where further consideration and clarity may be needed to effectively implement the CARF, CRS, and other domestic reporting requirements in the UK.

GDF has worked with members to provide constructive feedback on the regulatory regime, and also aims to identify options to overcome challenges identified in the CP. Through this process GDF members identified key areas that may require further drafting consideration or additional guidance for purposes of clarity, proportionality, and effective implementation. The core areas identified are:

- 1. Clarity of Definitions**
- 2. Timing of implementation – regulatory grace period encouraged**
- 3. Encouraged alignment and harmonization between the UK's AEOI regimes and domestic reporting requirements**
- 4. Garbage in Garbage out – Challenges around completeness and accuracy of information**
- 5. Digital ID**
- 6. Transaction Volume in a Web 3 ecosystem**



1. Clarity of Definitions

GDF would encourage further clarity around definitions as well as greater alignment between the CARF and CRS Definitions. In particular we would encourage the UK to provide more specificity for the definitions of: digital asset, reporting service provider, and reportable user.

Furthermore, GDF would note that the CRS self-certifications are not fully compatible with the CARF requirements for managed by entities. We would encourage greater alignment on this as well as HMRC to work with the OECD for this to be updated on their website.

2. Timing of implementation – regulatory grace period encouraged

GDF would encourage further consideration of the timing of implementation as well as a potential regulatory grace period as organisations prepare to comply with the requirements. We would note that some organisations will be implementing the requirements across multiple jurisdictions. They will be implementing CRS for the first time (due to the broadened definitions of Depository Institution and Depository Account under CRS2.0) in addition to the CARF and now domestic reporting. For newly impacted organisations, collection of data beginning 1 January 2026 is daunting, especially as industry is still awaiting draft regulations and an additional consultation before regulations can be finalised and implementation can begin.

3. Encouraged alignment and harmonization between the UK's AEOI regimes and domestic reporting requirements

GDF would encourage further alignment/harmonisation between the UK's AEOI regimes (i.e., CRS and the CARF) and its domestic reporting requirements. We respectfully request that the HMRC design the domestic framework in a way that is compatible with the requirements under the CARF and CRS, as even a minor difference from those standards will require separate builds, maintenance of multiple rulesets/processes, different customer experiences, etc.

4. Garbage in Garbage out – Challenges around completeness and accuracy of information

Given the still evolving state of the digital assets ecosystem, GDF would note that there may be some challenges around completeness and accuracy of information that CASPs are able to report. Where there are challenges with “inaccurate” or “incomplete” reporting information, we would first note it is crucial for this to be appropriately defined in the implementation guidance.

Furthermore, we believe penalties should be proportionate as to what CASPS are able to accurately and appropriately report and we would support HMRC taking a phased approach to implementation given the tight deadlines for firms to operationalise the requirements. GDF would support inaccurate or incomplete reporting being penalised initially by way of warnings, or guiding remarks, and that penalties (which we still support being proportionate to the breach) be only implemented after the grace period mentioned above under our second core theme expires.

Finally, under the CARF, every person in the chain would have to report what they reasonably know. GDF members are concerned that this would lead to duplicative reporting. Furthermore, concerns have also been raised on the obligation for reporting service providers to provide a "market value" for the relevant transactions. As not all cryptoassets are easy to value, GDF would propose that it is not appropriate for the valuation burden to sit with the RCASP. If a value is wrong that could result in prejudice behaviour for very valuable taxable transaction(s).



5. Digital ID

GDF would note that as many due diligence requirements focus on identity, HMRC and the OECD should be mindful of how requirements may need to evolve in the future as digital ID progresses. Digital ID has the potential to improve and enhance compliance processes and in particular tax reporting. It is crucial that the requirements developed are future-proof in order to support this.

6. Transaction Volume in a Web 3 ecosystem

Following on from the importance of clear definitions, GDF would note that we believe that narrowing the definition of reportable user to apply to only services that *directly* effectuates a transfer of digital assets, and is the CASP where the transaction originated, rather than the third-party custodian, would reduce the number of duplicative reports and is more consistent with the statutory language. This is also particularly crucial given the transaction volume within the Web 3 ecosystem. Having a precise definition that clearly sets out which entity should be reporting will support UK authorities in receiving accurate and clear data on transactions.



Response to the Discussion Paper: Questions for Public Consultation

Please note that given our focus areas set out in the executive summary that we have not responded to each question in the DP. Instead, we have provided feedback and input on the specific questions and chapters that are relevant to the key areas.

1. Question 1: Do you consider the scope of, and definitions contained within, the OECD CARF rules to be sufficiently clear? Are there any areas where additional guidance would be helpful?

First, GDF would note that there is a current absence of global consensus on definitions of crypto and digital assets. That said, GDF members feel that the UK's implementation of the OECD definition could be further specified to cover digital assets more precisely. For example, the Commodity Futures Trading Commission's Global Markets Advisory Council for Digital Asset Markets ("CFTC GMAC DAM") Subcommittee recently proposed an 'Approach for the Classification and Understanding of Digital Assets'.¹ Within this classification document they propose the following definition:

***Digital Asset:** a controllable electronic record, where one or more parties can exclusively exercise control through transfer of this record and where the controllable electronic record itself is uniquely identifiable. Excluded from the definition of Digital Asset are those controllable electronic records that exist in and function solely as part of a financial institution's books and records.*

Broadly, Digital Assets may serve a variety of economic functions such as a store of value, medium of exchange or payment, a means for investment or trading, or a utility to access other goods, governance, or other services. Within those functions, when those assets have the characteristics of regulated instruments that do not qualify as Digital Assets, a specific regulatory framework may already apply, and the Subcommittee believes that digitization does not, as a legal or practical matter, alter the functioning of the product or service, with the result that it is unnecessary to look beyond the existing classification for the regulated instrument.

GDF feels that adding more precise parameters for the UK's implementation of the CARF may provide beneficial specificity for the implementation of the rules and proposals. While GDF members appreciate and support the alignment between the CARF definition and the FATF definition, we would note that as the current broad definition sets out, there is a significant regulatory burden on the reporting Crypto Asset Service Provider (CASP).

Expanding on the above paragraph, GDF would note that the current lack of global consensus on the definitions of crypto and digital assets, and consequently on the scope of assets and activities covered by regulatory frameworks, makes it challenging to build due diligence requirements under the CARF upon existing AML/KYC obligations, as outlined in paragraph 13 of the Introduction. For example, non-fungible tokens (NFTs) and related services/activities, with their varied definitions across jurisdictions, are often excluded from the regulatory

¹ https://media.licdn.com/dms/document/media/D4D1FAQEoKw6PacuwGQ/feedshare-document-pdf-analyzed/0/1712398060754?e=1714003200&v=beta&t=7RVVzkHaS3_IsHn97qYKEFV0Gj-9yIUhogejJJyT-N8



perimeter, including under FATF recommendations². However, paragraph 11 of the Introduction expresses the intention to include these assets under the CARF. It is also important to note that the application of the CARF to NFTs depends on the evaluation of the third category of assets excluded from the CARF's scope—those that cannot be used for payment or investment purposes. Thus, despite the intention stated in paragraph 11 to include NFTs, their inclusion will require a case-by-case assessment of whether they can be used for payment or investment purposes. The same applies to the intention to capture stablecoins and the exclusion of Specific Electronic Money Products, as set out in paragraph 11.

Reporting service provider

As set out within the consultation the CARF defines 'Reporting Cryptoasset Service Provider' (RCASP) as "including any individuals or entities that, as a business, provide a service effectuating 'Exchange Transactions' for or on behalf of customers. This includes acting as a counterparty or intermediary to such 'Exchange Transactions' and making available a trading platform. For example, individuals or entities with control or sufficient influence over a "decentralised" exchange may be acting as RCASPs." GDF members would encourage HMRC to add further specificity to this definition to place the responsibility for reporting with the CASP where the transaction originated, rather than the third-party custodian. The custodian would only ever be an outsourced provider, so GDF would suggest that it is more appropriate for reporting obligations to rest with the CASP where the transaction originated.

This would also prevent duplicative reporting. Under the CARF, every person in the chain would have to report what they reasonably know. GDF members are concerned that this would lead to duplicative reporting. Furthermore, concerns have also been raised on the obligation for reporting service providers to provide a "market value" for the relevant transactions. As not all cryptoassets are easy to value, GDF would propose that it is not appropriate for the valuation burden to sit with the RCASP. Additionally, if a value is wrong that could result in prejudice behaviour for very valuable taxable transaction(s). This is a key example in the "garbage-in-garbage-out" theme which was noted as a core area of the response.

Self-Hosted Wallets

Furthermore, GDF would propose that hardware and software provided for the sole purpose of holding one's private keys should be exempted from the definition of reporting service provider.

Self-hosted wallets are wallets. The difference between a self-hosted wallet and a physical wallet that holds fiat is that a self-hosted wallet simply holds the private keys for one to use to access his or her digital assets. Self-hosted wallets are simply that—the consumer that holds the wallet effectuates any transactions from the self-hosted wallet, regardless of the connections to these other entities. Many self-hosted wallets create application programming interfaces ("APIs") so that individuals can seamlessly connect to the exchanges. However, in doing so,

² <https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Updated-Guidance-VA-VASP.pdf.coredownload.inline.pdf>, p.24. "Digital assets that are unique, rather than interchangeable, and that are in practice used as collectibles rather than as payment or investment instruments, can be referred to as a non-fungible tokens (NFT) or crypto-collectibles. Such assets, depending on their characteristics, are generally not considered to be VAs under the FATF definition."



self-hosted wallet providers or developers do not have any access to the transactions that occur, nor do they effectuate these transactions. All transactions are completed at the point of the exchange or platform. Simply providing the hardware or software for one to hold his or her own keys, even if it provides an API, does not equate to effectuating a transaction. We support the clarification that CARF provides on this in paragraph 26 where it confirms that "an individual or entity that solely creates or sells software or an application is not a reporting crypto asset service provider".

In addition to the technical aspects of self-hosted wallets, we are concerned that if they are included within the definition this creates numerous new reporters that are required to collect and report, notwithstanding that reporting on all transactions for self-hosted wallet holders will occur at the point at which the self-hosted wallet holder engages with an exchange or platform. Thus, inclusion of self-hosted wallets will create duplicate reporting of the same transaction as discussed further below.

Based on the reasoning above, we recommend that final regulations exempt all self-hosted wallets from the definition of "reporting service provider.

Protocols

In addition to the above, GDF would support an exemption for protocols, excluding them from the scope of the CARF. If a protocol was required to report (or its controller were) it may simply not have the infrastructure/information collection methods to comply with the reporting. Safe harbours could also be developed for protocols in the absence of a full exclusion.

Reportable Users

Node Operators

GDF members would note that we support the CARF's position in paragraph 24 that excludes Node Operators. It states that an individual or entity that is solely engaged in validating distributed ledger transactions is not a reporting CASP, even where the validation is remunerated. GDF Supports this approach as nodes are communication protocols on the blockchain that validate transactions. Anyone can participate in the blockchain network by running a node. Node operators use computational power to pass along transaction information from one node to the next, validating transactions. Node operators also help maintain the network's integrity by ensuring that all nodes have the same copy of the blockchain.

We reiterate our support for node operators being excluded from the definition of "reportable user" since they provide distributed ledger validation services and do not perform any "other function or service" in order to maintain the integrity of the blockchain.

Alignment between the CARF and CRS Definitions

GDF would note that the CRS self-certifications are not fully compatible with the CARF requirements for managed by entities. For example, a point of concern, noted by other UK Associations as well, is that "managed by another FI" entity is treated as "Passive" under the CARF, but such entities are generally Financial Institution under CRS. The BIAC



template CRS self-certification does not identify all of these. We would encourage HMRC to work with the OECD towards greater alignment and in particular to update the self-certification formats on the OECD website.

Question 2: Are there any areas where additional guidance would be helpful on the nexus criteria?

The broad definition of “reporting service provider” could have the unintended consequence of resulting in multiple service providers reporting the same transaction. For example, a trade on a decentralized exchange could be reported by a wallet provider and the decentralized digital asset platform, including potentially the smart contract programmer and the governance token holders. This will result in multiple service providers holding customer data which increases exponentially the risk of a data breach. In addition, because many of the participants in the digital asset industry (in particular, the decentralized finance space) are start-up companies, they may have fewer resources to build secure systems to comply with the broker reporting requirements, which could further place customers’ data at risk.

Many existing regulations contain a multiple broker rule, which exempts brokers or service providers who conduct sales on behalf of other brokers, so that only the broker that has the closest relationship to the customer is required to report the information required.

As noted under Q1 we believe that narrowing the definition of to apply to only services that *directly* effectuates a transfer of digital assets, and is the CASP where the transaction originated, rather than the third-party custodian, would reduce the number of duplicative reports and is more consistent with the statutory language. We also recommend that the final regulations adopt a multiple service provider rule for digital asset middlemen so that only one service provider is reporting a given transaction. This is also particularly crucial given the transaction volume within the Web 3 ecosystem. Having a precise definition that clearly sets out which entity should be reporting will support UK authorities in receiving accurate and clear data on transactions.

Furthermore, GDF would note that the definition of an exchange transaction is also very broad, and we would welcome additional precision and guidance from HMRC. At the moment, in its most expansive interpretation, the definition would cover any movement of one cryptoasset from one wallet to another. GDF members are concerned that it could potentially bring certain things that are not taxable transactions within the scope of reporting (staking, wrapping tokens etc.) and would welcome HMRC providing clarity in its implementation.

Question 3: Are there any areas where additional guidance would be helpful on reportable information?

GDF would encourage further alignment/harmonisation between the UK’s AEOI regimes (i.e., CRS and the CARF) and its domestic reporting requirements. Specifically, consistent with the HMRC’s stated benefits of streamlining reporting and minimizing time burdens, we would strongly recommend:

- The ability to use the same Self-Certification for CRS, the CARF, and domestic reporting purposes;
- The option to submit a single, consolidated report of reportable account holders regardless of tax residency (i.e., a single CRS report that includes UK and non-UK tax residents and a single CARF report that includes UK and non-UK tax residents); and



- Clear guidance on the due diligence procedures that apply specifically to UK account holders.

In any case, we understand that more information and guidance on domestic reporting is still forthcoming. We respectfully request that the HMRC design the domestic framework in a way that is compatible with the requirements under the CARF and CRS, as even a minor difference from those standards will require separate builds, maintenance of multiple rulesets/processes, different customer experiences, etc.

Specifically, regarding reportable retail payment transactions, it would be beneficial to clarify how the RCASP obligation can be reconciled with the exception outlined for the application of R16 to purchases of goods and services. Currently, transactions conducted using a credit, debit, or prepaid card for the purchase of goods or services are exempt from R16. In these instances, the RCASP is not expected to receive identifiable information about the merchant's customer. Therefore, it is important to clarify that in such cases, the RCASP is also not required to comply with the CARF obligations.

Question 4: Do you agree with the government's proposal to align the timeframe with CRS reporting requirements?

Overall GDF is supportive of aligning the timeframes as this would be welcome for firms to prepare from an operational perspective. However, we would propose that the UK deadline should be moved to the 30th of June to align with Bank and Building Society Interest (BBSI) reporting.

Question 5: Are there any areas where additional guidance would be helpful on the due diligence rules?

GDF would note that as many due diligence requirements focus on identity, HMRC and the OECD should be mindful of how requirements may need to evolve in the future as digital ID progresses. Digital ID has the potential to improve and enhance compliance processes and in particular tax reporting. It is crucial that the requirements developed are future-proof to support this.

Question 6: Do you agree that, in principle, penalties relating to CARF obligations should be consistent with structure set out above?

In principle, GDF is supportive of the approach. However, we would note that as the regime is implemented there may be challenges with "inaccurate" or "incomplete" reporting information. In this case, we believe it is crucial for this to be appropriately defined as some of the reporting CASPs may not have certain information.

In this case, penalties should be proportionate as to what CASPS are able to accurately and appropriately report and we would support HMRC taking a phased approach to implementation given the tight deadlines for firms to operationalise the requirements. GDF would support inaccurate or incomplete reporting being penalised initially by way of warnings, or guiding remarks, and that penalties (which we still support being proportionate to the breach) be only implemented after the grace period mentioned above under our second core theme expires.

Question 7: Do you think that the penalty amounts in the MRDP are appropriate for the CARF?



Question 8: What additional strong measures would be appropriate to ensure valid self-certifications are always collected for Crypto-Users and Controlling Persons?

Question 9: What additional one-off or regular costs do you expect to incur to comply with the requirements of the CARF? Please provide any information, such as costs, staff time or number of reportable persons/RCASPs affected which would help HMRC to quantify the impacts of this measure more precisely.

GDF would also note the additional costs of hiring and/or training staff to support the end-to-end process, not only data collation and processing. This runs the gamut from tax technical expertise to development of onboarding processes/flows to data management to customer support/education.

Furthermore, members noted that there may be ongoing server costs to retain and transfer data and run logic that may differ across jurisdictions depending on their local regulations/guidance.

Finally, we would also note the annual vendor costs for report preparation and filing, especially since many RCASPs are unlikely to be familiar with the various AEOI schemas, formatting specifications, and technical filing requirements that differ by country.

Question 10: Do you agree with the government's approach to Qualified Non-Profit Entities?

Yes, GDF is supportive of the government's approach to Qualified Non-Profit Entities given the current growth of non-profits both in the UK and globally.

Question 11: Do you agree with the proposal to have an election to ignore the switch-off and report under both regimes?

Yes, GDF is supportive of this proposal as it would be beneficial for both HMRC and industry to avoid double reporting.

Question 12: Do you consider the scope of, and definitions contained within, the rules to be sufficiently clear? Are there any areas where additional guidance would be helpful?

Question 13: Do you agree with government's proposal to introduce a mandatory registration requirement?

GDF is supportive of the requirement as described in the HMRC's consultation document but would note it will be important for this to be a one-off registration with no additional periodic certifications or similar compliance obligations which could be overly onerous.

Additionally, given the breadth of the definition of RCASP, in-scope reporters may not know they are in-scope (e.g., by controlling a protocol if not excluded). GDF would encourage HMRC to consider how they could communicate with the wider ecosystem to raise awareness with entities who may not be aware they need to register. Given this, we would reiterate our support for further consideration of the timing of implementation, as well as a potential regulatory grace period as organisations prepare to comply with the requirements.

Question 14: Do you agree that, in principle, penalties relating to CRS obligations should be consistent with those set out above?



Question 15: Do you think that the penalty amounts in the Model Rules for Digital Platforms are appropriate for the CRS?

Question 16: What additional strong measures would be appropriate to ensure valid self-certifications are always collected where required?

Question 17: Do respondents have any comments on the assessment of impacts of these proposals?

Question 18: What are your views on extending CARF by including the UK as a reportable jurisdiction? What impacts would this have on RCASPs in scope? Are there other issues, regulatory or legal, that will need further discussion?

Question 19: What are your views on extending CRS by including the UK as a reportable jurisdiction? What impacts would this have on reporting entities in scope? Are there other issues, regulatory or legal, that will need further discussion?

GDF would note that members have raised concerns that the CARF rules are not fully consistent with CRS rules. Given this, it may have the unintended consequence of causing some operational difficulties for firms subject to both the CARF and CRS.

We would suggest that CRS self-certifications on the OECD website will need to be amended to be compatible with use for the CARF, and GDF would also encourage HMRC to seek clarification of the CARF's managed by rules from the OECD, as otherwise widely held funds may be treated similar to passive entities for the CARF.

Question 20: If the UK were to decide to introduce domestic CARF and CRS reporting, what are your views on implementing to the same timeline as the international CARF/CRS2 package (information collected in 2026, exchange in 2027)?

GDF would note that some organisations will be implementing the requirements across multiple jurisdictions. They will be implementing CRS for the first time (due to the broadened definitions of Depository Institution and Depository Account under CRS2.0) in addition to the CARF and now domestic reporting.

We appreciate the UK's history of early commitment to AEOI frameworks but want to highlight the massive undertaking of simultaneously implementing multiple tax regimes across various jurisdictions, each with their own CRS options and local requirements/nuances. For newly impacted organisations, collection of data beginning 1 January 2026 is daunting, especially as industry is still awaiting draft regulations and an additional consultation before regulations can be finalised and implementation can begin.

To this point, GDF would also encourage further consideration of the timing of implementation as well as a potential regulatory grace period as organisations prepare to comply with the requirements.