Crypto-Asset Reporting Framework: Frequently Asked Questions

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The OECD maintains and regularly updates a list of frequently asked questions (FAQs) on the application of the Crypto-Asset Reporting Framework (CARF). The questions set out in these FAQs were received from business and government delegates. The answers to such questions clarify the CARF and help to ensure consistency in their implementation.

New or updated FAQs

SECTION I: OBLIGATIONS OF REPORTING CRYPTO-ASSET SERVICE PROVIDERS

1. Regular place of business nexus – application to Branches (*updated FAQ*)

If a Reporting Crypto-Asset Service Provider is subject to the reporting and due diligence requirements in Sections II and III in a Jurisdiction pursuant to Section I(A)(4) by virtue of having a Branch that is a regular place of business in that jurisdiction and the Reporting Crypto-Asset Service Provider does not have a higher nexus to another jurisdiction that has implemented CARF, should the Reporting Crypto-Asset Service Provider complete the reporting and due diligence requirements in that Jurisdiction with respect to Relevant Transactions effectuated by the Branch only or with respect to all Relevant Transactions effectuated by the Entity?

Because the highest nexus that the Reporting Crypto-Asset Service Provider has to a jurisdiction that has implemented CARF is a regular place of business through a Branch, the Reporting Crypto-Asset Service Provider should complete the reporting and due diligence requirements in the Jurisdiction with respect to all Relevant Transactions effectuated by the Entity, not only those effectuated by the Branch, unless the Entity has another Branch in a jurisdiction that has implemented CARF and Sections I(G) or (H) are applicable.

Exceptionally, and unless an implementing jurisdiction specifies otherwise, during the first years of initial staggered implementation by the jurisdictions committed to implement the CARF at a specified date, a Reporting Crypto-Asset Service Provider may complete the reporting and due diligence requirements in the jurisdiction of the Branch only with respect to Relevant Transactions effectuated by such Branch.

2. Regular place of business nexus – customer base

Does the sole existence of a customer base in an implementing jurisdiction mean that a Reporting Crypto-Asset Service Provider is subject to the reporting and due diligence requirements in that jurisdiction by virtue only of having a regular place of business under Section I(A)(4) of the CARF?

No. The sole existence of a customer base in a implementing jurisdiction does not constitute a regular place of business for purposes of Section I(A)(4) of the CARF.

SECTION II: REPORTING REQUIREMENTS

1. Reporting requirements with respect to Reportable Retail Payment Transactions

What are the reporting requirements with respect to Reportable Retail Payment Transactions?

Where a Reporting Crypto-Asset Service Provider transfers payments made in Relevant Crypto-Assets from a customer to the merchant for a value greater than USD 50 000 as an agent for the customer, the Reportable Crypto-Asset Service Provider should report such Transfer as a Reportable Retail Payment Transaction.

If the Reporting Crypto-Asset Service Provider is acting as an agent of the merchant, the Transfer is reported as such and not as a Reportable Retail Payment Transaction. However, with respect to such Transfers, if the Reporting Crypto-Asset Service Provider is required to verify the identity of the merchant's customer pursuant to domestic anti-money laundering rules, then the Reporting Crypto-Asset Service Provider is required to also treat the customer of the merchant as the Crypto-Asset User and to report the transaction as a Reportable Retail Payment Transaction with respect to the customer.

In terms of reporting requirements, aggregate information on Transfers that constitute Reportable Retail Payment Transactions with respect to a particular Crypto-Asset User is required to be reported as a separate category of Relevant Transactions. Aggregate information with respect to Transfers that do not constitute Reportable Retail Payment Transactions solely by virtue of not meeting the de minimis threshold should be included in the aggregate information reported with respect to Transfers, and not as Reportable Retail Payment Transactions.

2. Naming convention for Relevant Crypto-Assets

Pursuant to Section II(A)(3)(a) of the CARF, a Reporting Crypto-Asset Service Provider must report for each type of Relevant Crypto-Asset with respect to which it has effectuated Relevant Transactions during the relevant calendar year or other appropriate reporting period the full name of the type of Relevant Crypto-Asset. The CARF XML Schema User Guide further specifies that the name of the Relevant Crypto-Asset should, whenever feasible, be reported in line with the Digital Token Identifier.

How are these requirements to be applied in practice?

The name of the Relevant Crypto-Asset is to be reported using the Digital Token Identifier code registered in the Digital Token Identifier Foundation (dtif.org), whenever such identifier is issued in respect of the Relevant Crypto-Asset.

Where a Digital Token Identifier is not available, the full name of the Relevant Crypto-Asset is to be reported.

3. Reliance on a third party for reporting purposes

Does the CARF prevent a jurisdiction from including a rule in its domestic implementing legislation for a Reporting Crypto-Asset Service Provider to rely on a third party to fulfil its reporting obligations pursuant to Section II?

A jurisdiction may consider including a rule in its domestic implementing legislation for the CARF that allows a Reporting Crypto-Asset Service Provider to rely on a third party to fulfil its reporting obligations pursuant to Section II. Where a Reporting Crypto-Asset Service Provider relies on a third party to fulfil the reporting obligations pursuant to Section II, the reporting should be done in the name of the Reporting Crypto-Asset Service Provider and the reporting obligations remain the responsibility of the Reporting Crypto-Asset Service Provider.

SECTION III: DUE DILLIGENCE PROCEDURES

1. Reportable Jurisdiction Person with no tax residence

With respect to an Entity Crypto-Asset User that is a partnership, limited liability partnership or similar legal arrangement without residence for tax purposes, can a Reporting Crypto-Asset Service Provider rely on the address of the principal office of the Entity for purposes of determining what jurisdiction such Entity is resident in for purposes of the CARF?

Yes, to the extent the Reporting Crypto-Asset Service Provider has no other documentation available to determine the place of effective management of the Entity Crypto-Asset User, the Reporting Crypto-Asset Service Provider may rely on the address of the principal office of the Entity for purposes of determining what jurisdiction such Entity is resident in for purposes of the CARF.

2. Reliance on due diligence procedures for Entity Crypto-Asset Users performed by the transferor of a business

Paragraph 53 of the Commentary on Section III of the CARF generally permits a Reporting Crypto-Asset Service Provider that acquires the business of another Reporting Crypto-Asset Service Provider, which has completed all the due diligence required under Section III with respect to the Individual Crypto-Asset Users transferred, to rely on the transferor's determination of the status of such Individual Crypto-Asset Users, until the acquirer knows, or has reason to know, that the status is inaccurate or a change in circumstances occurs. Would it be appropriate for implementing jurisdictions to specify that a Reporting Crypto-Asset Service Provider, that acquires the business of another Reporting Crypto-Asset Service Provider which has completed all the due diligence required under Section III with respect to the Entity Crypto-Asset Users transferred, would also generally be permitted to rely on the transferor's determination of status of such Entity Crypto-Asset Users (including its Controlling Persons), until the acquirer knows, or has reason to know, that the status is inaccurate or a change in circumstances occurs?

Yes, Reporting Crypto-Asset Service Providers are generally permitted to rely on the transferor's determination of status of such Entity Crypto-Asset Users (including its Controlling Persons) in these instances, until the acquirer knows, or has reason to know, that the status is inaccurate or a change in circumstances occurs.

SECTION IV: DEFINED TERMS

1. Non-custodial services

Does the definition of Reporting Crypto-Asset Service Provider provided for in Section IV(B)(1) exclude non-custodial services effectuating Exchange Transactions?

No. Pursuant to Section IV(B)(1), a Reporting Crypto-Asset Service Provider means "any individual or Entity that, as a business, provides a service effectuating Exchange Transactions for or on behalf of customers, including […] by making available a trading platform". For that purpose, a trading platform may be made available by an individual or Entity with or without offering custodial services.

An individual or Entity will be considered to make available a trading platform to the extent it exercises control or sufficient influence over the platform, allowing it to comply with the due diligence and reporting obligations with respect to Exchange Transactions concluded on the platform. Specifically in the context of DeFi arrangements, an implementing jurisdiction may defer its application of the control and sufficient influence test, until further interpretative guidance is issued to clarify the application of the Crypto-Asset Reporting Framework in this respect, taking into account relevant regulatory developments, including at the level of the FATF.

2. Wrapping and liquid staking

Certain Relevant Transactions involve the exchange of Relevant Crypto-Assets for a token representing the exchanged Relevant Crypto-Assets.

This includes instances where a Relevant Crypto-Asset on one blockchain represents a Relevant Crypto-Asset from another blockchain or the creation of a Relevant Crypto-Asset on the same blockchain that can be used in an automatically executing transaction that the original Relevant Crypto-Asset cannot be used in. The new Relevant Crypto-Asset is supposed to match the asset value it is representing, and it can normally be redeemed at any time.

Similarly, a Crypto-Asset User may transfer Relevant-Crypto Assets into an automatically executing contract for the purpose of being used as part of a proof-of-stake consensus mechanism to validate transactions on a distributed ledger. In exchange the Crypto-Asset User may then be issued a tokenised version of their Relevant Crypto-Assets, which carries the same value and is transferable or tradable.

Are such transactions, as described above, Exchange Transactions?

Yes, because they involve the exchange of a Relevant Crypto-Asset for another Relevant Crypto-Asset they constitute Exchange Transactions. This is irrespective of whether an Exchange Transaction gives rise to a taxable disposition under applicable tax rules.

3. Collateralised loans

Should a Relevant Transaction where Relevant Crypto-Assets are transferred as collateral in exchange for a transaction denominated as a loan of Relevant Crypto-Assets or Fiat Currency, and whereby the terms of the agreement require the return of the collateral and the borrowed Relevant Crypto-Assets or Fiat Currency, be reported as an Exchange Transaction or as a Transfer?

A Reporting Crypto-Asset Service Provider must only treat a Relevant Transaction as an Exchange Transaction if, based on its available knowledge at the time of the Relevant Transaction it can determine that the transaction consists of an acquisition or disposal of one or more Relevant Crypto-Assets as compensation for Fiat Currency or other Relevant Crypto-Assets. Where Relevant Crypto-Assets are transferred as a loan or as collateral, they are not transferred as compensation for the acquisition of other Relevant Crypto-Assets. Therefore, in those instances, or where the Reporting Crypto-Asset Service Provider does not have knowledge about the characteristics of the Relevant Transaction, it must report it as a Transfer.

Where a Reporting Crypto-Asset Service Provider has knowledge that the Relevant Transactions it is effectuating consists of a transfer of Relevant Crypto-Assets as collateral in exchange for a loan of Relevant Crypto-Assets, which Transfer types should it use for reporting such transactions over the lifetime of the loan?

Both the Transfers effectuated for the borrowing and the return of the borrowed Relevant Crypto-Assets must be reported as Transfer type "Crypto loan". The transfer of Relevant Crypto-Assets in connection with the deposit and return of the collateral must be reported as Transfer type "Collateral". If, separately from the return of the borrowed Relevant Crypto-Assets, an amount of Relevant Crypto-Assets is transferred to the lender by way of compensation for the loan, such Transfer must be reported as Transfer type "Other".

4. Due diligence procedures for the classification of Financial Institutions

If a Reporting Crypto-Asset Service Provider that is also a Reporting Financial Institution has determined that an Entity is a Financial Institution for CRS purposes based on publicly available information or information in its possession, can it rely on such information to determine that the same Entity is an Excluded Person for CARF purposes?

Yes, provided that such information allows the Reporting Crypto-Asset Service Provider to conclusively determine that the Entity is a Financial Institution other than an Investment Entity described in Section IV(E)(5)(b) of the CARF.

5. Non-Fungible Tokens (NFTs)

How can a Reporting Crypto-Asset Service Provider, as defined in Section IV(A)(2), adequately determine in the context of Relevant Transaction that a Crypto-Asset that is a non-fungible token (NFT) cannot be used for payment or investment purposes?

A Reporting Crypto-Asset Service Provider can adequately determine that an NFT with respect to which it is providing a service effectuating a transaction cannot be used for payment or investment purposes provided that:

1. it does not represent Financial Assets or fungible Crypto-Assets;
2. it is not marketed as an investment product or subject to financial regulation;
3. it is not a virtual asset for AML/KYC purposes pursuant to the FATF Recommendations; and
4. based on the reasonable knowledge of the Reporting Crypto-Asset Service Provider at the time of the reporting, it has a low value (e.g. it has not traded at a value exceeding USD 200) and no meaningful trading volume in terms of value and number of transactions.

Jurisdictions may explicitly specify in their domestic law what constitutes "low value" and "no meaningful trading volume".

6. Digitally issued or tokenised Financial Assets

Does a digitally issued or tokenised Financial Asset qualify as a "Crypto-Asset" under Section IV(A)(1) of the CARF and Section VIII(A)(12) of the amended CRS where, for regulatory or other legal reasons, such asset can only be held by and transferred through Custodial Accounts maintained with one or more Depository or Custodial Institutions or where such asset is an Equity Interest in a regulated Investment Entity that, for regulatory or other legal reasons, can only be registered and transferred through the Investment Entity by traditional means or distributed ledger controlled by the issuing Investment Entity or its agent or both?

Paragraph 11 of the introduction to the CARF provides that the definition of Crypto-Assets targets those assets that can be held and transferred in a decentralised manner, without the intervention of traditional financial intermediaries. In addition, paragraph 8 of the Commentary on Section IV(A)(1) of the CARF states that the definition of Crypto-Assets aims to cover assets that rely on technology that allows for validating and securing digital transactions in a decentralised or disintermediated manner.

Therefore, a digitally issued or tokenised Financial Asset does not fall within the definition of Crypto-Asset under Section IV(A)(1) of the CARF and Section VIII(A)(12) of the amended CRS where such disintermediation is not possible since the asset can, for regulatory or other legal reasons, only be held by and transferred through Custodial Accounts maintained with one or more Depository or Custodial Institutions, or where the asset is an Equity Interest in a regulated Investment Entity that, for regulatory or other legal reasons, can only be registered and transferred through the Investment Entity by traditional means or a distributed ledger controlled by the issuing Investment Entity or its agent or both. In such cases, the optional provision under Section I(G) of the amended CRS is not applicable.

Conversely, where the above conditions are not met, a digitally issued or tokenised Financial Asset qualifies as a Crypto-Asset under Section IV(A)(1) of the CARF and Section VIII(A)(12) of the amended CRS and the optional provision under Section I(G) of the amended CRS can be applied.

7. Specified Electronic Money Products – redemption requirements

Section IV(A)(4) of the CARF and Section VIII(A)(9) of the amended CRS define the term "Specified Electronic Money Product" as a product that is: "[…] e) by virtue of regulatory requirements to which the issuer is subject, redeemable at any time and at par value for the same Fiat Currency upon request of the holder of the product."

What is the scope of application of this requirement and to what extent do restrictions or conditions on the holder's regulatory right to redeem at any time and at par value for the same Fiat Currency disqualify a product from being a Specified Electronic Money Product?

The requirement must be satisfied with respect to the issuance of the product as a whole, such that all units or tokens forming part of a given issuance are effectively subject to the requirement.

Substantive restrictions or conditions that effectively restrict or limit the holder's regulatory right to request redemption at any time and at par value for the same Fiat Currency are not compatible with the requirements set out in Section IV(A)(4)(e) of the CARF and Section VIII(A)(9)(e) of the amended CRS.

Procedural and prudential restrictions or conditions that are applicable in accordance with the laws to which the issuer is subject, are compatible with the requirements set out in Section IV(A)(4)(e) of the CARF and Section VIII(A)(9)(e) of the amended CRS, provided they do not undermine par redemption. This may include, for instance, the application of reasonable redemption fees, AML/CFT or other checks for illegal activity, or the limitation of redemption to business hours or designated customer service channels.

In determining whether a specific product qualifies as a Specified Electronic Money Product in respect of the condition set out in Section IV(A)(4)(e) of the CARF and Section VIII(A)(9)(e) of the amended CRS, a Reporting Crypto-Asset Service Provider may rely on the relevant regulatory authorisations or approvals granted in respect of that product.

8. Specified Electronic Money Products – change of status

How should Reporting Crypto-Asset Service Providers and Reporting Financial Institutions treat, for reporting purposes, respectively, under the CARF and the amended CRS, a Relevant Crypto-Asset that becomes a Specified Electronic Money Product during the course of a reporting period, for instance as a result of the introduction of regulatory requirements that meet the condition of Section IV(A)(4)(e) of the CARF and **Section VIII(A)(9)(e) of the amended CRS?**

Until the date on which the definitional requirements for a Specified Electronic Money Product pursuant to Section IV(A)(4) of the CARF and Section VIII(A)(9) of the amended CRS are met, the product remains a Relevant Crypto-Asset. Accordingly, Reporting Crypto-Asset Service Providers should continue to apply the CARF and include transactional reporting for all Relevant Transactions involving the product up to (but not including) such date. No retroactive reclassification should be undertaken for Relevant Transactions executed prior to that date.

From the date on which the definitional requirements for a Specified Electronic Money Product pursuant to Section IV(A)(4) of the CARF and Section VIII(A)(9) of the amended CRS are met, the product is excluded from the CARF. As a result, Exchange Transactions involving the product are to be treated as Exchanges with Fiat Currency for CARF purposes. Any Entity that holds the product for the benefit of customers, is a Depository Institution for CRS purposes and must comply with year-end account balance reporting (and, if any, gross interest payments).

As a means of simplification, jurisdictions may specify that Reporting Crypto-Asset Service Providers and Reporting Financial Institutions are allowed to treat the product as either a Relevant Crypto-Asset or a Specified Electronic Money Product for all or part of the calendar year or other appropriate reporting period in which such product becomes a Specified Electronic Money Product.

9. Specified Electronic Money Products – multi-currency e-money products

Do multiple balances each in a single Fiat Currency held in multi-currency e-money wallets meet the definition of Section IV(A)(4)(a) of the CARF and Section VIII(A)(9)(a) of the amended CRS, respectively, which requires a Specified Electronic Money Product to be a digital representation of a single Fiat Currency? How are such balances to be reported under the CRS?

Yes. Each of these balances represent e-money products denominated in a single Fiat Currency that meet the definition of Section IV(A)(4)(a) of the CARF and Section VIII(A)(9)(a) of the amended CRS, respectively. For CRS reporting purposes, all Specified Electronic Money Products maintained for an Account Holder represent a single (notional) Depository Account. Therefore, the overall account balance and overall interest income received should be reported as a single Depository Account. The general aggregation and currency translation rules of the CRS are to be applied in these instances, including to determine whether such Depository Account is an Excluded Account.