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Background brief on the amendments to the Inland Revenue Ordinance for implementation of the Crypto-Asset Reporting Framework and latest arrangements of the Common Reporting Standard

Purpose

The Administration proposes to amend the Inland Revenue Ordinance (“IRO”) (Cap. 112) for the implementation of the Crypto-Asset Reporting Framework (“CARF”) and the amended Common Reporting Standard (“CRS”) developed by the Organisation for Economic Co-operation and Development (“OECD”). This paper provides the relevant background information and summarizes the major views and concerns expressed by Members.

Background

Automatic exchange of information in tax matters

2. Hong Kong has all along been supportive of international efforts to enhance tax transparency and combat tax evasion in accordance with the international standards promulgated by OECD. **Automatic exchange of information in tax matters** (“AEOI”) is an international tax cooperation initiative advocated by OECD **to enhance international tax transparency and combat cross-border tax evasion**. CRS was developed by OECD in 2014 to underpin the implementation of AEOI. It requires the collection of financial account information from financial institutions (“FIs”) by tax authorities and automatic exchange of the information of persons with participating tax jurisdictions where the persons are tax residents on an annual basis.

3. With the incorporation of CRS into IRO in 2016, **Hong Kong has started exchanging CRS data with partner jurisdictions¹ on a reciprocal basis since 2018.** Specifically, FIs are required to collect required information² on tax residents of reportable jurisdictions and furnish a return to the Inland Revenue Department (“IRD”) reporting such information.³ IRD will then exchange the information with the tax administrations of Hong Kong’s AEOI partner jurisdictions with which there is an agreement in place for such purposes on an annual basis.

Regulation and development of digital asset market

4. Digital assets (“DA”)⁴, including crypto-assets, hold great development potential with significance to fintech. Through the adoption of blockchain technology, more efficient financial transactions at a lower cost can be realized to bring in more inclusive financial services. In October 2022, the Government issued **the Policy Statement on Development of Virtual Assets in Hong Kong**, setting out the commitment to enhancing the DA regulatory framework and creating a facilitating environment under the **“same activity, same risks, same regulation”** principle, with a view to promoting the sustainable and responsible development of the DA sector in Hong Kong.

5. The Government has introduced a **licensing system for virtual asset (“VA”)⁵ service providers** through amending the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (“AMLO”), ensuring that VA trading platforms comply with relevant international requirements

¹ 129 reportable jurisdictions are now provided for in the Inland Revenue Ordinance (“IRO”).

² The required information includes the account balance or value, the total gross amount of interest paid, dividends paid, other income generated in respect of the financial assets held in the account and the total gross proceeds from the sale or redemption of financial assets paid to the account.

³ See Part 8A of IRO regarding the obligations of reporting financial institutions.

⁴ In June 2025, the Government issued the Policy Statement 2.0 on the Development of Digital Assets in Hong Kong, and has since used the term “digital assets” in lieu of “virtual assets” to better reflect the nature of this asset class.

⁵ As “virtual asset” is a legally defined term under the existing Anti-Money Laundering and Counter-Terrorist Financing Ordinance, the term “virtual asset” is still adopted in this paper in some parts.

on anti-money laundering and counter-terrorist financing while protecting investors. Since the implementation of the licensing system in June 2023, the Securities and Futures Commission (“SFC”) has granted licenses to 11 companies.

6. In February 2025, SFC unveiled 12 major initiatives to enhance the security, innovation, and growth of Hong Kong’s DA market under a five-pillar **“ASPIRe” roadmap**, which stands for Access, Safeguards, Products, Infrastructure, and Relationships. The roadmap embodies SFC’s forward-looking commitment to tackling the most pressing challenges facing the DA market, positioning Hong Kong as a trusted international nexus for VA liquidity. In June 2025, the Government issued the Policy Statement 2.0 on the Development of Digital Assets in Hong Kong, introducing the **“LEAP”**⁶ framework and reinforcing its commitment to establishing Hong Kong as a global hub for innovation in the DA field, with one of the focuses being enhancing the legal and regulatory framework.

7. In view of the important role played by stablecoins in the DA ecosystem, and the rising interconnectedness between the traditional financial system and the DA market, the Government introduced the Stablecoins Bill into LegCo in December 2024 to establish a **licensing regime for issuers of stablecoins pegged to fiat currencies** in Hong Kong. The Stablecoins Ordinance (Cap. 656) was passed in May 2025, and came into effect on 1 August 2025. The commencement of the Stablecoins Ordinance further strengthens the regulatory framework for DA activities in Hong Kong, so as to promote sustainable and responsible development of related industries, as well as consolidating and enhancing Hong Kong’s position as an international financial centre.

8. The Government and SFC conducted a public consultation on the **licensing regimes for DA dealing service and custodian service providers** from June to August 2025, with a view to formulating the legislative proposals as soon as practicable. Upon the completion of the legislative work, the regulatory framework in Hong Kong will provide comprehensive coverage of the key nodes of the DA industry, balancing risk management and investor protection, while providing favourable conditions for market development and financial innovation.

⁶ The “LEAP” framework focuses on: “L”egal and regulatory streamlining, “E”xpanding the suite of tokenized products, “A”dvancing use cases and cross-sectoral collaboration, and “P”eople and partnership development.

Crypto-Asset Reporting Framework

9. In light of the rapid development of DA markets in recent years, in 2023, OECD published **CARF** to provide for the **automatic exchange of tax information on crypto-asset⁷ transactions** with partner jurisdictions on an annual basis, and incorporated into CRS new digital financial products and enhanced requirements regarding reporting and due diligence.

10. To demonstrate Hong Kong's commitment to promoting international tax cooperation and combating cross-border tax evasion, as well as to fulfilling its international obligations, the Government proposes to **amend IRO to implement CARF and the newly amended CRS**. This will help promote the sustainable and healthy development of the DA sector in Hong Kong, and is also of paramount importance in maintaining Hong Kong's reputation as an international financial and commercial centre. To this end, the Government conducted a public consultation on the proposed implementation of OECD's CARF on 9 December 2025, and will submit legislative proposals to the Legislative Council ("LegCo") in 2026.

11. In addition, since 2024, OECD has been conducting the second round of a peer review on the effectiveness of **Hong Kong's administrative framework for implementing CRS**. Having taken into consideration OECD's views, the Government proposes, through **amendments to IRO**, to introduce mandatory registration for FIs to enhance identification, as well as to raise the penalty levels and enhance the enforcement mechanism, with a view to maintaining a favourable rating in the OECD's peer reviews and strengthening Hong Kong's reputation as an international financial and commercial centre.

Major views and concerns expressed by Members

12. The major views and concerns expressed by Members are summarized in the ensuing paragraphs.

⁷ Under CARF, "crypto-asset" refers to a digital representation of value that relies on a cryptographically secured distributed ledger or a similar technology to validate and secure transactions. It must represent a right to value, which can be traded or transferred in a digital manner, including both fungible and non-fungible tokens.

Justifications for implementing automatic exchange of financial account information in tax matters

13. While some Members considered that Hong Kong should implement AEOI to fulfil its responsibility in international tax cooperation, some other Members queried **the benefits for Hong Kong to pursue the AEOI** arrangement given its adoption of the territorial source principle of taxation. These Members cautioned that following the international standards of AEOI indiscriminately and too closely might risk eroding, among other advantages, the edges of simple tax regime and flexible business environment of Hong Kong in the long run.

14. The Administration advised that **the international community had been closely monitoring the progress of various tax jurisdictions in the implementation of the AEOI arrangement** and putting emphasis on a wide network of AEOI to ensure a level-playing field. Both OECD and the European Union (“EU”) had kicked off their respective exercises to draw up lists of “non-cooperative tax jurisdictions”. One of the listing criteria was the progress and the network coverage of implementing AEOI. In the case of EU, **a tax jurisdiction could be regarded as compliant on tax transparency only if it fulfilled certain criteria**. At the same time, a considerable number of jurisdictions had also indicated to OECD their interest in conducting AEOI with Hong Kong.

Operational arrangements for automatic exchange of information with reportable jurisdictions

15. Members noted that FIs should start conducting due diligence procedures and collect information from account holders who were tax residents of an AEOI partner jurisdiction in the calendar year following LegCo’s approval of the inclusion of the AEOI partner as a reportable jurisdiction. FIs should lodge the AEOI returns within five months after the calendar year to which the information related and IRD would then commence the first information exchange with the tax authorities of the reportable jurisdictions in the following September (and September annually thereafter). Given **the bulk of information involved**, Members enquired about whether **the deadlines for FIs to submit the AEOI returns in respect of different jurisdictions could be spread out over different months of a reporting year**.

16. The Administration responded that AEOI among tax authorities in September each year was a common time frame for all reportable jurisdictions. To meet this time frame, FIs would be required to submit their AEOI returns to IRD by May in the reporting year concerned. OECD

would put in place a Common Transmission System for exchange of information among tax authorities. At the domestic level, IRD had put in place the AEOI Portal for FIs to submit notifications and file returns on required information of reportable accounts electronically. As such, the processing and exchange of data would not create too much administrative burden on IRD. **IRD would adopt a facilitating approach in helping FIs submit AEOI returns**, including arranging publicity to enhance FIs' awareness of their obligations for submitting the returns and ensuring the returns would meet the required format and standard.

Due diligence procedures

17. Members expressed concern that the surge in the number of reportable jurisdictions might **create undue compliance burden on FIs in carrying out the due diligence procedures in verifying reportable financial accounts**. Some Members enquired about how FIs would be taken as having exercised all reasonable due diligence in identifying the tax residences of account holders. Some Members further considered that the Administration should adopt a lenient approach in handling non-compliances of FIs at the initial stage of AEOI implementation.

18. The Administration advised that OECD's essential requirements regarding AEOI standard, including the obligations on FIs to establish, maintain and apply due diligence procedures in respect of new accounts and pre-existing accounts, had already been incorporated in IRO. In addition, FIs were required under AMLO to conduct due diligence for their customers, so as to identify and verify their identities. In order to reduce their compliance burden in conducting the due diligence procedures for AEOI, FIs might resort to information collected pursuant to the AMLO procedures in performing the relevant due diligence requirements under the AEOI regime. **FIs would be taken as having exercised reasonable due diligence in identifying the tax residences of account holders so long as they had followed the relevant requirements in IRO**. Self-certification by account holders would be an important tool for FIs to fulfil their reporting and due diligence obligations, in particular to determine the tax residences of account holders. FIs were not expected to carry out independent legal analyses of relevant tax laws or carry out investigation to determine the tax residences of the account holders. **IRD would promulgate guidelines**, which would include a sample self-certification form, **for reporting FIs' reference** and brief them on the due diligence and reporting requirements.

Safeguards for protecting taxpayers' privacy and confidentiality of the information exchanged

19. Members enquired **how the privacy of personal data would be protected** in implementing AEOI, including measures to safeguard against misuse of information by Hong Kong's AEOI partners, and **the penalties**, if any, **on IRD staff for leaking information** in the course of handling AEOI data.

20. The Administration emphasized that **Hong Kong would only conduct AEOI with tax jurisdictions which had fulfilled OECD's standard and the relevant safeguards for protecting data privacy and confidentiality of the information exchanged**. The scope and use of information to be exchanged followed CRS of AEOI set by OECD strictly. In addition, OECD and the international community at large reckoned the importance and benefits of adhering to the safeguard provisions for the effective implementation of AEOI. OECD would continue to monitor jurisdictions' progress in this regard. At the domestic level, the Administration had kept the Office of the Privacy Commissioner for Personal Data informed of the AEOI initiative and would ensure compliance with the relevant requirements in confidentiality and personal data privacy.

21. As regards the handling of AEOI data by IRD staff, the Administration advised that there were established procedures on appointment or authorization of persons to carry out duties including AEOI arrangements under IRO. By virtue of sections 4(1) and 81(1)(b) of IRO, **returns containing the required information furnished to IRD by FIs were subject to official secrecy protection, contravention of which constituted an offence**. Furthermore, the information from FIs would be transmitted via IRD's AEOI Portal system and stored in IRD's back-end system with encryption under a high level of security.

Regulation and development of digital assets

22. Members were concerned that the rapid development of the DA sector was bringing new opportunities for financial innovation and inclusion while adding complexities to the financial system. Members enquired how the Government would further **expedite improvement to the relevant regulatory regime** and whether it would consider setting up a dedicated department or commissioner to study and **formulate policies relating to DAs and cryptocurrencies**, as well as whether more proactive measures would be introduced to support licensed VA trading platform operators in continuing to develop their businesses in Hong Kong.

23. The Administration advised that in respect of regulation, the interconnectedness between the traditional financial system and the DA markets appeared to be more apparent and rising, with international organizations and standard-setting bodies (“SSBs”) having accorded considerable attention to the potential risks posed by the prevalence of DAs on monetary and financial stability. Among others, the Financial Stability Board, in consultation with relevant SSBs, published a finalized global regulatory framework for crypto-asset activities in July 2023. The framework provides recommendations relating to the regulation, supervision and oversight of crypto-asset activities and markets as well as global stablecoin arrangements. As a leading international financial centre in Asia, Hong Kong has key influence in the regulation and development of DAs. In this connection, to facilitate the long-term sustainable development of industries related to DAs, the Financial Secretary established **the Task Force on Promoting Web3 Development** in 2023 to make suggestions to the Government in respect of the sustainable and responsible development of the industries. Furthermore, the Government also issued the Policy Statement on Virtual Assets Development in Hong Kong and **the Policy Statement 2.0 on the Development of Digital Assets in Hong Kong** in October 2022 and June 2025 respectively, setting out that the Government and regulators would adhere to the “same activities, same risks, same regulations” principle and strive to refine DA-related regulatory frameworks. In respect of DA-specific regulatory policies and measures, the Financial Services and the Treasury Bureau was responsible for formulating relevant policies and coordinating various departments and financial regulators.

24. Members enquired about **whether** the Government had **assessed and studied the impact of positioning bitcoins as strategic reserve assets by foreign countries on the Hong Kong dollar system**, as well as the Government’s corresponding measures in place, including whether it would **leverage Hong Kong’s first-mover advantages and unique resources in the field of cryptocurrencies** to formulate sound strategic deployment, with a view to contributing to **safeguarding national financial security**.

25. The Administration advised that the Linked Exchange Rate System (“LERS”) had been operating for more than four decades since its establishment in 1983, weathering many economic and interest rate cycles, as well as multiple global and regional economic and financial crises. It was the cornerstone of financial and monetary stability in Hong Kong and had continued to work well. Operating under the robust regime of the currency board arrangement, LERS enjoyed strong credibility in the global financial and monetary markets. International organizations such as the

International Monetary Fund had continuously endorsed the suitability of LERS as the monetary system for Hong Kong.

26. The Administration also advised that DAs had increasing interconnectedness with traditional financial activities. On the one hand, the development of DAs and related technologies could bring potential benefits to the financial market as a whole. For example, the efficiency and transparency of economic and financial activities could be enhanced by utilizing blockchain technology. On the other hand, DAs were associated with risks in different aspects including financial stability, money laundering and investor protection. The Government and regulators would continue to **formulate regulatory regimes to address such risks under the “same activities, same risks, same regulations” principle**. This approach could create a facilitative environment to foster innovation in a sustainable and responsible manner, while ensuring financial safety at the same time, so as to strengthen Hong Kong’s key role as an international financial centre.

27. Other than enhancing the regulatory regime, the Government and regulators also launched measures to facilitate market development. On tokenization, to enhance market clarity, SFC issued two circulars in November 2023, respectively on intermediaries engaging in tokenized securities-related activities and on tokenization of SFC-authorized investment products, to shed light on the regulatory expectations from an investor protection perspective.

Relevant papers

28. A list of relevant papers on the LegCo website is set out in the [Appendix](#).

Appendix

Amendments to the Inland Revenue Ordinance for implementation of the Crypto-Asset Reporting Framework and latest arrangements of the Common Reporting Standard

List of relevant papers

Committee	Date of meeting	Paper
Panel on Financial Affairs	17 March 2020	Agenda Item II: Automatic Exchange of Financial Account Information in Tax Matters Minutes of meeting
	4 December 2023	Agenda Item III: Proposed refinements to the Regime of Automatic Exchange of Financial Account Information in Tax Matters Minutes of meeting
	7 April 2025	Agenda Item V: Development of fintech in Hong Kong Minutes of meeting
	6 October 2025	Agenda Item II: Briefing by the Secretary for Financial Services and the Treasury on the Chief Executive's 2025 Policy Address Minutes of meeting
Subcommittee on Issues Relating to the Development of Web3 and Virtual Assets	21 January 2025	Agenda Item I: Regulation of virtual asset trading platforms Minutes of meeting
	19 May 2025	Agenda Item I: Protection for investors and users of virtual assets Minutes of meeting

Council meeting	Paper
11 December 2024	Question 15 : Policy on digital assets
30 July 2025	Question 10 : Promoting virtual asset development