Client Memorandum

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Client Update Crypto Asset Reporting Framework ("CARF")

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1 Background - Foreign Account Tax Compliance Act ("FATCA") and the Common Reporting Standards ("CRS")

1.1 In line with other jurisdictions, very broadly, since the implementation of the Foreign Account Tax Compliance Act ("**FATCA**") and the Common Reporting Standards ("**CRS**") around a decade ago, Cayman Islands and British Virgin Islands reporting financial institutions have reported details of certain financial accounts and reportable customers who are tax resident in a reportable jurisdiction to the Cayman Islands Tax Authority ("**TIA**") and the International Tax Authority (together the "**Tax Authorities**") respectively.

1.2 Whether a customer was reportable or not would be identified through the self-certification form provided by the customer and corroborated with customer due diligence (or "know your customer" ("**KYC**") information) obtained by the financial institution. The Tax Authorities report details of the customer and the financial account back to jurisdiction where the customer is tax resident.

2 Crypto Assets

2.1 With the evolution of crypto assets, the Organisation for Economic Cooperation Development ("**OECD**") identified challenges for tax authorities in assessing whether associated tax liabilities had been appropriately reported and assessed.

3 Crypto-Asset Reporting Framework ("CARF")

3.1 As a result, CARF was developed. CARF is a new OECD global standard, endorsed by the G20 for the automatic exchange of information on crypto assets. CARF addresses gaps and challenges posed by such crypto assets as decentralised exchanges, peer-to-peer transactions, and privacy coins, which are not covered by the CRS. CARF is a standalone framework which builds on the CRS framework, infrastructure and network.

3.2 The Cayman Islands (along with 51 other jurisdictions) has committed to implementing CARF in time to commence exchanges of information to the TIA by 2027. The British Virgin Islands ("**BVI**") (along with 16 other jurisdictions) has committed to undertaking the first exchanges by 2028.

4 Is your entity a Reporting Crypto-Asset Service Provider?

4.1 In accordance with CARF, the term **"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 acting as a counterparty, or as an intermediary, to such Exchange Transactions, or by making available a trading platform.

4.2 The phrase "as a business" excludes individuals or entities who carry out a service on a very infrequent basis for non-commercial reasons.

5 What are Exchange Transactions?

5.1 The term **"Exchange Transaction"** means any exchange between relevant crypto assets[1] and fiat currencies (USD, GBP, EUR), or for other crypto assets (subject to some exceptions, which are reported under CRS). As a broad overview, crypto assets that can be used for payment or investment are included in the scope of CARF.

5.2 Examples of individuals or entities that may provide services effectuating Exchange Transactions as a counterparty, or as an intermediary, include:

(a) dealers acting for their own account to buy and sell crypto-assets to customers;

(b) operators of crypto-asset automatic teller machines ("**ATMs**"), permitting the exchange of crypto-assets for fiat currencies or other crypto assets through such ATMs;

(c) crypto-asset exchanges that act as a market maker and take a bid-ask spread as a transaction commission for their services;

(d) brokers in crypto-assets where they act on behalf of clients to complete orders to buy or sell an interest in crypto-assets; and

(e) individuals or entities subscribing one or more crypto-assets (while the sole creation and issuance of a crypto-asset would not be considered a service effectuating Exchange Transactions as a counterparty or intermediary, the direct purchase of crypto-assets from an issuer, to resell and distribute such crypto-assets to customers would be considered effectuating an Exchange Transaction).

5.3 As at the date of this update, the BVI has not yet enacted domestic legislation to implement CARF.

6 Impact for the Cayman Islands

6.1 On 1 January 2026 the Tax Information Authority (International Tax Compliance) (Crypto Asset Reporting Framework) Regulations, 2025 ("**CARF Regulations**") came into force. (Capitalised terms are defined in the CARF Regulations).

6.2 CARF Regulations apply to Cayman Reporting Crypto-Asset Service Providers.

6.3 In accordance with the CARF Regulations, a Cayman Reporting Crypto-Asset Service Provider shall:

(a) register with the TIA on or before 31 January 2027;

(b) establish, implement, maintain and comply with written policies and procedures to comply with the reporting and due diligence requirements outlined in the CARF;

(c) keep records evidencing compliance with policies and procedures;

(d) obtain self-certifications when establishing the relationship with the Crypto-Asset User and confirm the reasonableness of the self-certification from documentation

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[1] digital representation of value that relies on a cryptographically secured distributed ledger or a similar technology to validate and secure transactions

collected pursuant to anti-money laundering procedures to identify Reportable Users, for pre-existing Crypto-Asset Users obtain the self-certification by 31 December 2026;

(e) submit a return to the TIA for each of its Crypto-Asset Users that are Reportable Users or have Controlling Persons that have Reportable Persons on or by 30 June of the year following the calendar year to which the return relates ("**CARF Return**") together with a declaration that the information provided in the return is adequate, accurate and current. This means that the first CARF Return is due 30 June 2027; or

(f) submit a nil return (if applicable).

6.4 Information to be reported in the CARF Return includes:

(a) the name, address, jurisdiction(s) of residence, tax identification number(s) and date and place of birth (in the case of an individual) of each Reportable User and Controlling Person (as applicable);

(b) the name, address and identifying number (if any) of the Reporting Crypto-Asset Service Provider; and

(c) for each type of Relevant Crypto-Asset with respect to which it has effectuated Relevant Transactions during the relevant calendar year.

6.5 "**Relevant Crypto-Asset**" means any Crypto-Asset that is not a Central Bank Digital Currency, a Specified Electronic Money Product (which would be reported by a Financial Institution in accordance with the Common Reporting Standards) or any Crypto-Asset for which the Reporting Crypto Asset Service Provider has adequately determined that it cannot be used for payment or investment purposes.

6.6 "**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.

6.7 The TIA may impose penalties for non-compliance.

6.8 Where the Cayman Reporting Crypto-Asset Service Provider has not submitted a CARF Return the TIA is not obliged to provide a breach notice prior to issuing a penalty. A party who has been given a penalty notice may appeal to a court in respect of the decision to impose the penalty, its amount, or both within thirty days after the party received the notice.

7 How We Can Assist

7.1 We can assist with the following:

(a) classifications to determine whether an entity is a Cayman Reporting Crypto-Asset Service Provider;

(b) CARF training;

(c) Review of self-certifications;

(d) Preparing CARF policies and procedures;

(e) Identifying who and what needs to be reported;

(f) Submission of CARF returns;

(g) Review of administration agreements; and

(h) Responding to any questions or penalty notices from the TIA

7.2 Please let us know if your entity requires assistance to demonstrate compliance with CARF obligations or contact us for any regulatory enquiries in the Cayman Islands or the British Virgin Islands.

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