UK Finance

Consultation on ‘Cryptoasset Reporting Framework, Common Reporting Standard amendments, and seeking views on extension to domestic reporting’

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Representing 300 firms, we’re a centre of trust, expertise and collaboration at the heart of financial services. Championing a thriving sector and building a better society.

General Comments

We welcome the opportunity to respond to the HM Revenue & Customs (‘HMRC’) consultation on ‘*Cryptoasset Reporting Framework, Common Reporting Standard amendments, and seeking views on extension to domestic reporting*’.

UK Finance members have actively supported the Organisation for Economic Co-operation and Development’s (‘OECD’) work to drive improvements in international tax transparency, providing technical inputs into the development of the Common Reporting Standard (‘CRS’) and Crypto-Asset Reporting Framework (‘CARF’). We are appreciative of HMRC’s consultative approach to implementating international standards, and we are keen to support HMRC understanding of open questions and issues, to arrive at proportionate, pragmatic and operable solutions.

We have set our our response to Questions 19 and 20 (Impact of extending CRS to domestic reporting) first and then covered the remaining questions in order.

Question 19 Extension of CRS to Domestic Reporting

HMRC and HM Treasury ('HMT') should carefully consider their policy goals and the implications of extending CRS to UK tax residents. The economic and administrative impact on UK Financial Institutions ('FIs') to implement domestic reporting is anticipated to be high. If this reporting does not achieve HMRC's policy objectives, there is a risk that HMRC will later replace or amend CRS again for UK tax residents or introduce additional reporting obligations to fill these information gaps. This in turn will mean the implementation costs for UK FIs may be duplicated or thrown away.

Another significant consideration for the financial services industry is the current scale and pace of proposed change to tax reporting regimes in parallel with changes to their associated financial penalty frameworks. UK FIs are facing multiple claims on their change programme resources as a consequence of CRS2, CARF, updated Bank and Building Society Interest ('BBSI') guidance, and Individual Savings Account ('ISA') digitalisation. Adding the UK as a CRS Reportable Jurisdiction in 2026 would stretch these resources still further. For some members who designed CRS to focus on the identification, due diligence and reporting of the minority of their customer book, any extension to UK tax residents may require a complete rebuild from the ground up on the basis the original solution was not designed with the increased scale in mind.

UK Finance believes it is vital for HMRC to consider the feedback within this response specifically focusing on the following challenges.

CRS information is not aligned with UK tax laws and may be insufficiently granular for HMRC to accurately determine a UK taxpayer's liability. If CRS is extended to UK tax residents, then HMRC will presumably have to contact UK taxpayers to reconcile CRS reported information with the information in their tax returns or to request the taxpayer files an income a tax return in future. There remain unresolved questions regarding Making Tax Digital, and the pre-population of a taxpayer Personal Tax Account which could require separate reporting by FIs. A key difference is that CRS reporting is on a calendar year basis rather than being aligned to the UK tax year. This means using the CRS reported data to assess income tax liabilities for taxpayers will not be possible based on the current tax rules. In this respect, based on current law, the CRS reported information may be less useful for HMRC than current BBSI and Other Interest ('OI') information, unless the UK aligns the reporting periods.Such alignment would strain UK FIs, which would need to change

their CRS systems to report on a fiscal year basis for UK account holders and on a calendar year basis for non-UK account holders.

Some other areas of discrepancy in CRS reporting were it to be applied to UK account holders include:

- FX rates (which for CRS purposes are usually calculated using year end rates rather than transaction date rates)
- Reporting of income by type which does not reflect UK tax treatment (e.g., tax treatment of dividend payments of non-UK bond funds as interest).
- Dividend and interest income reported without reflecting withholding tax applied to that payment.

The administrative and financial costs to UK FIs of reviewing account holders' data to identify UK indicia and undertaking a client outreach to cure indicia would be very significant. The number of clients involved in such a remediation would likely be far higher than for other CRS reportable jurisdictions, given the ratio of domestic to overseas clients and the high probability of UK indicia at all UK FIs (which for some FIs may never have been considered from a due diligence perspective previously, as it would not impact whether an account was reportable). An example of this would be where a Client A declared Spanish tax residency but provided a residential address in the UK. Historically this may not have resulted in outreach because the UK indicia did not impact the accuracy of the CRS report but would now require investigation to determine if Client A is solely Spanish tax resident or dual Spanish and UK tax resident. There is likely to be a very large number of false positives arising from the presence of UK indicia (such as a UK phone number) which would result in the incorrect reporting of clients as UK tax resident if no curing document is obtained.

Given the high costs of implementation on UK FIs, HMRC should target these efforts on areas of significant non-compliance. Would HMRC consider the introduction of additional categories of excluded accounts for UK domestic reporting? Examples could include the carve out of non-interest-bearing accounts or accounts with a balance below a certain threshold.

The proposal would require UK FIs to make changes to their IT systems. These changes require significant lead times. The need for early certainty of

rules and guidance (including any exclusions or exceptions) is vital for system logic to be correctly applied and for budget and resource to be obtained.

The cost of collecting and reporting of UK tax identification numbers ('TINs') or their functional equivalent under CRS would be significant. UK TINs are rarely collected for standard UK banking products (other than ISAs) and are not issued to all UK tax residents. Accounts for minors and other categories of UK residents who do not have a UK TIN, National Insurance number ('NINO') or Unique Taxpayer Reference ('UTR') would need to be addressed. Would other forms of identification be acceptable (e.g., proposal for government issued "Investor ID" under the ISA digitalisation project)? Could reporting of UK residents be deferred until a comprehensive Government Verification Service is introduced?

UK FIs would incur additional compliance costs as a CRS client outreach would also trigger a requirement for a KYC/AML refresh for that client.

Fear of identity fraud by customers will reduce the effectiveness of any TIN outreach by UK FIs unless there is a well thought out government campaign to make customers aware of the need to supply their TIN to FIs. This should be considered along with the additional cost to FIs if they are required to send clients notification in the first year of reporting or amend general terms and conditions to include such notification.

The volume of reporting by large UK FIs would increase dramatically. Reporting processes (e.g., limits on XML file sizes and speed of data transfer) would need to be addressed and additional time should be given for reporting in early years.

HMRC have given some indications that reporting of UK customers under CRS would replace BBSI reporting. However, there are significant differences in the two regimes.

- BBSI reporting is based upon address of account holder. CRS reporting is based upon tax residence and multiple indicia for residence that can be cured with a tax self-certification.
- CRS excludes some accountholders caught by BBSI such as FIs, listed Active NFEs and related entities of listed Active NFEs. CRS also excludes account types which are reportable under BBSI – such as estate accounts and pre-existing entity accounts (if UKFI elected to use

this). On the other hand, details of UK resident controlling persons of Passive NFEs would be included in CRS reporting if a simple lift and drop approach is adopted, even though they are not the taxpayer.

If domestic CRS reporting is intended to replace the BBSI regime, HMRC should also be aware that expensive change programmes are currently in flight to implement reporting changes necessitated by the recently republished BBSI Guidance, and it would be unhelpful and unsatisfactory for these changes to prove redundant.

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)?

It is the view of UK Finance that the introduction of CRS domestic reporting for 2026 and reported in 2027 will not be possible.

The increase in the number of reportable accounts for most UK FIs would provide significant operational challenges with some UK FIs having to rebuild their CRS reporting solutions as well as updating their supporting risk and governance framework. Even if a de minimis account exclusion is introduced to reduce the volume of reporting, building system requirements to monitor balances would take significant time. Further, resources at UK FIs will already be stretched to implement the CARF and CRS2 changes; adding new domestic reporting concurrently would be overwhelming for UK FIs.

If HMRC policy considerations are resolved in favour of domestic reporting under CRS and legislation passed this year, there would be insufficient time to implement system changes or undertake client outreach to obtain missing information from UK customers. We would propose a lead time of at least 18 months, but ideally 24 months, after the legislative change is made and detailed guidance provided.

UK Finance would welcome the opportunity to discuss possible exclusionsand delayed or staggered implementation with HMRC if this proposal is pursued.

UK Finance

Crypto Asset Reporting Framework

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?

UK Finance members are keen that implementation of the CARF should result in reporting the right information that the UK needs to fulfil its international obligations, but that also prevents unnecessary and duplicative reporting by multiple service providers. Additional areas where guidance is needed are as follows.

Reportable Crypto Asset User

The definition of Crypto Asset User applies to a "customer of a Reporting Crypto-Asset Service Provider ('CASP') for the purposes of carrying out a relevant transaction". If the customer is acting for the benefit or account of a third party the Reporting CASP must look through that customer to the end user UNLESS the customer is itself an FI or a Reporting CASP. We understand this exclusion is intended to prevent duplicate reporting of the same transaction where a chain of intermediaries is involved. For example, if a crypto exchange holds crypto assets for a custodian bank, the exchange will not look through the custodian to the custodian's clients because the custodian is an FI and/or a Reporting CASP. The custodian will have the only reporting obligation for crypto exchange transactions effectuated for its clients on that exchange. However, there could be cases where reporting can be more readily done by the exchange. Could indirect reporting by an "upstream" CASP be possible provided the classification of the end customer and reportable details are passed along the chain?

There may be other examples of commonly performed transactions where more than one Reporting CASP is involved in the same transaction, but one is not a customer of the other. In that case, duplicate reporting of transactions would arise unless there are rules to determine which CASP has primary responsibility for reporting the transaction and if the other CASP can reasonably rely on the primary CASP to do this reporting.

Guidance needs to be given as to how terms such as "customer" and "effectuating a transaction" apply in specific circumstances in such a way to avoid multiple reporting of the same transaction.

Professionally Managed Investment Entities and Controlling Persons of Professionally Managed Investment Entities

Guidance is needed on how CARF reporting applies to investment companies, funds and trusts which meet the gross income test and the "managed by" another Financial Institution test under Section VI E(5)b). The definition of Excluded Person (i.e., one that is not subject to reporting) includes an FI **other than** a professionally managed FI (as defined in section IV E(5)(b)). This means that if a fund (including a UK fund) that is "managed by" another FI is investing in Crypto Assets through a Reporting CASP, to the extent that the fund and/or its controlling person (usually a senior managing official of the fund manager) is resident in a Reportable Jurisdiction, they will be reported by the CASP in relation to CARF relevant transactions it undertakes. In addition, the "managed" fund will report its Equity Interest Holder as the fund is a Reporting FI under CRS. Is reporting under both regimes the policy intention here? To contrast the position for self-managed funds (which are less common), if a fund is not managed by another FI it will not be reportable under CARF as it will be an FI. Is there a clear policy reason for this difference in treatment?

As a professionally managed investment entity ('PMIE') is neither an Excluded Person nor an Active NFE, its Controlling Persons are also reportable under CARF (if resident in a Reportable Jurisdiction) as per the due diligence instructions in Section III B (2). It is not clear what the policy rationale for this is, given that the fund (as a Reporting FI) will report its investors under CRS. Is reporting of the same individuals as Controlling Persons under CARF and as Equity Interest Holders under CRS the policy intention here?

Guidance is needed as to how the CARF rules are intended to work with the CRS in this case. If the the PMIE in this case is a widely held fund, then the identification of controlling persons (identified in accordance with FATF rules) would be problematic and in many cases would result in a senior managing official being reported who has no economic interest in the fund. It would seem to make more sense to align the look through to the Controlling Persons of PMIEs under CARF with CRS and only look through to Controlling Persons where the PMIE in a non- participating jurisdiction under CRS).

Active Entities

The definition is similar to Active NFE under CRS but without the exclusion of FIs. This could lead to confusion from customers completing self certifications

as to which category they fall into. Could the definition of Active Entity be reconsidered to provide certainty as to which classification is applicable?

Residual category of Reportable Person for entities

There is no defined term in CARF for the residual category of Reportable Persons unlike the definition of Passive NFEs under CRS. Under CARF, the residual category would be any entity which is not an Excluded Person, Active NFEs or Professionally Managed Investment Entity. Such a definition would be helpful to customers seeking to establish their classification.

Relevant Crypto Assets

We note that blockchain technology has the potential to be used in many new, innovative products developed by financial services and fintech industry. Where blockchain simply enhances an existing, traditional financial product, service or contract, the underlying asset will remain subject to regulatory oversight and tax reporting, irrespective of the underlying technology used to deliver it. It is therefore important for industry to understand what products are included within scope of the CARF and how payment or investment purpose should be interpereted in the context of the definition of “Relevant Crypto Asset”.

It is noted that, from a policy perspective, Central Bank Digital Currencies are excluded from the scope of Relevant Crypto Asset and therefore it is recognised that not all digital assets that utilise blockchain present the same policy challenges that have given rise to the requirement to perform tax reporting under CARF.

Additional clarity would be welcome regarding a Reporting CASP’s reporting obligations in instances involving the use of distributed ledger technology in connection with traditional financial assets that are already subject to reporting.

First, the “payment or investment” element of the crypto asset definition presumably allows the use of distributed ledger technology for internal ledger purposes purely as a record of ownership of an asset. Thus, traditional instruments recoded on an internal, permissioned books and records system based on blockchain or distributed ledger (or similar) technology where the tokenized asset is not being used for payment or investment purposes would

not be anticipated as in scope of CARF, as the use of such technology does not change the traditional asset (e.g., securities and cash) into a Relevant Crypto Asset.

However, it is less clear if the definition of a crypto asset under the CARF rules intends to capture instances involving traditional financial assets (shares, bonds, notes, etc.) already subject to existing regulatory requirements (including tax reporting) when those assets are issued only in a digitally native manner via distributed ledger technology (i.e., tokenized). Because of the potential for duplicative reporting in this instance, clarification as to whether the mere use of distributed ledger technology triggers additional reporting beyond existing regulations for these types of assets could be instructive.

Lastly, clarification regarding the treatment of a token created from an underlying traditional financial asset that itself is already subject to reporting requirement (e.g., tokenization of an ETF or of a fractionalized interest in a traditional security), could be beneficial.

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

CARF nexus criteria should remove the need for a Reporting CASP to report transactions in multiple jurisdictions but at the same time allow them the flexibility to perform reporting where it makes the most sense in operational terms (e.g., report under CARF in the same jurisdiction as CRS reporting for that client). Nexus criteria should not be placed in a mandatory hierarchy. It should also take into account alternative nexus criteria adopted by other countries. Under EU DAC8, EU authorised and licenced CASPs are required to report in the country of authorisation/licence. Only unauthorised and unlicensed CASPs are subject to the OECD nexus criteria. Where nexus criteria differs between Partner Jurisdictions there should be a way for Partner Jurisdictions to resolve this conflict.

Additional guidance on the concept of “managed by” and “regular place of business” is needed and should be consistent with CRS where applicable.

What evidence, if any, would a Reporting CASP have to provide to show it is reporting in a country where it has a different nexus? Under EU DAC8, there is a provision for a list of Reporting CASPs to be made publicly available. Will

HMRC consider creating a list of UK Reporting CASPs and making such a list available?

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

Details of the CARF Schema are urgently needed to commence development of reporting solutions. Those solutions need to be in place **before** the commencement of the first reporting period to ensure transactional information is captured. Unless that information is provided shortly, UK CASPs and third-party vendors are not likely to be in a position to implement the systems necessary to satisfy a 2026 commencement.

More detailed guidance on Relevant Transactions, how to identify where transactions are to be aggregated etc. is needed.

The reporting of a TIN is mandatory under CARF other than in specified exceptions contained in Section II B. However, experience with FATCA and CRS indicates there are other circumstances where no TIN is available – e.g pre-existing customers who do not respond to due diligence outreach and change of circumstances where new indicia is identified but the indicia is not cured. Even if a CASP stops providing services to a Crypto Asset User where new documentation is not forthcoming (under “strong measures”), there may still be a requirement to report transactions undertaken before that time.

If CARF reporting applies to UK tax residents how will individuals without a NINO or UTR be dealt with? UK Finance would welcome a discussion on where a reason for no UK TIN is acceptable.

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

CARF reporting is likely to require different reporting systems and client data than CRS. In particular, given the complexity of the reporting regime, it would be reasonable for UK CASPs to be given additional time to prepare and submit reports (with a later submission deadline) in the first years of reporting. We would urge HMRC to consider raising this at OECD level, with a deferment in exchange of information between Partner Jurisdictions for those years.

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

Use of CRS due diligence for CARF

Under Section III A and B a Reporting CASP must obtain a self-certification from its individual or entity customer when establishing a relationship (or within 12 months of the CARF commencement date in the case of an existing relationship).

A Reporting CASP which is also a Reporting FI under CRS may rely on CRS due diligence procedures to fulfil its CARF due diligence obligations under Section III D. However, differences between CRS and CARF mean that an existing self certification obtained for CRS purposes may not be sufficient to determine the CARF classification of an Entity Crypto Asset user or provide details of Controlling Persons of PMIE. Guidance should clarify that where a CRS certificate is held, a CARF self certification which just requests additional information to meet CARF requirements meets the self certification requirements in Section III C (when taken together).

Differences between CRS and CASP include:

i. CRS Reportable entity vs CARF reportable entity (as CARF includes all PMIEs by another FI whereas CRS does not report CRS Jurisdiction FIs that are managed by another FI)
ii. CRS Controlling Persons vs Controlling Persons under CARF (as the latter includes Controlling Persons of all PMIEs)
iii. No equivalent in CARF to CRS *Passive NFE - " .This will confuse crypto asset users and FIs. For CARF, an Entity that needs to disclose Controlling Persons is "an Entity, other than an Excluded Person or an Active Entity, with one or more controlling persons…" [CARF Section III B introduction and B.2]
iv. No participating/non-participating differentiation for CARF PMIEs
v. Self certifications are required for PMIEs under CARF (where that entity could have been classified as non reportable under CRS based on publicly available information)
vi. TINs must be collected for PMIEs (where not required under CRS
vii. If CARF applies to domestic residents, then additional information such as TINs will also be required.

We strongly suggest that a new combined BIAC self certification (which covers both CRS and CARF information) is developed. UK Finance would be happy to provide input into the development of such a form.

How will new rules apply to so-called 'quarantine wallets' (used to facilitate AML/KYC and other regulatory obligations before the disposal of a crypto asset where the funds are placed in the name of the Crypto Asset user but are only released once requirements have been satisfied)?

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

Penalties should always be aimed at encouraging good compliance whilst recognising that the CASPs' due diligence obligations and reporting systems are complex, and some aspects of compliance are outside of their control.

Incorrect or incomplete reporting may not be due to any deliberate or careless actions by UK Reporting CASPs and this should be reflected in any penalties that HMRC seek to impose.

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

See our response to Question 6 above.

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

As under CRS, Reporting CASPs may find it difficult to implement appropriate strong measures in practice given the transactional nature of the services being provided. There will be occasions where a transaction may go ahead without the opportunity to obtain documentation in advance.

Given the increase in tokenised assets and other investments which rely on distributed ledger technology appearing in traditional investment portfolios, UK Reporting FIs will increasingly find CARF reporting overlapping with CRS reporting. If the CRS documentation is not sufficient for CASP purposes, then a due diligence gap could arise. In this case, freezing rather than blocking the account may be more practical but would require a clear legal basis to do this.

It would be helpful if HMRC can publish guidance (e.g., on the HMRC website or other forms of media communication) to the general public emphasising the requirement to provide a self-certification, and potential strong measures if information is not provided or is incorrect. It would be desirable to have a statutory basis to support these strong measures and a wider approach to collecting tax residence data. We would also welcome further discussion on potential penalties that may apply to a Crypto-User or Controlling Person for failure to provide or deliberately providing a false self-certification.

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.

UK Finance is not in a position to provide this data although individual members may do so. However, the costs are likely to be substantial for Reporting CASPs, even if they are also Reporting FIs, as CASPs will require new reporting solutions, due diligence, client outreach, staff training and related controls.

AMENDMENTS TO THE CRS

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

This is principally of benefit to UK Charities, which are otherwise obliged to undertake CRS reporting on distributions to beneficiaries. However, UK Finance members welcome the creation of a new non-Reporting FI classification for their charity clients previously classified as Reporting FIs. Could HMRC confirm that no additional outreach is needed to such clients to confirm a change in classification? HMRC should clarify if this change will bring the charity's CRS classification into line with its FATCA classification, which would be preferable, operationally, for UK Finance members and appears to treat low risk charities in a sensible manner.

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

As the impact of CARF will differ from Reporting FI to Reporting FI, the option to switch CRS gross proceeds reporting on or off is welcome. However, the overlap of reporting needs to be understood by tax authorities when looking at client data. Further, we would request that the UK work with other OECD members to change the rule on duplicative reporting to enable an FI to report only under the CRS Relevant Crypto-Assets that are also Financial Assets under CRS, as reporting similar information for overlapping asset types by a single FI under two separate regimes would be a massive undertaking that could be mitigated by enabling the FI to continue to only report under the longstanding regime that has already been implemented.

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?

UK Finance members have raised a number of questions on CRS amendments with HMRC and welcome the constructive dialogue on these points. We suggest that some of the questions raised should be replayed to the OECD for inclusion in CRS guidance, commentary and the next iteration of the implementation handbook.

We understand that the UK will adopt the IRS FATCA schema (V 2) and the new OECD schema (yet to be published). The challenge of implementing system changes means FIs need details of the CRS schema urgently to prepare for 2026 reporting.

We are concerned as to how the additional data field indicating whether a self certification has been obtained is going to be interpreted by recipient tax authorities. We understand that once a change in circumstance has occurred the existing self certification can no longer be relied upon. If no new self certification is received the client/controlling person will be reported with two tax residences, which would both be flagged as having no self certification. This flag is potentially more useful for the tax authority of the newly reportable country (as it indicates that reporting is being made based on indicia rather than a self certification). However, it is less useful for the tax authority of the original reported country (unless perhaps their systems can spot if the account holder has been reported in previous years with a self certification). If this is the policy intention could this be clarified in guidance?

Additional guidance would be welcome on the scope of Specified Electronic Money Products and the carve out for products created for the sole purpose of facilitating the transfer of funds from a customer to another person pursuant to instructions of the customer together with examples of both in scope and out of scope products. In particular, does the definition of e-money products currently in HMRC guidance IEIM401540 continue to be relevant?

> *"issuing e-money in exchange for funds pursuant to the Electronic Money Regulations 2011, or any funds received from customers with a view to the provision of unregulated payment products that fall within the statutory exclusions provided in the Electronic Money Regulations 2011 or Payment Services Regulations 2009".*

Could guidance clarify if the de minimis threshold is mandatory or optional? Where there is no contractual limit on the amount the customer can deposit into an e-money account, the e-money provider may wish to report all accounts rather than monitor balances.

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

Mandatory registration of UK FIs would be helpful particularly if the list was made public and could be used by RFIs to determine whether an Entity client is an UK FI or not (given concerns about reliance on the IRS GIIN list). A similar list of UK Reporting CASPs would also be useful.

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

See our response to Question 6. Some CRS reporting errors due to data quality arise on accounts where there is a very low risk of tax non-compliance. These are normally inactive accounts with low balances which technically do not fall within the definition of dormant accounts. This could be an example of a case where HMRC could consider applying a cap on penalties i.e where the mis-reporting is unintentional (maybe due to unnoticed system error).

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

The proposed quantum of penalties represents a material change in approach.

Following the Model Rules for Digital Platforms ('MRDP') approach, which carries one-off single penalties for reporting incorrect or incomplete information at the account level, could result in fines which are disproportionately large, particularly in relation to unintended and self-identified systems errors, or errors involving accounts with low balances and no activity.

As stated in our response to Question 6, penalties should always be aimed at encouraging good compliance whilst recognising that the FI's due diligence obligations and reporting systems are complex and some aspects of compliance are outside of their control.

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

UK Finance members all wish to comply fully with the regulations. Significant effort is made to gather the necessary information from clients, often with frequent attempts made either at the time of a specific trigger event or on an annual basis.

Ideally the burden of ensuring that valid self certifications are provided by clients, and kept up to date, should not fall solely on the Reporting FI. However, UK Finance members recognise that strong measures, such as freezing or closing a client's account, may not be appropriate where the account is being used by the account holder for day to day living expenses or the account holds illiquid assets. Therefore, legislation relating to missing documentation should permit rather than require the UK FI to take such measures and/or allow a sufficient lead time (up to 12 months) to allow the client to respond.

Alternatively, HMRC could introduce penalties for Account Holders or Controlling Persons that persistently refuse to provide this information or deliberately provide a false self-certification, which may align with the approach of other tax authorities.

UK Finance

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

We agree with HMRCs assessment that the proposals will have a significant cost impact on reporting FIs that are newly brought within scope of the rules and those current reporting FIs that will need to materially update existing systems.

In addition to the one-off costs identified by HMRC these costs would include costs incurred to:

- assess whether the FI and or the relevant product is now in scope and perform a gap analysis between current state and compliant future state;
- gather and document functional and non-functional requirements then assess the impact of the required change;
- conduct client outreaches(s) where gaps in data are identified;
- implement changes to client facing literature and internal documentation alongside internal training and system testing; and
- conduct post implementation review.

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?

For UK FIs that are in scope of both CRS and CARF reporting, the impact is likely to be the same as detailed in our response to Question 19 above. However, the policy behind domestic reporting under CARF is different from the policy for domestic CRS reporting, as no customer reporting regime exists today which allows HMRC to gather financial information on these products automatically. The cost of CARF implementation is likely to increase given the need for client outreach to obtain UK TINs.

UK Finance would welcome the opportunity to discuss this consultation response in more detail. In the meanwhile, if you have any questions relating to this response, please contact Sarah Wulff Cochrane (sarah.wulff-cochrane@ukfinance.org.uk) and Ben Musio (ben.musio@ukfinance.org.uk).