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Delivered By Email: consultation-legislation@fin.gc.ca

Department of Finance Canada
Tax Policy Branch – Tax Legislation Division
90 Elgin Street
Ottawa, Ontario KIA 0G5

Dear Sirs and Mesdames:

RE: Proposal to Implement the Organisation for Economic Co-operation and Development's Crypto-Asset Reporting Framework and to Amend the Common Reporting Standard

The Securities and Investment Management Association ("**SIMA**") appreciates the opportunity to comment on the proposed measures to implement the Organisation for Economic Co-operation and Development's ("**OECD**") Crypto-Asset Reporting Framework ("**CARF**") and to amend the Common Reporting Standard ("**CRS**"), as set out in the draft legislation to amend the *Income Tax Act* (Canada) (the "**ITA**") released on August 15, 2025.

SIMA empowers Canada's investment industry. The association, formerly the Investment Funds Institute of Canada ("**IFIC**"), is now the leading voice for the securities and investment management industry. The industry oversees approximately $4 trillion in assets for over 20 million investors and participates in the Canadian capital markets. Our members – including investment fund managers, investment and mutual fund dealers, capital markets participants, and professional service providers – are committed to creating a resilient, innovative investment sector that fuels long-term economic growth and creates opportunities for all Canadians.

We operate within a governance framework in which we gather input from our member working groups. The analyses and recommendations of these working groups are submitted to the SIMA board or board-level committees for direction and approval. This process ensures submissions that reflect the input and direction of a broad range of SIMA members

SUMMARY

SIMA fully recognizes and supports the policy objectives underlying the implementation of CARF and the related enhancements under CRS. We also appreciate the Canadian government's continued commitment to international coordination to ensure that CARF and the amendments to CRS ("**CRS 2.0**") are aligned in order to minimize duplications and reduce compliance burden.

However, despite these important efforts the proposed implementation timeline does not provide the industry with a realistic or practical pathway to achieve full or even substantial compliance. The effective implementation of CARF and CRS 2.0 requires extensive operational, technological and compliance system changes – well beyond what could reasonably be implemented within a three-to-four-month timeframe.

For these reasons, we respectfully request that the implementation of the proposed CRS 2.0 and CARF legislation be deferred and adjusted as follows:

For CRS 2.0, we request that:

(i) the implementation be **deferred to January 1, 2027, with first reporting under the new requirements due in May 2028**;

(ii) the **transitional relief** apply to **all new data elements** and be extended to **reporting periods ending before 2029**;

(iii) All Passive Non-Financial Entity ("**Passive NFE**") accounts opened prior to the implementation date be grandfathered; and

(iv) the proposed anti-avoidance rule in section 280 should expressly limit reporting financial institutions ("**FIs**") obligations to actual knowledge of avoidance arrangements.

For CARF, we request that:

(i) the implementation be **deferred to January 1, 2028, with first reporting due in May 2029; and**

(ii) **the transitional relief be extended to reporting periods ending before 2030.**

This will allow sufficient time for CRS reporting FIs and Crypto Asset Service Providers ("**CASPs**") to build, test and operationalize the necessary systems and processes. Without such an adjustment, the risk of fragmented or inconsistent implementation, coupled with significant compliance costs and heightened data protections risks, will undermine both the effectiveness and integrity of the intended reporting frameworks.

To demonstrate the breadth and depth of these challenges, we have outlined below the principal areas where the current timelines for CRS 2.0 and CARF are unworkable and where additional lead time is essential. Each of these areas, on its own, would necessitate significant planning, resources, and system changes. Taken together they create a cumulative burden that cannot realistically be met under the currently proposed schedule.

AMENDMENT TO CRS

Reasons for Implementation Date Deferral to January 1, 2027

The current effective date of January 1, 2026, is untenable given that the vast majority of financial institutions cannot start projects to update account onboarding and reporting systems and procedures without approved funding and they cannot seek funding for updated systems, procedures and training until legislative requirements have been finalized and the final version of the CRA guidance and XML schema have been published. Given that draft legislation was released on August 15, 2025, leaving likely less than three months between passage of final legislation and the effective date of new requirements, financial institutions will not have adequate time to get funding, stand up project teams, scope the gap between existing systems, procedures and data and the new requirements, and build out systems, policies and procedures necessary to comply with updated requirements in time for January 2026 onboarding.

Further, as necessary process and systems updates will not be in place by January 1, 2026, to capture relevant data elements that are needed for reporting under CRS 2.0, all accounts opened between January 1, 2026, and the date that solutions are implemented will be missing key elements necessary for reporting. As system and process upgrades typically take a minimum of 18 months[1] from the finalization of legislation

[1] If given additional time, service providers and third-party platform operators would be able to provide a comprehensive breakdown of the activities required to support full implementation. This breakdown would outline the operational, technical, and compliance-related tasks that collectively support the projected 18-month timeline. They would also welcome the opportunity to engage with Finance to review the breakdown in detail and clarify the associated operational and technical dependencies. Please advise SIMA if the Department of Finance would be interested in reviewing such documentation.

and the publication of the final version of the CRA guidance and XML schema (with some components taking longer), this will leave a significant number of newly opened accounts where relevant data elements would have to be populated after the fact. This remediation would be on top of backfilling missing data elements for reportable accounts and any required Anti-Money Laundering (**"AML**") review for consistency with 2012 Financial Action Task Force ("**FATF**") recommendations.

While FIs individually will face different timing challenges with implementing different components of the expanded CRS reporting requirements, all FIs will be significantly challenged to implement by January 1, 2026, and to report accurately by May 2027 for the 2026 reporting year. These challenges depend in part on the existence of data required for expanded reporting in current electronic records or paper records, the aging of accounts, reliance on service providers and third-party platform operators (e.g., Fundserv) changes which have not yet started, timing of updates to client onboarding procedures and systems, approval of budgets and the availability of resources.

Reasons for Transitional Relief on All New Data Elements to Be Extended to the Reporting Period Ending Before 2029

Time Required to Obtain and Update New Data Elements in Core Reporting Systems

Many of the new data elements required under the proposed framework may not currently exist within FIs' systems. Once the necessary system build is completed, institutions may need to manually review system notes or revisit original account applications to identify and populate these new fields. For example, most systems do not track the number of joint account holders in a structured format. In many cases, systems are limited to two designated fields for joint account owners, with any additional names recorded only as free-form text notes. This lack of structured data presents significant challenges for accurate and timely reporting under the new requirements. As a second example, few FIs have a field indicating whether a valid self-certification is on file as most institutions just capture the relevant data element(s) contained on the self-certifications (e.g. reportable jurisdictions, CRS classifications etc.). As such, solutions will need to be developed to determine if a self-certification is on file and then whether the self-certification was considered valid which will also present significant challenges for accurate and timely reporting under the new requirements.

Adjustments to Multi-Financial Institutions Arrangements

For client name accounts, subject to subsections 277(4) and (5), the FIs that maintain client name accounts are permitted to rely on the determinations made by another FI (i.e. the "**Dealer**") regarding whether an account is reportable. As a result, FIs maintaining client name accounts (the "**Reporting FI**") will need to amend existing systems and procedures, and agreements with Dealers and third-party platform operators to obtain the information necessary to fulfill their reporting obligations. For example, Reporting FIs will need to verify that a duly completed self-certification was obtained by the Dealer for each reportable client name account. Similarly, all other new data elements may require additional adjustment to facilitate the flow of information between Dealers and Reporting FI.

As previously noted, this process will involve phased outreach, exception handling, escalation of non-responses, and verification of supporting documentation. These activities are resource-intensive and can only be undertaken once the appropriate systems have been updated by service providers and third-party platform operators.

Reasons for Grandfathering All Passive NFEs Accounts Opened Prior to the Implementation Date

For the purposes of proposed subparagraph 276(b)(ii) of the ITA, a CRS Reporting FI may rely on information collected and maintained in accordance with AML procedures (under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*), to identify Controlling Persons of a Passive NFE provided that such procedures are consistent with the 2012 FATF recommendations. This suggests that a Canadian CRS Reporting FI must determine whether the domestic AML standards are consistent or not, with the 2012 FATF recommendations. The industry believes that the Department of Finance is best positioned to determine if existing Canadian AML standards are consistent with the 2012 FATF recommendations and believe that separate individual assessments completed by each Canadian FI will result in inconsistent application of the requirements and inaccurate reporting. Further, assuming the standards set out in the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* are consistent with the requirements under the 2012 FATF Recommendations, there is no need to reference the 2012 FATF recommendations in subparagraph 276(b)(ii) of the ITA. As such, we strongly recommend that the reference to 2012 FATF recommendations be removed from proposed section 276(b)(ii) of the ITA. Alternatively, the Canadian government should publish a statement as to the existence of any known gaps that should be accommodated in identifying controlling persons or, if no such gaps exist, a statement confirming that no gaps exist between Canadian AML standards and the 2012 FATF recommendations from July 1, 2017, to current date.

In addition, we would like to highlight that by incorporating this requirement into the ITA, the government is effectively enacting the 2012 FATF recommendations into tax law, while bypassing the legislative framework of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act.* This imposes potentially different AML documentation requirements compared to other entities that do not qualify as CRS Reporting FIs and raises important questions about legislative alignment and regulatory intent.

Further, the retroactive application of these requirements to accounts opened on or after July 1, 2017, would necessitate extensive remediation efforts, placing undue strain on already limited resources across the industry. FIs would be required to review all new accounts classified as Passive NFEs (including certain investment entities deemed to be Passive NFEs) to determine whether the AML standard applied at account opening was consistent with 2012 FATF recommendations. This process would require extensive analysis to determine if gaps exist and manual reviews of thousands of accounts – potentially hundreds of thousands[2] in some cases. These efforts would be disproportionately burdensome relative to the expected outcomes, as they are unlikely to yield meaningful compliance or reporting benefits. Moreover, retroactive implementation appears misaligned with the federal government's stated objective of reducing unnecessary regulatory burden and enhancing productivity.

In light of this, we strongly recommend the grandfathering of all accounts established prior to implementation date. These accounts should be deemed sufficiently documented with respect to Controlling Persons requirements, recognizing the due diligence already performed under existing standards. This approach would avoid duplicative efforts, reduce administrative burden, and align with the broader policy goal of streamlining regulatory compliance.

We respectfully submit that a forward-looking approach would be more consistent with these principles and would allow for a more practical and effective transition.

[2] One large financial institution has indicated that it will need to review approximately 200,000 accounts to assess compliance with the proposed requirements. At the time of drafting this submission, we are still awaiting confirmation from other institutions; however, we anticipate that similar volumes will be reported by other large financial institutions, further underscoring the scale of the remediation effort required across the industry.

Application of New CRS Anti-Avoidance Provision Should be Limited to Actual Knowledge

We note the proposed amendment to section 280, which introduces an anti-avoidance rule stating that *"if an individual or entity enters into an arrangement or engages in a practice the primary purpose of which can be reasonably considered to be to avoid an obligation under this Part, this Part shall apply as if the individual or entity had not entered into such arrangement or engaged in the practice."*

While we support the rational for ensuring the integrity of the CRS framework, the proposed provision as currently drafted raises serious operational and legal concerns for CRS reporting financial institutions.

Reporting FIs only have access to the information directly provided by clients or collected as part of due diligence processes. They do not have visibility into offshore structuring, third-party arrangements, or client intentions, making it impossible to assess avoidance beyond what is explicitly disclosed.

Expanding the standard to constructive or reasonable knowledge would effectively require FIs to assume client motivations or arrangements, creating unrealistic compliance expectations. The appropriate standard should be "actual knowledge" – i.e. where the FI has clear, factual awareness of an avoidance practice through client documentation or representations.

If responsibility is intended to increase beyond actual knowledge, the standard must be clearly articulated. Absent a defined "reasonability" threshold, reporting FIs face increased burden, inconsistent application and significant regulatory uncertainty.

SIMA respectfully requests that anti-avoidance rule in section 280 should expressly limit reporting FI obligations to actual knowledge of avoidance arrangements. If not, a clear objective standard should be defined, aligned with existing CRS due diligence processes, to ensure that compliance expectations remain practical and proportionate.

IMPLEMENTATION OF CARF

Reasons for Implementation Date Deferral to January 1, 2028

CARF documentation and reporting requirements are net new obligations being imposed on CASPs that do not have the data infrastructure or reporting requirements of traditional FIs.

In particular, the new documentation and reporting required under CARF necessitates significant updates to onboarding systems and the implementation of enhanced privacy protections for accounts and transactions. Further, the identification, classifying or tagging, valuation and aggregation rules for CARF-reportable transactions introduce significant complexity and require time for system design, regulatory review, service provider development, data remediation, staff training, and global implementation. CASPs will not be able to have system and policy upgrades in place by January 1, 2026, and this means any transactions that take place after January 1, 2026, up until systems are upgraded, which could take at least 18 to 24 months to build out, will be missing critical markers necessary for mapping to reporting systems which will be virtually impossible to remediate.

<u>Enhanced Privacy and Data Protection Needs Resulting from CARF Require Substantial Implementation Efforts</u>

CARF raises significantly higher privacy concerns than CRS. Whereas CRS largely concerns static account information, CARF requires granular transaction-level reporting, blockchain linkages, and even self-hosted wallet tracking. This creates far more sensitive datasets, substantially increasing re-identification and security risks. To manage this, FIs and CASPs must:

- Redesign privacy frameworks, including privacy notices;
- Upgrade IT and data protection systems – encryption, access controls, service provider oversight - to manage more sensitive CARF dataset and match the higher risk profile;
- Manage client expectations through additional communication explaining deeper reporting obligations;
- Implement enhanced consent and disclosure management, requiring new client communications and support infrastructure;
- Build stronger cross-border data transfer and localization controls, given the larger volume and sensitivity of CARF exchanges; and
- Establish new retention and deletion policies to handle new datasets.

These obligations go well beyond CRS and cannot be delivered responsibly on the proposed timeline. Even clients who are already reportable persons under CRS will require additional handling to safeguard more intrusive datasets and regulatory communications.

Digital Asset providers who were not defined as Financial Institutions under Part XVIII and XIX will be required to build these systems from scratch, asking them to do so by the beginning of 2026 or 2027 is not feasible, given the scale and complexity of the undertaking.

Challenges in Tracking and Reporting CARF Transactions

CARF introduces fundamentally new operational requirements compared to CRS. Unlike CRS, which centers on static balances and income flows for reportable accounts, CARF requires institutions to:

- Track reportable transaction at a granular, event-by-event level;
- Value transactions at fair market value ("**FMV**") at the time of the event, often across volatile, thinly traded markets;
- Denominate values into a single fiat currency, despite multiple currency exposures and exchange rate variations;
- Classify and code transaction data which historically hasn't been subject to client tax reporting in the traditional sense; and
- Apply complex aggregation rules across asset classes, wallets, and transaction types to produce standardized reporting outputs.

Each of these criteria requires system redesign and new service provider dependencies. Financial institutions cannot build or maintain such functionality in isolation.

Service provider solutions are critical – accurate blockchain analytics, FMV pricing, transaction classification and reporting tools must be built. These solutions are still in their early development phases and require significant time for design, testing and integration.

The industry readiness gap needs to be taken into account – many institutions today have only limited exposure to crypto assets, primarily through exchange-traded funds or structured products referencing crypto. The opening of the banking system to direct crypto flows under CARF greatly expands operational scope. Processes designed for CRS or AML are not capable of supporting this level of event-tracking, valuation and aggregation.

To ensure accurate reporting, FIs must provision for integration of crypto transaction monitoring and FMV pricing into existing account and reporting platforms. Further, valuation methodologies need to be aligned across jurisdictions to result in meaningful data exchange and avoid inconsistent reporting. Processes have to be re-designed to validate aggregation and conversion rules.

A delay in implementation would provide FIs and CASPs with the necessary time to establish robust privacy, security, and compliance frameworks—reducing the risk of fragmented or disproportionate rollout. It would also support the development and market readiness of service provider solutions, allow for proper integration of transaction tracking systems, and enable orderly sequencing for FIs with limited current exposure who will become in-scope as banking channels expand to accommodate crypto flows.

Reasons for Transitional Relief Extended to the Reporting Period Ending Before 2030

We support enhancing transparency, and we acknowledge the proposed timing accommodations in subsection 299(6) under CARF (by 2027). Nonetheless, the expanded controlling person data requirements and the entity client look-through rule for CARF are very burdensome and impossible to implement within the proposed timeframe.

CARF's Controlling Persons look through for entity crypto users goes beyond information that is currently collected under AML. It captures persons exercising control and senior managing officials for complex structures like partnerships and trusts and requires collection of additional tax attributes (like tax residence, TINs, birth date) that AML does not require to validate. CASPs that are not currently CRS-reporting FIs do not currently collect Controlling Persons data at the required level of granularity; building these capabilities from zero cannot be completed by 2027.

Implementation requires updated self-certification templates, validation rules and authoritative guidance. These have not yet been issued; without them systems, service provider builds, and client documentation cannot be finalized. CASPs need at least 18 to 24 months to design forms, localize data for multiple jurisdictions, update contracts and train staff – placing transition well beyond 2027.

Please note that the enhanced privacy and data protection requirements outlined above not only warrant a delay in the implementation date but also necessitate transitional relief. This will allow FIs and Crypto CASPs sufficient time to implement the necessary privacy, security, and compliance measures without introducing disproportionate risk or fragmented implementation.

<u>Coordination Challenges Between CARF and CRS Reportable Assets</u>

SIMA appreciates efforts to align CARF and CRS rules to minimize duplication. However, even with this alignment, significant coordination challenges remain, which cannot realistically be resolved within the current implementation timeline.

FIs must distinguish between assets that fall within CRS-reportable categories (i.e. traditional financial instruments with crypto exposure) and those that are CARF-reportable crypto assets. This requires new classification processes and client-level confirmations to ensure accurate categorization. The challenge is magnified for hybrid products referencing crypto assets (i.e. ETFs, structured notes, tokenized securities), where reporting obligations under both regimes may overlap.

Where assets can be captured under both CRS and CARF, FIs face the risk of double reporting the same transaction or holding. This would create inconsistencies, unnecessary regulatory burdens, and confusion for both tax authorities and clients. Clients may be subject to conflicting or duplicate reporting, whereas FIs will be facing heightened financial, client and reputational risks.

The delay will allow FIs to build robust classification and reconciliation frameworks, develop coordinated service provider and system solutions, conduct thorough review and testing to ensure consistent reporting across regimes. This approach would ensure that CARF and CRS can operate in tandem without creating duplication risks, inaccurate data or unnecessary burdens on FIs, CASPs, tax authorities and taxpayers.

CONCLUSION

In light of the extensive operational, legal and data protection challenges outlined above, we respectfully reiterate that the effective dates should be deferred, and adjustments made as follows:

For CRS 2.0, we request that:

(i) the implementation be **deferred to January 1, 2027, with first reporting under the new requirements due in May 2028;**

(ii) **the transitional relief** applies to **all new data elements** and be extended to **reporting periods ending before 2029;**

(iii) all Passive NFE accounts opened prior to the implementation date be grandfathered; and

(iv) the proposed anti-avoidance rule in section 280 should expressly limit reporting FI obligations to actual knowledge of avoidance arrangements.

For CARF, we request that:

(i) the implementation be **deferred to January 1, 2028, with first reporting due in May 2029; and**

(ii) **the transitional relief be extended to reporting periods ending before 2030.**

The above requests are essential to enable reporting FIs and CASPs to implement the required systems processes, and safeguards in a manner that is accurate, secure and consistent across jurisdictions. Without such deferral and adjustment, there is a substantial risk of duplicative or inaccurate reporting, privacy vulnerabilities, and fragmented compliance outcomes – each of which could undermine the intended policy objectives of these regimes.

We would be pleased to provide further information or answer any questions you may have. Please feel free to contact me by email at jbaillargeon@sima-amvi.ca or, by phone 416-309-2323.

Yours sincerely,

THE SECURITIES AND INVESTMENT MANAGEMENT ASSOCIATION

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