IN-DEPTH

Virtual Currency Regulation

SOUTH KOREA



LEXOLOGY

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In-Depth: Virtual Currency Regulation (formerly The Virtual Currency Regulation Review) is a country-by-country guide to recent legal and regulatory changes and developments in the field of virtual currencies, which also looks forward to expected global trends in the area. It provides a practical analysis of developing regulatory initiatives aimed at fostering innovation, while at the same time protecting the public and mitigating systemic risk concerning trading and transacting in virtual currencies.

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Summary

INTRODUCTION
YEAR IN REVIEW
LEGAL AND REGULATORY FRAMEWORK
SECURITIES AND INVESTMENT LAWS
ANTI-MONEY LAUNDERING
REGULATION OF EXCHANGES
REGULATION OF ISSUERS AND SPONSORS
CRIMINAL AND CIVIL FRAUD AND ENFORCEMENT
TAX
OTHER ISSUES
SPECIAL CONSIDERATIONS
OUTLOOK AND CONCLUSIONS
ENDNOTES

Introduction

Over the past decade, Korea has emerged as one of the most active markets for virtual asset trading, often ranking among the top jurisdictions in terms of retail investor activity and daily transaction volumes. This rapid growth has coincided with mounting concerns over consumer protection, market manipulation, money laundering and the adequacy of the legal framework.

Accordingly, Korea regulates virtual assets through two principal statutes: the Act on Reporting and Using Specified Financial Transaction Information (the Specified Financial Transaction Information Act)[1] and the Act on the Protection of Virtual Asset Users (the Virtual Asset User Protection Act).[2] While the Specified Financial Transaction Information Act governs anti-money laundering (AML) and counter-terrorism financing obligations together with the entry regulation (registration requirement) applicable to virtual asset service providers (VASPs), the Virtual Asset User Protection Act focuses on the protection of user assets and the regulation of unfair trading. The latter took effect on 19 July 2024, filling the gap left by a framework that had until then been weighted towards AML. Korea has not stopped there: a further, more comprehensive tier of legislation governing digital assets as a whole is now on the horizon.

The purpose of this chapter is to provide a practice-oriented overview of the Korean regulatory environment for virtual currencies. The focus is on recent legislative developments, regulatory practices and enforcement trends. While other categories of digital assets – such as securities tokens and non-fungible tokens (NFTs) – are addressed where relevant for context, the emphasis remains squarely on the virtual asset regime. In the case of securities tokens, these items have become regulated as a part of investment contract securities pursuant to certain amendments made to the Act on Electronic Registration of Stocks, Bonds, Etc. (the Electronic Securities Act)[3]and the Financial Investment Services and Capital Markets Act (the Capital Markets Act).[4]

Year in review

One of the most significant developments over the past year has been the strengthening of the entry regulation for VASPs under the Specified Financial Transaction Information Act that was recently been amended on 19 February 2026 and has been in force from 20 August 2026. The amended Specified Financial Transaction Information Act extends the scope of the review of legal-violation records – previously confined to the provider, its representative and its officers – to major shareholders and adds deficiencies in sound financial standing and social credit, in organisation and personnel, and in IT systems and internal control frameworks as grounds for rejecting a registration.[5]

In parallel, the second-stage legislation for virtual assets has gained momentum. Following the first-stage legislation focused on user protection (ie, the Virtual Asset User Protection Act), a Digital Asset Basic Act is planned as second-stage legislation encompassing the regulation of the issuance, distribution and business conduct of virtual assets, the regulation of stablecoins and the governance of exchanges. Although enactment was initially targeted for 2026, it has been delayed by disagreement over key elements – such

as who may issue stablecoins – and by the timing of Korea's local elections. The ruling party aims to pass the legislation by the end of 2026 or in early 2027, following a public hearing in late September 2026 and subcommittee review in November, but the timing remains uncertain.

Legal and regulatory framework

Virtual assets in Korea are defined in article 2 of the Virtual Asset User Protection Act as "electronic certificates (including all associated rights) that have economic value and that can be traded or transferred electronically".[6] The same Act excludes from this definition items such as game tokens, prepaid electronic payment means, electronic money, electronically registered stocks, electronic bills and bills of lading, and currency issued by the Bank of Korea.[7] The explicit exclusion of central bank digital currency from the virtual asset definition reflects Korea's preparations for potential issuance of a digital won.

Regulation is divided between two primary statutes:

- the Specified Financial Transaction Information Act, which governs AML counter-terrorism financing (AML/CFT) obligations and registration requirements for VASPs;[8] and
- the Virtual Asset User Protection Act, which governs user protection, unfair trading, and operational requirements for VASPs.[9]

Together, these statutes establish a dual system: one targeting systemic financial crime risks and the other ensuring market fairness and consumer protection.

Under the Specified Financial Transaction Information Act, VASPs must register with the Commissioner of the Korea Financial Intelligence Unit before commencing business.[10]

Covered businesses include:

- virtual asset exchanges and trading platforms;
- custodial services;
- wallet service providers; and
- brokerage or intermediation services for buying, selling, or exchanging virtual assets.

Operating without registration is punishable by up to five years' imprisonment or a fine of up to 50 million won,[11] and a registration remains valid for three years from the date it is accepted.[12]

The amended Specified Financial Transaction Information Act has strengthened the entry regulation by adding to both the matters to be reported and the grounds for rejecting a registration. In addition to the existing requirements, such as a real-name verified deposit and withdrawal account and Information Security Management System certification, providers must now submit information relating to their major shareholders with the review of matters such as legal-violation records extending to major shareholders; and

deficiencies not meeting requirements as to sound financial standing and social credit, and as to organisation and personnel, IT systems and internal control frameworks, have been introduced as grounds for rejecting a registration.[13]

These changes have had an immediate bearing on a major acquisition currently in progress. For instance, in a mega-transaction under which Naver Financial Corporation is to bring Dunamu Inc. – the operator of Upbit, Korea's largest exchange – under its full ownership through a comprehensive share exchange, concerns were raised that Naver's record of having been fined by a first-instance court (currently under appeal) for a breach of the Monopoly Regulation and Fair Trade Act might prove an obstacle in the strengthened review of major-shareholder eligibility. However, the Enforcement Decree to the Specified Financial Transaction Information Act, as amended as of 18 August 2026, largely dispelled some of the regulatory uncertainties by excluding from the grounds for disqualification cases where a major shareholder has been punished under a joint penalty provision, or where the Commissioner of the Korea Financial Intelligence Unit recognises the violation as minor.[14]

The obligation to register also extends to foreign exchanges. The amended Specified Financial Transaction Information Act applies extraterritorially to businesses outside Korea that target Korean users.[15]

The Financial Services Commission of Korea (FSC) has interpreted the term "target" or "targeting" to include maintaining a Korean-language website, marketing to Koreans and allowing purchases with Korean credit cards. Foreign exchanges that fail to register may face criminal penalties and future disqualification from operating in Korea.

Securities and investment laws

A threshold issue in Korea that needs to be first reviewed for digital assets from the regulatory perspectives is whether a digital asset qualifies as a "securities" under the Capital Markets Act. If it does, it is regulated not as a virtual asset but as a security token, under the Capital Markets Act and the Electronic Securities Act.

The Capital Markets Act recognises six categories of securities: debt securities, equity securities, beneficiary certificates; investment contract securities, derivative-linked securities and depository receipts.[16] Of these, investment contract securities – a catch-all concept that applies residually where none of the other categories is made out – have a broad scope of application and are therefore central to determining whether a digital asset constitutes a security. The Capital Markets Act defines an investment contract security as an instrument evidencing a contractual right under which a specific investor, having invested money or the like in a common enterprise with another person, is entitled to profits or bears losses arising from the results of that common enterprise, which is carried on principally by the other person.[17] The FSC set out the principles for making this assessment, together with illustrative examples, in its Security Token Guidelines of February 2023.

Security tokens became the subject of legislative debate from around the late 2010s, as demand grew for fractional investment in non-standardised and distinctive assets. In January 2026, amendments both to the Electronic Securities Act and the Capital Markets

Act for the introduction of security tokens and the distribution of investment contract securities passed the plenary session of the National Assembly and were promulgated in February 2026. The amended Electronic Securities Act introduces definitions of a "distributed ledger" and of "shares, etc, registered on a distributed ledger", and provides the legal basis for electronic registration agencies and account management institutions to use a distributed ledger for the electronic registration and administration of shares and the like; it also establishes an "issuer account management institution" regime, under which an issuer that is not a financial company may, if it meets certain requirements, directly open and manage the customer accounts for the securities it issues.[18] The amended Capital Markets Act brings investment contract securities – previously treated as securities only in relation to their issuance and to unfair trading – within the scope of distribution regulation on the same footing as other securities, thereby permitting intermediation through securities firms.[19]

In the meantime, ahead of the legislation taking effect, the FSC set out a phased roadmap for building the issuance infrastructure in its 'Policy Direction for Security Tokens' of 4 September 2026. In the first stage, which begins with the entry into force of the amended Electronic Securities Act in February 2027, the tokenisation of institutional-investor-only private money market funds and private bonds, of unlisted shares through a trust structure, and of publicly offered fractional investment securities will be prioritised; in the second stage, the scope will be widened to the tokenisation of publicly offered securities while the stability, efficiency and market demand of the first stage are assessed; and in the third stage, an on-chain settlement infrastructure linking stablecoins and the like as a means of payment will be built. Best-practice standards for fractional investment, an over-the-counter distribution framework (permitting security tokens to be handled within the scope of an existing licence, without a separate authorisation) and guidelines on the standard requirements for distributed ledgers were also presented.[20]

The FSC then pre-announced, on 2 October 2026, proposed amendments to the subordinate regulations under the Electronic Securities Act and the Capital Markets Act, reflecting the subordinate-regulation items of the Policy Direction for Security Tokens in line with the two amended Acts, with pre-announcement period running from 2 October to 11 November 2026.[21] The amendments set the range of securities that may be tokenised so as to cover both fractional investment securities and conventional securities such as shares, bonds and funds.[22] They prescribe requirements for the distributed ledger (including that its participants comprise, in addition to the electronic registration agency, at least two account management institutions, and that no direct consideration be payable for the use of a distributed ledger for electronic registration)[23]together with matters relating to issuer account management institutions, such as their registration requirements (including minimum own capital of 4 billion won and specialist personnel).[24] They also create a licensing unit for over-the-counter exchanges in debt securities while capping a retail investor's trading on such an exchange at net purchases of 100 million won per year for each exchange.[25] Following the pre-announcement period and the requisite approval procedures, the amendments are expected to take effect on 4 February 2027, in step with the amended Acts.

Anti-money laundering

VASPs are subject to the same AML obligations as traditional financial institutions. The Specified Financial Transaction Information Act imposes:

- customer due diligence obligations;[26]
- suspicious transaction reporting and currency transaction reporting duties;[27] and
- restrictions on business transactions with unlicensed VASPs.[28]

VASPs must also implement continuous monitoring systems to detect abnormal trading patterns, including unusual price or volume fluctuations, and report suspicious cases to the FSC and the Financial Supervisory Service of Korea (FSS).[29]

A critical feature is the Travel Rule, under which information on the originator and beneficiary must accompany virtual asset transfers exceeding 1 million won.[30] The originating VASP must provide this data to the recipient VASP at the time of transfer. This requirement aligns with recommendations made by the Financial Action Task Force and has been one of the most operationally demanding compliance challenges for Korean exchanges.

Additionally, VASPs are prohibited from handling "dark coins" – virtual assets designed to prevent transaction traceability.[31] This prohibition is broader than in some jurisdictions and reflects Korea's strict approach to transparency in virtual asset transactions.

Regulation of exchanges

The Virtual Asset User Protection Act establishes a robust framework for the operation of exchanges, custodians and other VASPs. Core requirements include:

- segregation of client funds: VASPs must deposit all client fiat funds with licensed banks, separate from company funds;[32]
- cold wallet storage: at least 80% of client-held virtual assets must be stored offline in cold wallets, minimising hacking risk;[33]
- insurance or reserves: VASPs must hold insurance or establish reserves covering a percentage of user assets not held in cold wallets (eg, at least 3 billion won for fiat-backed exchanges, 500 million won for certain custody providers);[34]
- prohibition on proprietary trading: exchanges and their affiliates may not engage in trading of self-issued tokens or transact unfairly with client assets;[35] and
- fair trading obligations: exchanges must prevent wash trades, matched orders and fraudulent trades.[36]

To enforce market integrity, exchanges are also required to maintain surveillance systems capable of monitoring for unfair trade practices. When suspicious activity is detected, they must promptly notify regulators and, if necessary, investigative authorities.[37]

These obligations reflect Korea's attempt to transpose securities market safeguards into the virtual asset sector, a significant departure from the earlier era when exchanges operated with minimal oversight.

Regulation of issuers and sponsors

A consistent feature of Korea's approach has been the prohibition of Initial Coin Offerings (ICOs). Since 2017, the FSC has banned token fundraising within Korea, citing investor protection and market stability concerns.[38] The ban is enforced primarily through the Act on the Regulation of Conducting Fund-Raising Business without Permission (the Fund-Raising Regulation Act), which criminalises unauthorised collective investment schemes.[39]

The FSC has defined an ICO as the act of raising investment funds in virtual currency (eg, Bitcoin or Ether) or fiat currency by issuing new digital tokens.[40] Any project that raises funds from the public in Korea through token issuance, regardless of whether the consideration is provided in fiat currency or in virtual assets, may be deemed an illegal fundraising business and thereby subject to administrative or criminal sanctions.

This prohibition has had significant consequences for the domestic market. Many Korean blockchain projects have opted to conduct offerings abroad, often through jurisdictions with more permissive regimes. This has created both regulatory arbitrage risks and challenges for domestic investor protection.

That said, this prohibitive stance is expected to be relaxed with the second-stage legislation. The government's bill for the Digital Asset Basic Act (the second-stage legislation) is expected to include measures permitting the domestic issuance of digital assets and establishing rules on their issuance and disclosure, and the FSS is understood to be preparing subordinate rules, such as disclosure frameworks and forms relating to issuance and to listing support. Should this materialise, the ban on ICOs maintained since 2017 would in effect be lifted. The FSC has stated, however, that the specific content of the second-stage legislation has not yet been finalised, so the requirements for permitting issuance and the accompanying investor-protection safeguards are likely to be settled in the course of the second-stage legislative process.

Criminal and civil fraud and enforcement

The Virtual Asset User Protection Act introduces, for the first time, a comprehensive enforcement regime against unfair trading practices in the Korean virtual asset market. The provisions closely mirror those applicable in the securities sector under the Capital Markets Act, ensuring consistency across financial markets.

Prohibited conduct includes:

- use of material non-public information: virtual asset issuers, VASPs, executives, employees, agents and major shareholders are prohibited from trading on or allowing others to trade on insider information;[41]
- market manipulation: transactions designed to mislead the market into believing that active trading exists, or that prices are rising or falling artificially, are banned;[42]
- fraudulent transactions: wash trades, matched trades and sham transactions intended to create a false appearance of market activity are prohibited; and[43]

- deceptive practices: false statements, omissions of material facts, or misleading documents used in connection with virtual asset trading are unlawful.[44]

These violations are subject to severe penalties: at least one year of imprisonment or a fine of three to five times the profit gained or loss avoided.[45] Importantly, the statute applies extraterritorially – conduct outside Korea that has effects within Korea may still be prosecuted.[46]

Regulators have signalled that enforcement will be aggressive. The FSC and FSS have issued guidance clarifying that "market-making" activities, which may be permitted under securities law, can amount to market manipulation in the virtual asset context.[47] This underscores the strict approach Korean regulators are adopting toward market integrity.

Civil liability is also recognised. VASPs that fail to properly safeguard client funds or virtual assets may be held liable for damages.[48] For example, an exchange that wrongfully blocks deposits or withdrawals without valid justification may be required to compensate users.

Tax

The taxation of virtual assets has been a politically sensitive issue in Korea, and its implementation has been postponed on several occasions. Under the December 2020 amendment to the Income Tax Act,[49] income arising from the transfer or lease of virtual assets was classified as other income,[50] and its effective date, having been deferred several times, is currently scheduled for 1 January 2027. Once in force, income earned by a resident from virtual asset transactions will be subject to separate taxation at a rate of 20% on the portion exceeding 2.5 million won per year,[51] rising to a total of 22% once local income tax is included.

With implementation approaching, there is continuing debate over whether to defer it again or to abolish it altogether. Citing the inadequacy of the taxation infrastructure and equity with the abolition of the financial investment income tax, bills have been tabled that would either defer implementation by a further two to three years or abolish the tax entirely, and national petitions calling for a deferral have also been submitted. On 5 November 2026, the government announced that it would pursue a further two-year deferral, to 1 January 2029, in consultation with the National Assembly; the deferral will be confirmed only once the National Assembly passes the necessary amendment to the Income Tax Act.[52]

In addition, under the same 2020 amendment, and likewise subject to the above-noted deferral, income derived by non-residents and foreign corporations from the transfer or lease (including withdrawal) of virtual assets in Korea will be subject to taxation as Korean-source "other income". The scope of taxation includes not only cases where a non-resident or foreign corporation transfers or leases virtual assets, but also cases where virtual assets themselves are withdrawn from an exchange.[53]

Other issues

NFTs

The Virtual Asset User Protection Act explicitly excludes NFTs that are unique, non-fungible and used primarily for collection or transaction verification purposes.[54] However, where NFTs carry economic value and are transferable, they may be classified either as securities under the Capital Markets Act or as virtual assets under the Virtual Asset User Protection Act.[55] To reduce regulatory uncertainty, the FSC issued NFT Guidelines in June 2024, clarifying when an NFT will be treated as a regulated asset.[56] Issuers must review the legal character of NFTs on a case-by-case basis, considering structure, purpose, terms and marketing.

Special considerations

Korea's legal framework for virtual assets has been built around the Specified Financial Transaction Information Act and the first-stage legislation, the Virtual Asset User Protection Act, which focus on AML and user protection, respectively. This reflects a legislative approach under which the National Assembly first put in place the minimum necessary rules and then supplements them in stages. Following the first-stage legislation for user protection, a Digital Asset Basic Act is planned as second-stage legislation encompassing the entire ecosystem, including the types of, and entry regulation for, the virtual asset business, the regulation of business conduct, the regulation of stablecoins and the governance of exchanges. Having drifted for nearly three years, the discussions surrounding this legislation has regained momentum in the second half of 2026, but its timing still remains uncertain owing to disagreement over the key issues discussed below.

The first issue concerns the issuance of won-denominated stablecoins. Stablecoins are distinguished from ordinary virtual assets in that they pursue stability of value by pegging to a particular fiat currency or asset and are likely to be used, beyond trading between virtual assets, for payment, remittance and settlement and for inter-company settlement. Accordingly, matters such as issuer eligibility, soundness, the composition and management of reserve assets, holders' redemption rights and the protection of users on an issuer's insolvency cannot be adequately addressed by the rules applicable to ordinary virtual assets alone. Against this background, and drawing on legislative precedents such as the United States' Guiding and Establishing National Innovation for U.S. Stablecoins Act and the European Union's Markets in Crypto-Assets Regulation, there is discussion of either incorporating rules on stablecoins into the second-stage legislation or enacting a separate statute dealing solely with stablecoins; and such discussion is being embedded with the principal points of contention that include issuer eligibility and licensing requirements, the level and composition of reserve-asset and own-capital requirements, user-protection and disclosure obligations, and the supervisory framework and the allocation of roles among the relevant authorities.

The most contentious of these is the question of who may issue. Views are divided over whether issuance should be confined to banks or opened more broadly to non-bank entities meeting certain requirements. A proposal under which a bank consortium would hold at least 51% of the issuing entity (the bank 51% rule) has been floated, but it has been pointed out that, because the Banking Act in principle limits a bank's holding of voting shares in another company to no more than 15%, the decision-making structure of such a consortium could become complex. The virtual asset and fintech industries, moreover,

have objected that permitting issuance first to banks only would stifle private-sector innovation and would also later increase the barriers to entry too high for non-banking entities, and coordination over the question of who may issue is ongoing.

Another issue concerns the governance of virtual asset exchanges, where there is discussion of capping the shareholding of an exchange's major shareholders at a certain level. This debate over shareholding limits stems from a policy concern that, as the market grows, problems in the operation of an individual exchange may affect price formation and market confidence, spilling over to the market as a whole and causing harm to users; that the regime regulating entry may be shifted from registration to authorisation; and that exchanges operate with multiple functions combined – brokerage, execution, custody of assets and decisions on listing support – giving rise to conflict-of-interest concerns. On the other hand, there is also a sceptical view regarding limiting the shareholding of an exchange's major shareholders, on the following grounds: any restriction on property rights and the freedom of business must remain within constitutional limits such as the principle of proportionality; by affecting the existing shareholding structure of shareholders, it may raise issues under the principles against retroactive legislation and of the protection of legitimate expectations; although the debate proceeds from a perception that virtual asset exchanges have the character of market infrastructure akin to an alternative trading system, they in fact differ in that their connection to existing financial-market infrastructure is weak and, because trading takes place across multiple exchanges, the price-formation function of any individual exchange is limited; and that shareholding limits could adversely affect industrial competitiveness and the domestic innovation ecosystem.

Following this debate, a compromise has recently been floated and is understood to be under coordination, under which – rather than a forced sale of shares – the shareholding would be capped at 20% in principle, with up to 34% permitted where certain requirements, such as innovativeness, are met, and the voting rights attaching to shares in excess of the cap would be restricted. Depending on how the governance regulation develops, exchanges with a high concentration of major-shareholder ownership may face the burden of restructuring their governance through new share issues or share disposals. The proposed combination, under which Naver Financial Corporation would bring Dunamu Inc., the operator of Upbit, under its full ownership through a comprehensive share exchange, could likewise be affected if a shareholding cap or voting-rights restriction were introduced. For the time being, however, with several individual bills only having been tabled and the precise shape of the government's bill yet to be settled, it will be necessary to keep a close watch on the progress of the second-stage legislative debate, the legislative timetable and the content of any enacted statute.

Outlook and conclusions

Korea's virtual asset regime has undergone a dramatic transformation. From a market once characterised by light-touch oversight, Korea now boasts one of the most comprehensive legal frameworks in the region. Over the past year, that foundation has been reinforced as entry regulation has been tightened, security tokens have been brought within a statutory framework and the taxation of virtual assets has drawn nearer.

Looking forward, several trends will shape the landscape:

- the second-stage legislation (ie, the Digital Asset Basic Act) will be the next watershed, with the direction of two questions in particular – who may issue won-denominated stablecoins, and how the shareholdings of exchange major shareholders are to be regulated – set to reshape the competitive landscape for financial institutions, big-tech firms and virtual asset businesses alike;
- security tokens will expand in stages following the first stage in February 2027, moving on to the tokenisation of publicly offered securities and, in due course, to on-chain settlement, at a pace tied to market demand and to the progress of stablecoin legislation; and
- the taxation of virtual assets, while politically contentious, is set to take effect in 2027, requiring both investors and exchanges to put compliance infrastructure in place even as debate over further deferral or abolition continues.

For practitioners and market participants, the central challenge will be to navigate the interplay between the AML regime and the user-protection framework while anticipating the second-stage legislation and reforms in adjacent areas. In sum, Korea has moved beyond a stage in which regulation was fragmented and underdeveloped to establish a sophisticated, if complex, regulatory system for virtual assets. The key challenge now is to strike a balance between innovation and investor protection, and in that process market participants are likely to face both new regulatory burdens and opportunities for growth.

Endnotes

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