

IN-DEPTH

Virtual Currency Regulation

SOUTH KOREA

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Virtual Currency Regulation

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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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South Korea

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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.

Until recently, the regulation of virtual assets was largely limited to anti-money laundering (AML) requirements under the Act on Reporting and Using Specified Financial Transaction Information (the Specified Financial Transaction Information Act).^[1] While this represented a first step in recognising virtual assets within the financial regulatory sphere, it left major issues – such as unfair trading practices and user protection – largely unaddressed.

This regulatory gap has now been filled by the enactment of the Act on the Protection of Virtual Asset Users (the Virtual Asset User Protection Act), which took effect on 19 July 2024.^[2] Together with the Specified Financial Transaction Information Act, this new law forms the backbone of Korea's virtual asset regulatory framework.

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.

Year in review

The most significant development in 2024 was the implementation of the Virtual Asset User Protection Act. This law created, for the first time, a comprehensive legal basis for addressing unfair trading activities in the virtual asset market, introducing prohibitions against insider trading, market manipulation and fraudulent transactions.^[3] Importantly, it also imposed strict user asset protection obligations on exchanges and custodians, including the segregation of client deposits, cold wallet storage requirements and mandatory insurance coverage.^[4]

Parallel to this, the Financial Services Commission (FSC) and the Financial Supervisory Service (FSS) issued detailed guidelines to clarify grey areas and promote market stability. Notably, the FSC issued guidelines in June 2024 to determine when NFTs may be classified as either securities under the Capital Markets Act or virtual assets under the new Virtual Asset User Protection Act, reducing longstanding uncertainty for issuers and platforms.^[5]

Another important shift was the gradual relaxation of restrictions on corporate participation in the virtual asset market. In June 2025, the non-profit NGO World Vision became the first corporation permitted to trade Ethereum received as a donation through a Korean exchange, signalling a cautious opening of the market to institutional participants.^[6]

Finally, the FSC announced that forthcoming legislation will regulate the issuance and distribution of stablecoins, an area that has been left underdeveloped in Korea due to the

absence of clear rules. This is expected to be a critical milestone for the maturation of Korea's virtual asset ecosystem.^[7]

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'.^[8] The law 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.^[9] 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:

1. the Specified Financial Transaction Information Act, which governs anti-money laundering counter-terrorism financing (AML/CFT) obligations and registration requirements for virtual asset service providers (VASPs);^[10] and
2. the Virtual Asset User Protection Act, which governs user protection, unfair trading, and operational requirements for VASPs.^[11]

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.^[12]

Covered businesses include:

1. virtual asset exchanges and trading platforms;
2. custodial services;
3. wallet service providers; and
4. 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.^[13]

The obligation to register also extends to foreign exchanges. The law applies extraterritorially to businesses outside Korea that target Korean users.^[14]

The FSC has interpreted '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 is whether a digital asset qualifies as a 'securities' under the Financial Investment Services and Capital Markets Act (the Capital Markets Act). If so, it is regulated under that Act as a securities token and not as a virtual asset.^[15] 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]

Among the securities above, investment contract securities are non-standardised and their scope of application can be broadly recognised, making it necessary to closely examine whether a digital asset qualifies as an investment contract securities. The Capital Markets Act defines 'investment contract securities' as 'instruments bearing the indication of a contractual right under which a specific investor is entitled to the profits earned, or liable for losses sustained, depending upon the results of a joint venture in which the specific investor invests money, etc, jointly with a third person and that is to be run mainly by the third person.'^[17] In practice, this provision has been invoked to determine whether tokenised instruments should be regulated as securities.

While securities token offerings (STOs) are outside the scope of this chapter, the key takeaway for virtual assets is that assets not classified as securities default to the virtual asset regime. This classification is determinative for licensing, compliance and enforcement exposure.

Banking and money transmission

A central feature of Korea's framework is the real-name account requirement. Exchanges must partner with a domestic bank to provide deposit and withdrawal accounts that permit transactions only between the customer's account and the exchange's account at the same bank.^[18] This system is designed to prevent money laundering and enhance transparency in fiat-to-crypto transactions.

There is no statutory prohibition on remitting funds overseas for the purpose of acquiring virtual assets. However, under the Foreign Exchange Transactions Act, remittances exceeding US\$5,000 (with an annual cumulative total of US\$100,000) require submission of supporting documents stating the reason and amount of the transaction.^[19] In practice, however, Korean banks frequently reject remittance requests if the stated purpose is the purchase of virtual assets, citing internal risk management policies. As a result, some individuals have attempted to circumvent restrictions by mischaracterising the purpose of remittances. Such acts may result in administrative fines, and in certain cases could constitute obstruction of business under the Criminal Act.^[20]

Anti-money laundering

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

1. customer due diligence obligations;^[21]
2. suspicious transaction reporting and currency transaction reporting duties; and^[22]
3. restrictions on business transactions with unlicensed VASPs.^[23]

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 FSS.^[24]

A critical feature is the Travel Rule, under which information on the originator and beneficiary must accompany virtual asset transfers exceeding 1 million won.^[25] The originating VASP must provide this data to the recipient VASP at the time of transfer. This requirement aligns with the Financial Action Task Force recommendations 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.^[26] 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:

1. segregation of client funds: VASPs must deposit all client fiat funds with licensed banks, separate from company funds;^[27]
2. cold wallet storage: at least 80 per cent of client-held virtual assets must be stored offline in cold wallets, minimising hacking risk;^[28]
3. insurance or reserves: VASPs must hold insurance or establish reserves covering a percentage of user assets not held in cold wallets (e.g., at least 3 billion won for fiat-backed exchanges, 500 million won for certain custody providers);^[29]
4. prohibition on proprietary trading: exchanges and their affiliates may not engage in trading of self-issued tokens or transact unfairly with client assets;^[30] and
5. fair trading obligations: exchanges must prevent wash trades, matched orders and fraudulent trades.^[31]

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.^[32]

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 miners

Korean law does not specifically regulate the activity of cryptocurrency mining. Individuals or entities engaged solely in validating transactions and receiving block rewards are not considered VASPs. However, if a mining business expands into exchange, brokerage, or custodial functions, it would fall within the statutory definition of a VASP and require registration under the Specified Financial Transaction Information Act.^[33]

Although miners themselves remain unregulated, their operations may trigger indirect oversight through energy use restrictions, taxation of mining proceeds (meanwhile, the supply of virtual assets through cryptocurrency mining is not subject to value-added tax, and therefore no separate VAT filing is required), and reporting obligations if the mined assets are later exchanged through regulated platforms. In practice, most mining activity in Korea is small-scale, with large industrial operations being relatively limited due to high electricity costs.

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.^[34] 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.^[35]

The FSC has defined an ICO as the act of raising investment funds in virtual currency (e.g., Bitcoin or Ether) or fiat currency by issuing new digital tokens.^[36] 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.

Despite industry lobbying, there has been little movement toward legalising or creating a licensing framework for ICOs. For now, token issuers in Korea must either (1) structure their offerings to fall within the securities token regime under the Capital Markets Act; or (2) operate without public fundraising.

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:

1. 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;^[37]
2. market manipulation: transactions designed to mislead the market into believing that active trading exists, or that prices are rising or falling artificially, are banned;^[38]
3. fraudulent transactions: wash trades, matched trades and sham transactions intended to create a false appearance of market activity are prohibited; and^[39]
4. deceptive practices: false statements, omissions of material facts, or misleading documents used in connection with virtual asset trading are unlawful.^[40]

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.^[41] Importantly, the statute applies extraterritorially – conduct outside Korea that has effects within Korea may still be prosecuted.^[42]

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.^[43] 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. For example, an exchange that wrongfully blocks deposits or withdrawals without valid justification may be required to compensate users.^[44]

Tax

Taxation of virtual assets has been a politically sensitive issue in Korea. While the government has repeatedly pledged to introduce a capital gains tax regime, implementation has been delayed several times due to industry pushback and public opposition.

Under the proposed framework, individuals earning more than 2.5 million won annually from virtual asset transactions would be subject to a 20 per cent tax on net gains.^[45]

¹ Although originally scheduled for 2023, the effective date has been postponed multiple times, most recently to 2027.^[46]

In addition, from 1 January 2027, 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’ (Article 119(12)(b) of the Income Tax Act, as amended on 29 December 2020). 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.

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.^[47] 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.^[48] To reduce regulatory uncertainty, the FSC issued NFT Guidelines in June 2024, clarifying when an NFT will be treated as a regulated asset.^[49] Issuers must review the legal character of NFTs on a case-by-case basis, considering structure, purpose, terms and marketing.

Special considerations

Two distinctive features of Korea's regime are worth emphasising.

First, the extraterritorial application of both the Specified Financial Transaction Information Act and the Virtual Asset User Protection Act means that foreign exchanges and custodians targeting Korean users must comply with Korean law, even if incorporated abroad.^[50] This has created significant compliance burdens for global operators but reflects Korea's commitment to protecting domestic users.

Second, Korea is actively preparing for stablecoin regulation. The FSC has announced that forthcoming legislation will address the issuance and distribution of stablecoins.^[51] Given the growing use of stablecoins in cross-border settlement and trading, this reform is expected to unlock significant new opportunities while also tightening supervisory oversight.

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. The Virtual Asset User Protection Act and the Specified Financial Transaction Information Act together create a two-pronged system that addresses both AML risks and market integrity.

Looking forward, several trends will shape the landscape:

1. Stablecoin regulation will likely emerge as the next major reform, enabling innovation while subjecting issuers to oversight.
2. Gradual corporate participation in the market will expand the investor base beyond retail users, though regulators are expected to proceed cautiously.

3. Taxation of virtual assets, while politically contentious, will eventually be enforced, requiring compliance infrastructure for both investors and exchanges.
4. Enforcement actions under the Virtual Asset User Protection Act will test the scope of the new prohibitions on unfair trading, and early cases will set precedents for future market conduct.

For practitioners and market participants, the central challenge will be navigating the interplay between the AML regime and the user protection framework while anticipating further reforms in adjacent areas such as NFTs, STOs, and stablecoins. In sum, Korea has moved from a fragmented and under-regulated environment to a jurisdiction with a sophisticated, though complex, regulatory system for virtual assets. This presents both compliance challenges and growth opportunities as Korea seeks to balance innovation with investor protection.

Endnotes

- 1 Specified Financial Transaction Information Act, Act No. 6264, 17 Jan 2000, as amended. [^ Back to section](#)
- 2 Virtual Asset User Protection Act, Act No. 19952, 30 Jun 2023, effective 19 Jul 2024. [^ Back to section](#)
- 3 Virtual Asset User Protection Act, Art. 10. [^ Back to section](#)
- 4 Virtual Asset User Protection Act, Arts. 6–8; Enforcement Decree, Arts. 8–11. [^ Back to section](#)
- 5 FSC, 'Guidelines for Determining Whether NFTs Constitute Virtual Assets,' 10 Jun 2024. [^ Back to section](#)
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- 8 Virtual Asset User Protection Act, Art. 2(1). [^ Back to section](#)
- 9 Virtual Asset User Protection Act, Art. 2(1)(a)–(g). [^ Back to section](#)
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- 11 Virtual Asset User Protection Act, Chs. II–III (unfair trading, business conduct). [^ Back to section](#)
- 12 Specified Financial Transaction Information Act, Arts. 7, 17. [^ Back to section](#)

- 13 *ibid.* ^ [Back to section](#)
- 14 Specified Financial Transaction Information Act, Art. 6(2). ^ [Back to section](#)
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- 17 Capital Markets Act, Art. 4(6). ^ [Back to section](#)
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- 19 Foreign Exchange Transactions Regulations, Arts. 4-2(1), 4-3(1)1. ^ [Back to section](#)
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- 21 Specified Financial Transaction Information Act, Arts. 5, 5-2. ^ [Back to section](#)
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- 25 Specified Financial Transaction Information Act, Arts. 5-3, 6(3); Enforcement Decree, Art. 10-10. ^ [Back to section](#)
- 26 Enforcement Regulation on Reporting and Supervision of Specified Financial Transactions, Art. 28(2). ^ [Back to section](#)
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- 28 Virtual Asset User Protection Act, Art. 7(3); Enforcement Decree, Art. 11(1). ^ [Back to section](#)
- 29 Virtual Asset User Protection Act, Art. 8; Supervisory Regulation, Art. 10(1)–(2). ^ [Back to section](#)
- 30 Virtual Asset User Protection Act, Art. 10(5); Enforcement Decree, Art. 16(1). ^ [Back to section](#)
- 31 Virtual Asset User Protection Act, Art. 10(2)–(4). ^ [Back to section](#)
- 32 Virtual Asset User Protection Act, Art. 12. ^ [Back to section](#)

- 33** Specified Financial Transaction Information Act, Art. 2(2). [^ Back to section](#)
- 34** FSC press release, 'Measures to Prohibit Initial Coin Offerings,' 29 Sept 2017. [^ Back to section](#)
- 35** Act on the Regulation of Conducting Fund-Raising Business without Permission, Act No. 6462, 28 Apr 2001, as amended, Arts. 2, 6. [^ Back to section](#)
- 36** FSC, 'Definition of Initial Coin Offering for Regulatory Purposes,' 2017 (administrative guidance). [^ Back to section](#)
- 37** Virtual Asset User Protection Act, Art. 10(1). [^ Back to section](#)
- 38** *ibid.*, Art. 10(3). [^ Back to section](#)
- 39** *ibid.*, Art. 10(2). [^ Back to section](#)
- 40** *ibid.*, Art. 10(4). [^ Back to section](#)
- 41** *ibid.*, Art. 19(1). [^ Back to section](#)
- 42** *ibid.*, Art. 3. [^ Back to section](#)
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- 46** National Assembly, 'Tax Law Amendments Postponing Virtual Asset Taxation,' 2022–2023 legislative updates. [^ Back to section](#)
- 47** Virtual Asset User Protection Act, Art. 2(1)(a); Enforcement Decree, Art. 2(4). [^ Back to section](#)
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- 50** Specified Financial Transaction Information Act, Art. 6(2); Virtual Asset User Protection Act, Art. 3. [^ Back to section](#)
- 51** FSC policy statement, 'Plans for Stablecoin Regulation,' 2025 (forthcoming legislation). [^ Back to section](#)

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