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# Financial Services Regulation 2025

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## **South Korea: Law and Practice**

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# SOUTH KOREA



## Law and Practice

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## 1. Legislation

### 1.1 Key Financial Services Law

Korea's financial services legal framework is composed of several foundational and sector-specific statutes designed to ensure financial stability and consumer protection.

- The Act on the Establishment of Financial Services Commission sets out the fundamental structure for financial policymaking and supervision, defining the authority and responsibilities of the Financial Services Commission (FSC) and related supervisory bodies.
- At the sectoral level, regulations are further detailed by industry-specific laws such as the Banking Act, the Insurance Business Act and the Specialised Credit Finance Business Act, which govern licensing, prudential standards and permissible business activities for banks, insurers and credit finance companies, respectively.
- The Act on Corporate Governance of Financial Companies applies across all financial sectors and regulates board composition, internal control systems and the qualification requirements for executives of financial institutions.
- The Financial Investment Services and Capital Markets Act serves as the cornerstone statute for Korea's capital markets, covering the full range of financial investment services, including dealing, brokerage, collective investment (funds) and trust business, while also establishing investor protection rules and prohibitions against unfair trading practices.

- Finally, the Financial Consumer Protection Act applies to all financial products and institutions, strengthening key sales principles such as suitability and duty to explain, with the aim of preventing consumer harm and promoting fair treatment in financial transactions.

## 2. Regulation

### 2.1 Regulatory Perimeter

In Korea, all financial products are regulated, including securities, banking, insurance, asset management and related services. The regulation of financial products and services can broadly be divided into two main frameworks:

- the Financial Investment Services and Capital Markets Act ("Capital Markets Act"), which encompasses financial products and services; and
- the Financial Consumer Protection Act (FCPA), which provides protection for market participants.

#### Financial Investment Products Under the Capital Markets Act

The Capital Markets Act comprehensively regulates a wide range of financial investment products, including stocks, bonds, collective investment schemes (funds), derivatives (futures, options, OTC derivatives) and investment contract securities.

Collective investment schemes such as funds are classified as financial investment products and are subject to strict investor protection rules. Foreign managers

intending to offer funds in Korea must register them with the FSC and comply with ongoing disclosure and reporting obligations.

The Capital Markets Act also prescribes detailed rules on the registration, licensing and conduct of financial investment businesses, disclosure obligations, measures to ensure market transparency and investor protection. Furthermore, it sets forth restrictions on unfair trading practices such as market manipulation, insider trading and short selling, and requires entities to establish internal control systems to prevent such violations. Recent regulatory trends show tightening supervision over such market misconduct.

Importantly, the Capital Markets Act adopts a function-based regulatory approach. Instead of regulating entities based solely on their institutional type (eg, securities companies, asset managers or trust companies), the same regulatory standards apply to similar financial businesses. For instance, both investment advisers and discretionary investment managers performing “asset management” activities are subject to equivalent regulatory and operational requirements.

## Financial Products Under the Financial Consumer Protection Act

The FCPA applies not only to financial investment products under the Capital Markets Act but also to a wide range of financial products, including deposits, loans, insurance, credit cards and instalment financing.

Whereas the Capital Markets Act primarily regulates market participants (eg, securities firms and asset managers), with a focus on ensuring fair trading within the capital markets, the FCPA focuses on the direct protection of financial consumers. It governs all financial institutions across the banking, insurance, capital markets and credit finance sectors, and centres on consumer protection through imposing rules on product sales practices, duties of explanation, the prevention of mis-selling, and dispute resolution procedures.

The FCPA establishes six core principles that all financial institutions must follow when selling financial products.

- **Suitability:** financial institutions must recommend products that are appropriate to the consumer’s financial condition and investment experience.
- **Appropriateness:** institutions are required to disclose to consumers when a product is deemed unsuitable.
- **Duty to explain:** institutions must clearly explain the key terms, features and risks of the financial product.
- **Prohibition of unfair business practices:** coercive solicitation, false or exaggerated advertising, and tied selling (eg, requiring the purchase of another product in conjunction with the current product) are prohibited.
- **Prohibition of misleading recommendations:** institutions must not engage in conduct that could mislead consumers about a product, such as providing inaccurate information or making product comparisons without objective criteria.
- **Advertising regulations:** misleading or false advertising is prohibited, and mandatory disclosures are required.

## Other Key Financial Product Regulations

- **Lending products:** bank loans are governed by the Banking Act, while loans from savings banks or credit card companies fall under the Credit Finance Business Act. These laws regulate interest rate caps, credit screening, delinquency management and lending limits, to promote prudent lending and consumer protection.
- **Insurance products:** life and non-life insurance are governed by the Insurance Business Act, which regulates licensing, capital requirements, policy formation and termination, premium calculation, claims payment and the prevention of mis-selling, to ensure policyholder protection and payment stability.
- **Credit finance products:** credit cards, instalment financing and leasing are regulated under the Specialised Credit Finance Business Act, which governs the licensing and registration of credit finance companies, their business conduct, consumer protection obligations, sound management standards and capital requirements. In particular, it regulates the licensing of credit card businesses and the registration of leasing and instalment financing businesses.

Together, these regimes form a comprehensive framework for supervising Korea's financial sector, balancing market discipline with strong consumer protection.

## 2.2 Exemptions

While not an exhaustive list, the key exemptions commonly applied to financial products and services regulated in Korea are outlined below. These exemptions reflect the principle that Korea's financial regulatory framework, while comprehensive, allows for flexibility to accommodate specific policy objectives, practical business considerations and the promotion of financial innovation. Certain products or activities are excluded from regulation where they are deemed to pose limited investor protection concerns or are conducted under temporary pilot programmes aimed at encouraging new financial technologies.

### Exemptions Under the Capital Markets Act *Products not deemed financial investment products*

- KRW-denominated negotiable certificates of deposit (CDs) – such instruments are excluded from the scope of financial investment products, and are therefore not regulated under the Capital Markets Act.
- Beneficial interests in management-type trusts – certain trusts are excluded from regulation as financial investment products, such as:
  - (a) instruction-based trusts where trust assets are disposed of only under the direction of the settlor or beneficiary; and
  - (b) limited-purpose trusts where only non-dispositive acts (eg, maintenance or improvement) are permitted under the trust agreement.
- Stock options granted to executives or employees – stock options that entitle company officers or employees to acquire new or existing shares at a predetermined price are excluded from the definition of financial investment products.

### *Activities not deemed financial investment business*

- Transactions through licensed brokers or dealers – generally, transactions executed through locally licensed investment dealers or brokers are not regarded as engaging in investment business.

- Temporary delegation of investment discretion – certain temporary delegations of investment authority do not constitute regulated discretionary investment management, such as:
  - (a) where an investor designates the trading date and total amount or quantity of securities to be traded and delegates only price or timing decisions for that day; or
  - (b) where an investor, being temporarily unavailable (eg, due to travel or illness), has pre-authorised the sale of securities in limited emergency circumstances, such as a market crash.

### Exemptions Under the Financial Consumer Protection Act

The FCPA excludes several types of activities from the scope of regulated financial product advisory services, primarily where professional advice is incidental or already regulated under other laws, as follows.

- General advice to the public – advice provided through publications, media or broadcasts to the general public without targeting specific consumers is not considered regulated advisory activity (although paid, interactive online advice may still qualify).
- Incidental advice from other professionals – legal, patent or tax professionals providing financial product advice as part of their authorised professional services are exempt.
- Free advice incidental to sales – advice offered free of charge by financial product sellers in connection with product sales is not considered a separate advisory business.
- Advice by specialised institutions – services provided by licensed entities such as collective investment evaluators, bond rating agencies or credit rating agencies are excluded.

### Exemptions Under the Special Act on Support for Financial Innovation

The Special Act on Support for Financial Innovation facilitates the development of new financial services by granting temporary regulatory exemptions to designated innovative financial services for a designated period. Once designated, such services may be exempt from certain licensing, registration, govern-

ance, operational, prudential and supervisory requirements.

However, exemptions are not granted where the activity is likely to cause irreparable harm to consumers or pose a significant risk to financial stability. Even when exempted, innovative service providers must comply with conditions imposed by the FSC, including consumer protection and data privacy obligations under the FCPA. After the designated period ends, the provider becomes fully subject to existing financial regulations.

Examples of designated innovative services include MyData and open banking services, peer-to-peer (P2P) financing, crowdfunding, simplified payment and remittance services, AI-based financial product recommendations, and digital asset trading and custody services.

### Other Statutory Exemptions

Other sector-specific statutes provide additional exemptions. For example, under the Act on Registration of Credit Business and Protection of Finance Users, certain types of lending are not considered money-lending businesses and therefore fall outside its scope. Such cases include loans provided by employers to their employees, loans from labour unions to their members, loans extended by government entities, and foreign currency loans made by licensed financial institutions to non-resident foreign nationals or foreign corporations.

## 2.3 Crypto-Assets Regulatory Framework

In Korea, crypto-assets are legally referred to as “virtual assets” (*Gasangjasan*) under relevant laws. Their regulation is primarily governed by the Act on Reporting and Using Specified Financial Transaction Information (the “Specified Financial Information Act”) and the Virtual Asset User Protection Act, which together form the first phase of Korea’s crypto regulatory framework.

The Specified Financial Information Act imposes key obligations on virtual asset service providers (VASPs), including licensing and registration, customer due diligence (KYC) and anti-money laundering (AML)

requirements, aimed at ensuring transparency and traceability of virtual asset transactions.

A second phase of legislation is currently under development, including the proposed Digital Asset Basic Act, which seeks to establish a comprehensive framework covering the issuance, distribution and regulation of crypto-asset businesses across the market.

### Exchange and Service Provider Regulation

Under Korean law, activities such as the sale, exchange, custody, transfer, brokerage or intermediation of virtual assets are considered regulated VASP activities that require prior registration with the financial authorities.

Major domestic virtual asset exchanges and service providers must obtain regulatory acceptance before commencing operations. They are required to comply with strict asset segregation and cybersecurity standards, including the obligation to hold at least 80% of customer assets in cold wallets. Exchanges must also maintain real-time monitoring systems to detect and prevent unfair trading activities, and must comply with enhanced reporting and disclosure rules.

VASPs are subject to the same AML and compliance obligations as traditional financial institutions under the Specified Financial Information Act.

### Investor Protection

The Virtual Asset User Protection Act came into force in 2024 and introduced a set of safeguards to protect user assets and market integrity. It requires VASPs to segregate customer deposits and crypto-assets, hold equivalent amounts of virtual assets on behalf of users, and maintain insurance coverage against security incidents.

The law also prohibits insider trading, market manipulation and fraudulent trading, thereby establishing a framework for fair and orderly market conduct in Korea’s virtual asset sector.

### Institutional Investors and ICO Regulation

Currently, corporate and institutional investors are prohibited from trading on KRW-denominated virtual

asset exchanges, although they may transact on coin market exchanges (crypto-to-crypto platforms).

In February 2025, the FSC announced plans to gradually allow institutional participation in the virtual asset market. At present, only certain entities may engage in KRW-denominated trading, such as law enforcement agencies, designated donation organisations, educational corporations and exchanges (limited to sell-side withdrawal fee transactions). From 2026, the FSC plans to extend such access to listed companies and corporates registered as professional investors.

There is currently no statute explicitly banning initial coin offerings (ICOs); however, they have effectively been suspended since the FSC's administrative guidance issued in December 2017.

No dedicated legal framework yet exists for stablecoins, but new legislation governing their issuance and reserve management is under active discussion.

### Future Legislative Developments

Multiple second-phase crypto and stablecoin bills have been introduced in the National Assembly, with substantive debate expected to take place in the coming year.

By 2026, legislative reforms are anticipated to include amendments to the Capital Markets Act to permit the introduction of spot Bitcoin ETFs, as well as comprehensive Phase 2 virtual asset legislation covering stablecoins, token issuance and expanded business activities in the crypto sector.

## 3. Regulators

### 3.1 Primary Financial Services Regulators

The primary financial services regulators in Korea and their respective roles and jurisdictions are as follows. Together, these institutions form a multi-layered regulatory and supervisory framework that balances policy formulation, market conduct oversight and consumer protection.

### Financial Services Commission

The FSC is the highest administrative authority responsible for financial policy and oversight in Korea. It formulates and implements comprehensive financial policies and oversees the financial industry as a whole.

The FSC establishes and enforces major supervisory policies concerning the prudential regulation of financial institutions, and deliberates and decides on licensing and approval matters such as the establishment, merger and suspension of financial companies. It also handles legislative and regulatory functions, including the enactment, amendment and repeal of financial laws and regulations, as well as financial consumer protection and capital market supervision.

The FSC has broad supervisory jurisdiction across all sectors, including banking, securities, insurance, savings banks and credit finance, and holds the authority to direct and supervise the Financial Supervisory Service (FSS) and other subordinate agencies responsible for enforcement.

### Financial Supervisory Service

The FSS is a specialised supervisory and inspection agency operating under the FSC. It serves as the FSC's executive arm for implementing supervisory policies, conducting examinations and investigations, and imposing sanctions on financial institutions.

Its core responsibilities include prudential supervision of financial institutions, investigation and enforcement against illegal or unfair financial practices, and the protection of financial consumers.

The FSS has supervisory authority across all financial sectors (banking, insurance and securities) and is tasked with monitoring compliance with sales and advertising regulations, detecting unfair trading practices and safeguarding consumer interests.

### Korea Exchange (KRX)

The KRX operates the securities, bond and derivatives markets in Korea. It supervises listed companies and trading processes in the markets, prevents market manipulation, and carries out investor protection activities. The Exchange may impose administrative

sanctions such as delisting, trading suspension or designation of investment warning issues to maintain orderly market operations.

Companies are listed in accordance with the KRX's listing standards. While the KRX does not guarantee the value of listed companies, it conducts listing reviews to ensure fair and transparent trading. Through its Market Surveillance Committee, the KRX also performs self-regulatory functions, such as detecting abnormal trading activities and preventing unfair trading practices.

The KRX has direct disciplinary authority over its member firms but not over non-member foreign entities. However, if abnormal or suspicious transactions involving non-members are detected in the market, the KRX investigates the matter and refers it to the FSS for further action.

## Bank of Korea (BOK)

The BOK is Korea's central bank and plays a pivotal role in monetary policy and financial stability. It is responsible for issuing currency, managing foreign reserves and conducting treasury operations. The BOK also acts as a lender of last resort and provides liquidity support during times of financial stress.

Although its primary function is monetary policy rather than financial supervision, the BOK maintains limited supervisory authority. In connection with monetary and credit policy, it may conduct joint inspections with the FSS or request data from financial institutions when required.

## 3.2 Rules and Guidance

Key sources of rules and guidance for Korea's financial services regulators can be found on the websites of the FSC, the FSS and the KRX.

Soft law plays a significant role in the Korean financial regulatory framework. Major forms include administrative guidance, supervisory advice, press releases and guidelines issued by the FSC and the FSS. Although these are generally not legally binding, they exert substantial influence on financial institutions and the market, and are widely treated as de facto compliance obligations. In recent years, guidance on ESG

management, financial consumer protection, fintech innovation and virtual assets has become particularly important as part of this soft law landscape.

The FSC's rules, notifications, operational guidelines and administrative interpretations are publicly accessible on its website ([www.fsc.go.kr](http://www.fsc.go.kr)), which also provides a consolidated list of Korea's financial-related statutes and subordinate regulations.

Similarly, the FSS website ([www.fss.or.kr](http://www.fss.or.kr)) provides access to supervisory regulations, detailed guidance issued by the Governor of the FSS, interpretive cases, and announcements on the enactment and amendment of financial laws and regulations.

As for market-level regulation, the KRX website ([www.krx.co.kr](http://www.krx.co.kr)) contains the detailed business rules and enforcement provisions governing market operations and disciplinary measures.

## 4. Areas of Regulatory Focus

### 4.1 Capital Adequacy

Korea has implemented the Basel III framework in phases since 1 December 2013, with all components fully in effect from 2020. The Basel standards are incorporated into the Regulation on Supervision of Banking Business and its Detailed Enforcement Rules.

#### Capital Requirements

Banks are required to maintain minimum capital ratios according to the quality of capital: a Common Equity Tier 1 (CET1) ratio of at least 4.5%, a Tier 1 ratio of at least 6%, and a Total Capital ratio of at least 8%. These requirements were phased in from December 2013 and became fully effective in 2015. Failure to satisfy the minimum ratios may trigger the imposition of prompt corrective measures by the FSC or the FSS.

In addition, banks must accumulate supplementary capital buffers: a Capital Conservation Buffer (2.5%), a Counter-Cyclical Buffer (currently 1%) and a D-SIB Buffer (1% for banks designated as domestically systemically important). These buffers were phased in from January 2016 and fully implemented in 2019. Breach of the buffer requirements results in graduated

restrictions on dividend payments, share buybacks and other capital distributions.

### Liquidity Coverage Ratio (LCR)

To manage short-term liquidity risk, banks must maintain a ratio of high-quality liquid assets (such as cash and government securities) to projected net cash outflows over 30 days of at least 100%. The LCR was introduced at 80% in 2015 and raised by 5% annually until reaching 100% in 2019.

### Net Stable Funding Ratio

To address long-term liquidity risk, banks are required to maintain an available stable funding ratio of at least 100% relative to their required stable funding. This requirement has been effective since January 2018.

### Leverage Ratio

To curb excessive leverage, banks must maintain a minimum leverage ratio of 3%, calculated as Tier 1 capital divided by total on- and off-balance-sheet exposures (without risk-weighting).

### Other Reforms

Korean regulators also implemented the “final Basel III reforms” ahead of schedule, introducing revised methodologies for credit risk and capital calculation from the second quarter of 2020, as reflected in the Detailed Regulations on Supervision of Banking Business.

Under the Pillar 2 framework, Korea operates an Internal Capital Adequacy Assessment Process as part of the supervisory review, through which regulators may impose additional capital requirements based on risk assessment results. The authorities have also considered introducing a “stress capital buffer” requiring additional capital based on stress-test outcomes. Although this was initially expected to be implemented by the end of 2024, its introduction has been postponed to support financial sector resilience, and further deferral is anticipated given the current global conditions.

The Basel Committee on Banking Supervision recommended implementing the large exposure framework by January 2019, but Korea initially applied the regime through administrative guidance from March 2019 fol-

lowing consultation with the banking sector. In January 2024, a formal standard was adopted, providing a slightly relaxed version of the Basel standard to reflect domestic circumstances. Under the rule, each bank must limit its aggregate exposure to a single counterparty or connected group, including credit extensions, investments and guarantees, to within 25% of its Tier 1 capital.

### 4.2 Settlement

Korea has not yet implemented a T+1 settlement cycle and currently maintains a T+2 settlement system. While discussions briefly arose in Korea when other countries decided to transition to a T+1 settlement regime, no formal decision or implementation plan followed at that time. However, on 10 October 2025, the Korea Securities Depository (KSD) and the KRX announced that they had initiated discussions on transitioning to a T+1 settlement cycle, jointly establishing a working group to explore the transition as part of their preliminary preparations.

The working group includes representatives from the Korea Financial Investment Association (KOFIA), an industry association of financial investment companies, as well as major securities firms and other market participants. The KSD and the KRX intend to discuss the potential implementation roadmap within this working group and report the findings to the financial authorities. However, no specific timeline for the transition has been confirmed to date.

### 4.3 ESG

#### ESG Initiatives

Korea’s financial authorities have introduced several regulatory initiatives to promote ESG-related transparency and responsible investment, primarily through disclosure requirements and the Stewardship Code.

#### *Sustainability-related disclosure regime Corporate Governance Report*

The Corporate Governance Report Disclosure System requires listed companies to disclose their compliance with the core principles of corporate governance, and to explain the reasons where not in compliance. The purpose of the system is to enhance voluntary improvements in management transparency.

Since its introduction, the disclosure requirement has been expanded in stages: it initially applied in 2019 to KOSPI-listed companies with total assets exceeding KRW2 trillion, then to those with assets over KRW1 trillion in 2022, over KRW500 billion in 2024, and from 2026 it will apply to all KOSPI-listed companies.

The KRX may designate a company that fails to meet filing deadlines, makes false or incomplete disclosures, or fails to correct inaccurate information as an “inadequate disclosure entity” or impose penalty points. Accumulated penalties may lead to trading suspension or designation as a management issue.

The KRX also issues detailed Corporate Governance Report Guidelines, which set out ten Core Principles and 28 Detailed Principles relating to:

- shareholders’ rights and equitable treatment;
- the board of directors’ supervision, independence and operation, including committees and outside directors; and
- internal and external audit functions.

### *Sustainability disclosure*

Korea does not yet impose a mandatory sustainability disclosure requirement; such disclosure remains voluntary. The FSC has previously indicated plans to introduce mandatory sustainability reporting in phases but has since deferred the timeline.

The Korea Sustainability Standards Board, established under the Korea Accounting Standards Board (KASB), is currently reviewing a draft national sustainability disclosure standard. The KASB published an exposure draft in April 2024 to solicit comments from domestic and international stakeholders, and is conducting further review for implementation.

While the FSC recognises the growing global momentum, such as the EU’s Corporate Sustainability Reporting Directive (CSRD), it has noted that major jurisdictions’ frameworks remain in flux. Accordingly, the FSC has emphasised the need to develop a tailored roadmap that reflects Korea’s industrial characteristics, while closely monitoring international developments.

### *Stewardship Code*

Korea introduced its own version of the Stewardship Code in December 2016, titled “The Principles on Fiduciary Duty of Institutional Investors”. The Korean Stewardship Code aims to enhance institutional investors’ fiduciary responsibilities in ESG-related matters. As of November 2025, 248 institutional investors had voluntarily adopted the Korean Stewardship Code.

### *Greenwashing and ESG Lending Guidelines*

Korea does not currently impose direct legal sanctions or enforcement measures against greenwashing. However, the authorities have established guidance for financial institutions to prevent greenwashing in the credit-granting process.

The government has developed a Korean Green Taxonomy (K-Taxonomy), which defines the criteria for environmentally sustainable economic activities. Building on this, the FSC recently adopted the Guidelines on Green Loans, which provide standards for determining whether loans granted by financial institutions qualify as green financing. These guidelines include criteria for verifying the use of proceeds, assessing alignment with the K-Taxonomy, and establishing internal processes to prevent greenwashing.

### **4.4 AI**

Korean financial institutions have historically faced restrictions on using external internet connections, which limited the adoption of generative AI tools. To address this, in August 2024, the FSC introduced a regulatory sandbox programme allowing financial institutions to utilise generative AI within controlled conditions. Under this scheme, institutions may process pseudonymised personal credit information through generative AI systems subject to specific safeguards.

According to the FSC, following sufficient accumulation of pilot cases and verification of outcomes within the sandbox, the authority plans to institutionalise the regulatory exemptions for generative AI use on a permanent basis in the second half of 2025.

In addition, in December 2024, the FSC announced its “Support Plan for Generative AI Utilisation in the Financial Sector”, which outlines a two-track frame-

work to promote the safe and effective adoption of AI technologies in financial services. The plan consists of the following key components.

- Establishment of a financial AI platform – the FSC plans to launch a sector-wide AI platform that will curate and provide open-source AI models optimised for financial applications. The platform will allow financial institutions to install such models and datasets directly within their internal networks.
- Provision of sector-specific datasets – the initiative seeks to build a shared data repository covering financial laws and guidelines, industry press releases and educational materials from the Korea Institute of Finance Training, as well as public-interest data such as financial fraud prevention, credit assessment and cybersecurity datasets. The platform will serve as the central access point for these resources.
- Revision of Financial AI Guidelines – existing AI guidance documents will be consolidated into a single Financial AI Guideline. This revised guideline will articulate the overarching principles governing AI use in the financial sector, including security verification standards for generative AI and detailed explanations and examples illustrating the application of those principles.

## 4.5 Fintech

Korea's financial regulators have generally adopted a supportive and facilitative approach toward fintech innovation. In 2019, the Special Act on Support for Financial Innovation came into force, providing the legal foundation for the financial regulatory sandbox. Under this framework, fintech companies may apply to the FSC for designation as an innovative financial service.

The FSC evaluates applications based on the innovation of the proposed service, its potential to enhance consumer convenience, the applicant's operational capability, and the adequacy of consumer protection and risk management measures. Once designated, the applicant may conduct the approved innovative financial service without obtaining a separate financial business licence, and relevant regulatory exemptions are granted within the approved scope.

Beyond the sandbox, Korean regulators have emphasised co-operation between financial institutions and fintech firms, and have announced various initiatives to promote the global expansion and competitiveness of domestic fintech companies.

Separately, the BOK has been conducting research and development on a central bank digital currency (CBDC) since 2021, and announced detailed plans for a "CBDC Use-Case Test," in November 2023, together with the FSC and the FSS. The project comprises two main components:

- a real-world transaction test focusing on digital voucher functions for retail users; and
- technical experiments in a virtual environment simulating the issuance and circulation of new types of financial instruments.

Pursuant to this plan, the BOK conducted pilot operations between April and June 2025, including the opening of deposit token e-wallets and the execution of real transactions, marking a significant step in assessing the practical viability of a Korean CBDC.

## 4.6 Retail Banking and Vulnerable Customers

The protection of financial consumers in Korea is governed primarily by the Financial Consumer Protection Act, but this statute does not contain specific provisions dedicated to vulnerable customer groups such as the elderly. Instead, regulatory guidance has been developed by the financial authorities to ensure their protection in practice.

Under the Model Standards for Financial Consumer Protection, issued by the FSS, financial institutions are required to establish their own internal criteria for identifying senior customers and to take appropriate measures to protect them throughout the entire financial product life cycle, including product design, development, sales and post-sale management. The guidelines also call for strengthened internal controls and employee training to prevent mis-selling and other consumer protection issues involving elderly customers.

In the area of capital markets, the Capital Markets Act imposes additional obligations when selling complex

financial instruments to investors aged 65 or older, such as structured securities, derivatives-linked funds and high-risk products. Financial investment business entities must record the sales process and provide a mandatory cooling-off period during which senior investors may withdraw their subscription.

Furthermore, the Korea Financial Investment Association has established the Standard Rules for Investment Recommendations, which include best practice guidelines for the protection of elderly investors. These rules encourage:

- the designation of dedicated counters and staff for senior investors;
- the identification of “products requiring caution” prior to investment solicitation; and
- the adoption of internal rules and training programmes aimed at enhancing internal controls related to senior investor protection.

## 4.7 Shadow Banking

Korea does not have a single, unified legal framework or regulatory regime governing financial intermediation activities conducted by non-bank financial institutions. Instead, sector-specific regulations apply to each category of non-bank entity (such as insurance companies, mutual savings banks, credit finance companies and securities firms).

Traditionally, the financial authorities’ oversight of the non-bank sector has focused on institution-specific prudential regulation and supervision. However, in 2019, the FSC emphasised the need for a macroprudential, system-wide risk management policy covering the non-bank financial sector. At that time, the FSC introduced policy measures designed to identify and mitigate potential vulnerabilities across non-bank financial institutions, and reflected such measures in the relevant supervisory regulations.

Since then, the Korean financial regulators have issued no new official proposals, policies or guidelines specifically addressing shadow banking.

## 5. Authorisation

### 5.1 Process

Korea’s financial licensing system is based on the principle of sector-specific authorisation (“industry-based licensing”). This means that each financial sector – such as banking, insurance, securities and credit finance – is governed by its own statute, and the authorisation or registration procedures differ depending on the relevant law.

To engage in financial business in Korea, an entity must obtain a licence or registration from the FSC or the FSS, with the FSC typically serving as the primary licensing authority. When authorisation is required, the FSC reviews key criteria before granting approval, including capital adequacy, the fitness of major shareholders, qualifications of directors and officers, and the soundness and feasibility of the business plan.

Even after authorisation, financial institutions are subject to various post-licensing obligations, such as approvals or notifications for changes in business scope, prior approval for changes in major shareholders, and notifications for the establishment of branches. Supervisory authorities also conduct ongoing inspections and impose sanctions, where necessary, to ensure continued compliance with licensing requirements.

In summary, Korea’s financial authorisation framework operates under an FSC-centred pre-approval and post-supervision system established by sector-specific laws. This structure functions as a key mechanism to safeguard the soundness and stability of the financial market.

### 5.2 Timelines and Fees

Korea’s financial authorisation process is based on a sector-specific licensing system. The detailed requirements vary by industry, but the general procedure can be summarised as follows.

- Preliminary review and consultation – selection of business sector, review of business model and capital requirements, and pre-meetings with the FSC/FSS. Informal pre-consultations available.

- Legal and regulatory design – design of governance, internal control, consumer protection and IT/security systems.
- Capital and shareholder confirmation – confirmation of major shareholders’ eligibility, capital injection plan and shareholding structure.
- Staffing and organisation – appointment of directors, compliance and risk officers, IT and customer service teams. Review of restrictions on dual positions.
- Business plan and manuals – preparation of financial projections, product/channel strategies, internal control and complaint-handling manuals. Typically includes a three to five-year plan.
- Application submission – filing of application and supporting documents (articles of incorporation, shareholder list, proof of capital, etc). Submitted to the FSS.
- FSS document review – review of formal and substantive requirements, including iterative Q&A rounds for supplementation. Takes approximately two to three months.
- Eligibility review – assessment of major shareholders and executives (criminal/sanction history, financial soundness, conflicts of interest). Conducted in parallel with document review.
- On-site and IT inspection – verification of IT security, outsourcing arrangements and consumer protection systems. Common for banks and e-finance businesses.
- FSC approval – final deliberation and resolution by the FSC, possibly with conditions.
- Final approval (for two-stage sectors) – following preliminary approval, capital payment, system setup and the fulfilment of conditions. Applies to banks and insurers.
- Pre-operation verification – confirmation of capital payment, system stability and approval of customer terms and conditions. Conducted before business commencement.
- Ongoing supervision – post-authorisation obligations such as change approvals, inspections, sanctions, disclosures and reporting.

In practice, the time required for authorisation varies depending on the type of financial business and the pace of internal review by supervisory authorities. For banking licences, the process may take more than a

year, while for other financial sectors, it is advisable to allow at least six months to one year for completion.

Application fees also vary by sector, generally ranging from KRW3 million to KRW50 million. Applicants should confirm the exact amount applicable under the relevant sector-specific law before filing.

### 5.3 Direct/Personal Regulation

Korea recently amended the Act on Corporate Governance of Financial Companies to introduce the Executive Responsibility Mapping System, which took effect on 3 July 2024. The system is designed to clarify the scope of duties and responsibilities of senior executives within financial institutions.

Under this regime, major financial institutions such as banks and financial holding companies must establish and submit their responsibility maps to the financial regulators by January 2026, followed by large securities firms and insurers by July 2026, and other financial companies by 2027. Several firms are currently participating in pilot programmes to implement this system. The new framework is regarded as a key mechanism to strengthen internal controls and enhance management accountability by clearly delineating executive responsibilities.

While the Corporate Governance Act also specifies disqualification criteria for executives of financial institutions, Korea has not adopted a comprehensive “fit and proper” approval system comparable to that in some foreign jurisdictions. As such, financial regulators do not generally require prior approval for the appointment, replacement or continued tenure of senior officers, although they retain authority to review qualifications and impose sanctions in cases of misconduct or regulatory breaches.

## 6. Looking Forward

### 6.1 Financial Services Reforms

In 2026, key reforms in Korea’s financial services sector are expected to focus on strengthening consumer protection, expanding the scope of unfair trading regulations, and enhancing internal control frameworks.

With the implementation of the Executive Responsibility Mapping System, the importance of internal governance and accountability within financial institutions is anticipated to increase further. At the same time, the Korean government and financial regulators are prioritising capital market revitalisation through stronger measures against unfair trading and improved safeguards for financial consumers.

These policy directions – centred on transparency, accountability and market integrity – are expected to remain the core themes shaping Korea’s financial regulatory environment in 2026.

In addition to these trends, structural reforms are expected in Korea’s foreign exchange market, reflecting the government’s broader push toward global financial integration and market modernisation. One major initiative is the extension of onshore foreign exchange market trading hours to a 24/7 operation by the end of 2026. This reform involves system upgrades and industry consultations to enable around-the-clock KRW trading, enhancing Korea’s connection with global currency markets.

Another key development is the planned introduction of an “Offshore KRW Settlement Institution” framework, which will allow authorised foreign financial institutions to transact, hold and raise KRW through Korea-based KRW accounts. The plan includes establishing a dedicated settlement network to support 24-hour real-time gross settlement, facilitating smooth overnight and cross-border KRW payments and settlements.

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