

## FINANCIAL REGULATORY INNOVATION COMMITTEE DISCUSSES MEASURES TO IMPROVE CAPITAL MARKET REGULATIONS

The financial regulatory innovation committee (FRIC) held its 6<sup>th</sup> meeting on January 19 and discussed measures to improve regulations in capital markets. The measures include (a) improving foreign investors' access to capital markets through abolishment of the foreign investors' registration system and phased expansion of English disclosure requirement to boost the global dynamism in domestic capital markets and (b) establishing a regulatory framework on the issuance and distribution of security tokens to permit security token offerings (STOs) and to promote development of a safe secondary market. Prior to today's meeting, authorities held a private sector advisory working group meeting on January 10 and listened to opinions related to these agendas.

### **SUMMARY OF REMARKS BY FSC CHAIRMAN KIM JOO-HYUN**

Last year, efforts to improve capital market regulations focused on system improvement to enhance the rights and interests of general shareholders, whereas this year, authorities will focus on making Korea's capital market regulations more consistent with those found in advanced markets overseas and facilitating capital markets to lead innovation in the real economy sector amid a rapidly changing environment. In this regard, the purpose of agenda items being deliberated today is (a) to break away from familiar but outdated regulatory framework that is no longer suitable for far more globalized capital markets that we currently have, and (b) to embrace newly emerging technologies into our capital markets and utilize them as an impetus for innovation.

The first item, the measures to improve foreign investors' access to domestic capital markets, intends to (a) abolish the foreign investor registration system introduced in 1992 and instead allow foreign investors to more freely invest in our capital markets after identification with personal passport numbers and corporate legal entity identifiers (LEIs), (b) increase the availability of OTC transactions for foreign investors and (c) gradually expand the English disclosure requirement on material information for listed firms with assets amounting to KRW10 trillion or more from next year to bolster information access for global investors. These measures are expected to help create an investment environment that is more congruent with global standards, which will attract more foreign investors and bolster the reputation of Korea's capital markets globally.

Second item, the measures to establish a regulatory system on the offering and distribution of security tokens, intends to (a) allow securities digitized with distributed ledger technologies to safely and legally protect investors' property right on security tokens, (b) to permit immaterialization of securities into security tokens and issuance of security tokens without intermediation of a securities firm when certain conditions are

met and (c) to institutionalize OTC (over-the-counter) platforms to facilitate safe transactions of security tokens in the OTC markets that already established investor safeguards. Through these measures, domestic capital markets are expected to more proactively embrace futuristic technological changes such as digital transformation, thereby promoting new industries creation and market building driven by securitization of diverse assets, which will help emergence of innovations across the economy through capital markets.

Nearly doing away with the three-decades-old scheme and numerous customary practices attached to it and replacing it with a new regulatory system may cause inconvenience somewhat and create unforeseeable risk. Authorities will adequately take into account what has been discussed at today's meeting and continue to actively communicate with market participants once again during the amendment process for specific regulations.

## **DETAILS OF AGENDA ITEMS**

### **I. IMPROVING FOREIGN INVESTORS' ACCESS TO DOMESTIC CAPITAL MARKETS**

**(BACKGROUND)** Aim to bolster the attractiveness of domestic capital markets through creation of investment environment more congruent with global standards

**(KEY DETAILS)** Draw up measures to bolster foreign investors' convenience in investing in domestic capital markets through abolishment of the foreign investor registration system and phased expansion of English disclosure requirement, etc.

- a) **(FOREIGN INVESTOR REGISTRATION)** Allow foreign investors to invest in domestic capital markets without having to go through a prior registration process, using legal entity identifiers (LEIs)<sup>1</sup> for corporate investors and passport numbers for individual investors for identification
- b) **(OMNIBUS ACCOUNT FOR FOREIGN INVESTORS)<sup>2</sup>** Abolish the investment reporting requirement for completed transactions instantly at the moment of settlement (T+2), and instead request relevant investment information only when deemed necessary for market monitoring or taxation purposes
- c) **(OTC TRADING FOR FOREIGN INVESTORS)** Among the types of over-the-counter (OTC) transactions that are currently subject to the prior examination rule, select those that have low necessity of examination but high demand to allow ex post reporting for them and significantly reduce their reporting burdens
- d) **(ENGLISH DISCLOSURE REQUIREMENT)** Make English disclosures on material information mandatory from 2024, starting with large listed firms that have KRW10 trillion or more in assets

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<sup>1</sup> LEI is a standardized ID for corporate entities, which was Introduced by G-20 in 2011.

<sup>2</sup> Omnibus account opened under the name of a global fund manager set up to process multiple orders and payments for multiple investors' securities transactions from a single account

## II. SETTING UP REGULATORY FRAMEWORK ON SECURITY TOKEN OFFERING & DISTRIBUTION

**(BACKGROUND)** Need to embrace into a regulatory framework distributed ledger technologies and the demand for security token offering and distribution that have been rapidly growing amid digital transformation<sup>3</sup>

**(KEY DETAILS)** Permit STOs, which have not been allowed under the current legal system, and establish a safe distribution system for security tokens

a) **(DETERMINING A FINANCIAL SECURITY)** Provide principles<sup>4</sup> for determining if an investment is qualified as a security, to enhance the foreseeability on the application of the Financial Investment Services and Capital Markets Act (FSCMA) to security tokens, a new type of securities issuance

b) **(ESTABLISHING REGULATORY SYSTEM ON SECURITY TOKENS)** Permit issuance and distribution of security tokens

- Embrace security tokens as digitalized securities under the Act on Electronic Registration of Stocks and Bonds<sup>5</sup>
- Allow issuance of security tokens without an intermediating securities firm when certain conditions are met<sup>6</sup>
- Institutionalize OTC platforms for investment contract securities and beneficiary certificates<sup>7</sup>

### FURTHER PLAN

The agenda items discussed at today's meeting will be announced more in detail, which will actively take into account opinions raised at today's meeting, in successive order. The measures to improve foreign investors' access to domestic capital markets will be unveiled on January 25, while the measures to establish a regulatory framework on the issuance and distribution of security tokens is tentatively scheduled to be released in early February.

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<sup>3</sup> Government's policy agenda #35: Establishing infrastructure and regulatory system on digital assets

<sup>4</sup> Same principles introduced for fractional investment ([press release, May. 2, 2022](#)) applied to security tokens.

<sup>5</sup> Recognize distributed ledgers recorded on account registers to grant legal force such as the presumption of right under the Act on Electronic Registration of Stocks and Bonds.

<sup>6</sup> Introduce issuers' account management institutions under the Act on Electronic Registration of Stocks and Bonds.

<sup>7</sup> Newly create OTC brokerage businesses that handle investment contract securities and beneficiary certificates under the FSCMA.