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Legal Update and Outlook

Comprehensive Reform in South Korea of the Digital Assets Regulation under President Lee Jae-Myung

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Executive Summary

South Korea is preparing to make significant changes to its digital asset regulatory framework including virtual assets under the new leadership of President Lee Jae-Myung. At present, with the Democratic Party having the majority at the National Assembly, he has the legislative support and increasing political momentum allowing the new administration to pursue a dual-track strategy aimed towards modernizing the oversight of cryptocurrency and other digital assets. This strategy combines the introduction of a unified legal framework through the proposed Digital Asset Basic Act ("DABA") at the National Assembly with a suite of regulatory and financial policy initiatives designed to promote institutional engagement and investor confidence in the market.

Key features to the DABA include:

• A Broad Definition of "Digital Assets"

As part of the comprehensive overarching nature of the proposed DABA, "digital assets" is defined as those assets with economic value based on digital ledgers broken down into "general digital assets" such as tokens and cryptocurrency and "stablecoins" linked to assets and denominated in Korean won.

• Unified Licensing and Oversight

All virtual asset service providers ("VASPs") must be licensed the Financial Services Commission ("FSC") and comply with the minimum capital requirements, cybersecurity criteria and protocols, and anti-money laundering standards. A new statutory self-regulatory organization will be established to conduct token listing reviews and monitoring of the digital assets markets under the oversight of the FSC, the FSS conducts day-to-day supervision of virtual asset markets.

• Korean Won-Denominated Stablecoins

Licensed private issuers may offer fiat-backed stablecoins under strict reserves, audit, and custody rules. Oversight by the FSS and the Bank of Korea is aimed to ensure financial stability and addressing monetary policy concerns.

• Corporate Crypto Holdings

The FSC plans to legalize spot cryptocurrency exchange-traded funds ("ETFs") and ease restrictions on corporate cryptocurrency holdings.

Once DABA is passed into law, the DABA is expected to make South Korea a forerunner jurisdiction with one of the world's most comprehensive regulatory

framework and laws in place for digital assets.

The Digital Asset Basic Act: Moving towards a Cohesive Regulatory Regime

The legislative bill for the DABA was introduced to the National Assembly in June 2025 which marks a significant legislative initiative for South Korea to date in consolidating disparate digital asset regulations into a unified statutory framework. In addition to the key provisions stated above, the proposed DABA introduces a comprehensive licensing regime for all VASPs to include exchanges, custodians, brokers, and token issuers with the establishment of minimum capital thresholds (i.e., KRW 500 million for exchanges) and strict requirements concerning operations, cybersecurity, and anti-money laundering compliance.

The DABA legislation introduces a new regulatory authority with the creation of a self-regulatory organization, provisionally named the Korea Digital Asset Industry Association. Under the supervision of the FSC and the FSS, the Korea Digital Asset Industry Association will oversee token listing reviews, disclosure obligations, and market surveillance. The establishment of this new regulatory body is expected to supplant existing exchange-led listing processes with a centralized and standardized review mechanism for the industry.

The DABA is anticipated to be enacted by the end of 2025, with implementation scheduled in 2026. Industry participants are strongly encouraged to proactively assess, prepare for and adapt their governance, custody, and compliance systems in anticipation of the new regulatory requirements and procedures.

KRW-Denominated Stablecoins: A Domestic Alternative to USD-Pegged Stablecoins

The DABA introduces a regulatory framework for KRW-denominated stablecoins issued by licensed private entities. Under the proposed regime, issuers must satisfy strict eligibility criteria, including a minimum paid-in capital of KRW 500 million, full reserve backing in fiat-equivalent assets held in bankruptcy-remote accounts, and enhanced custodial and operational safeguards. Periodic third-party audits will be required to verify full collateralization.

Stablecoin issuers will be classified as a distinct subcategory of VASPs, subject to primary oversight by the FSC. The Bank of Korea is also expected to assume a supervisory role in matters related to systemic risk and monetary policy. A dual-agency supervisory structure is currently under development. The new initiative is intended to reduce domestic reliance on USD-pegged stablecoins, enhance liquidity across KRW trading pairs, and support the integration of stablecoins into domestic payment systems and decentralized finance (“DeFi”) platforms.

Taxation Policy and Investor Incentives: Deferred Compliance and Coordinated Regulation

In recognition of the need for regulatory sequencing, the National Assembly passed a bipartisan amendment to the Income Tax Act in December 2024 wherein a deferment of the imposition of capital gains tax on digital assets has been made to January 2027. The amendment also substantially increases the annual tax-exemption threshold for gains on virtual assets, raising it from KRW 2.5 million to KRW 50 million, which is the same threshold applied to listed equity investments. Gains exceeding this amount will be subject to a flat tax rate of twenty percent (20%) (twenty-two percent (22%) inclusive of local surtaxes). Investors will be permitted to offset capital gains with losses incurred within the same tax year, enabling for more efficient tax planning and reducing volatility in after-tax returns.

These changes are intended to promote parity between traditional and digital asset classes, support capital formation, and incentivize long-term investments. During the interim tax-exemption period, both domestic and foreign investors are expected to increase their exposure to South Korean digital asset markets, enhanced with regulatory clarity and to address evolving product offerings. Market participants are advised to implement internal systems for the calculation of gains and cost basis tracking in preparation for the commencement of tax obligations in 2027.

Institutional Onboarding: ETFs, Corporate Crypto Holdings, and Market Infrastructure

In order to support broader institutional engagement, the FSC seeks to introduce necessary amendments to the Act on Capital Market and Financial Investment Business commonly known as the Capital Markets Act that would permit the introduction of spot cryptocurrency ETFs. A regulatory roadmap released in mid-2025 sets out the framework for ETF approval, including rules on asset custody, valuation methodology, and investor protection. If enacted as scheduled, ETFs referencing Bitcoin, Ethereum, or diversified crypto indices could begin trading on the Korea Exchange towards the end of 2025 or early 2026.

These instruments are expected to provide access, regulated exposure for pensions, mutual funds, and retail investors through licensed brokerage platforms. ETF sponsors will be subject to strict requirements, including transparent index methodologies, real-time net asset value reporting, and full auditability. This initiative aligns with global developments and underscores South Korea's intent to integrate digital assets into the institutional financial system.

Concurrently, the FSC continues to review longstanding restrictions on corporate cryptocurrency holdings. Since 2017, the South Korean financial regulators have maintained policy guidance that, while not codified in the laws, has effectively discouraged corporations from holding or transacting in virtual assets. However, in early 2025, the Virtual Asset Task Force under the FSC proposed a phased relaxation of these restrictions. Under the proposed framework, corporate entities may be permitted to open KYC-verified accounts at licensed exchanges and transact within defined reporting and exposure limits. This change could enable treasury-level cryptocurrency allocations in industries such as information technology, logistics, and entertainment, where blockchain adoption is already underway.

Security Token Offerings and the Tokenization of Real-World Assets

As part of its broader capital markets modernization agenda, the South Korean government seeks to prioritize the tokenization of real-world assets. Security Token Offerings ("STOs") are expected to emerge as a key growth area, utilizing distributed ledger technology ("DLT") to fractionalize traditional assets such as real estate, bonds, fine art, and intellectual property as well as to facilitate trading on regulated digital platforms.
Regulatory reforms are currently underway through proposed amendments to the Act on the Issuance and Circulation of Electronic Securities and related financial legislation. These reforms aim to legally recognize DLT as a valid medium for the issuance and recording of securities transactions. Once enacted, tokenized securities will hold the same legal status as existing dematerialized securities, ensuring alignment with established processes for clearing and settlement, corporate actions, and investor protections.

In a major step forward, the FSC has granted South Korea's first Alternative Trading System ("ATS") license to Nextrade to pave the way for specialized platforms dedicated to the trading of tokenized assets. At the same time, the government will implement regulatory sandbox initiatives, including those involving fractionalized real estate investment through beneficiary certificates into permanent licensing regimes. These actions signal a shift from experimental pilots to full-scale regulatory implementation.

Security tokens issued under the anticipated framework will be subject to comprehensive regulatory safeguards. These include mandatory prospectus or simplified disclosure filings, investment suitability assessments, segregation of client assets in custody, and retail investor exposure limits based on the nature of the underlying asset. Trading will be restricted to licensed platforms by the FSC, which must maintain compliance with rules governing market abuse, including anti-fraud, insider trading, and market manipulation.

Governance Reform and the Push for Integrated Oversight

In an effort to promote coherent and effective regulation of the digital asset sector, the South Korean government has established the Presidential Digital Asset Committee, a cross-agency policy body reporting directly to the President. The Committee formed in May 2025 includes senior regulators from the FSC, the Ministry of Science and ICT, the Bank of Korea, and the FSS, along with academic and industry experts.

The Digital Asset Committee’s mandate is to develop and coordinate national digital asset policy, prepare legislative roadmaps, and formulate a multi-year strategy that balances blockchain innovation with clarity in the laws and regulations. Key initiatives include defining the respective roles of regulatory agencies, standardizing token classifications, and determining whether prudential oversight of stablecoin issuance and systemic risk should reside with the FSC or the Bank of Korea.

A critical consideration for South Korea is the potential creation of a dedicated Digital Asset Supervisory Authority. This regulatory body would consolidate licensing, supervision, enforcement, and policymaking functions currently shared among the FSC, the FSS, the Korea Fair Trade Commission, and the National Tax Service. Proponents argue that a unified regulatory authority would improve domain-specific expertise and reduce inter-agency friction. However, such a change would require enabling legislation under the Government Organization Act.
In the interim, the Digital Asset Committee has convened joint task forces to clarify the regulatory treatment of stablecoins, harmonize financial and technological approaches to DeFi, and benchmark Korea’s framework against international standards. These include the European Union’s Markets in Crypto-Assets Regulation, the jurisdictional division between the Securities and Exchange Commission and Commodity Futures Trading Commission in the U.S., and market integrity guidance issued by the International Organization of Securities Commissions and the Financial Action Task Force.

Regional Initiatives: The Busan Digital Asset Nexus

As part of its broader strategy to decentralize financial technology development, the South Korean government is promoting regional digital asset hubs outside of Seoul. The leading initiative in this effort is the Busan Digital Asset Nexus, established in 2024 by the Busan Metropolitan Government in collaboration with regional financial institutions and fintech companies.

The Busan Digital Asset Nexus serves as a specialized venue for the issuance and trading of tokenized real-world assets, including gold, real estate, and infrastructure-linked securities. Initially launched within a regulatory sandbox, the Busan Digital Asset Nexus was granted temporary exemptions to test compliant infrastructure for asset issuance, custody, and secondary market trading.

Among its early initiatives and projects are gold-backed tokens that are physically collateralized and redeemable on-chain, offering a transparent and investor-oriented model for digital asset products. As the DABA is implemented, the Busan Digital Asset Nexus is expected to transition into a fully licensed trading platform. Depending on its business model, it may be registered either as a digital asset exchange or as an ATS under the new regulatory framework.

The Busan Metropolitan Government envisions the role of the Busan Digital Asset Nexus as a regulatory testbed for STO implementation and a channel for foreign institutional participation in South Korea and its digital asset markets. Other regional governments, including those of the Self-Governing Province of Jeju and the City of Incheon are closely monitoring the development and activities of the Busan Digital Asset Nexus to evaluate similar initiatives.

The performance of the Busan Digital Asset Nexus is likely to shape national policy on regional innovation zones and serve as a model for expanding digital finance infrastructure beyond the capital region in South Korea.

Enforcement, Compliance, and Market Integrity

In parallel with ongoing legal reforms and market development, South Korean regulators have embarked on strengthening enforcement and compliance obligations for VASPs. The Act on the Protection of Virtual Asset Users which went into force in July 2024, introduced foundational requirements relating to fund segregation, security protocols, and prohibitions against unfair trading practices. These standards will be further expanded under the DABA once enacted to create a comprehensive compliance framework for the digital asset industry.

Under the current rules, client fiat deposits must be held in segregated custodial bank accounts, while virtual assets must be stored using secure infrastructure. This includes a requirement that at least 80 percent of customer crypto holdings be kept in cold wallets. These measures are designed to reduce counterparty risk, mitigate the impact of insolvency events, and protect client assets from commingling or misuse, as highlighted by past exchange failures in both South Korea and other jurisdictions.

Pursuant to guidelines issued by the FSC, VASPs must submit monthly reports covering wallet balances, audit trails, and reconciliation procedures. In addition, exchanges are required to maintain insurance or reserve funds equal to at least five percent of hot wallet balances, subject to a minimum threshold of KRW 3 billion for large platforms. These financial safeguards are designed to ensure timely user compensation in the event of security breaches or operational failures.

In order to protect market integrity, the regulatory framework imposes strict prohibitions on insider trading, wash trading, and the dissemination of false or misleading information. VASPs must deploy automated surveillance tools to identify and report irregular trading patterns. The FSC has also introduced whistleblower protections and incentive programs to encourage internal reporting of compliance violations. Coordination between the FSC and the Korea Exchange is increasing, with the aim of establishing a supervisory model comparable to that of traditional capital markets.

The enforcement provisions under the DABA are robust wherein the operation of a digital asset business without a valid license may result in regulatory sanctions as well as criminal penalties, including imprisonment and substantial criminal fines. Token issuers who make false or misleading disclosures in public offerings face both civil and criminal liability. Senior executives may be held personally accountable under the manager accountability provisions under DABA, underscoring the importance of leadership-level compliance oversight for consumer protection.

Transparency obligations are another core element of the evolving regime. Issuers are required to publish detailed tokenomics, including supply schedules, vesting conditions, insider allocations, and wallet addresses, to facilitate on-chain verification and public scrutiny. Platforms must disclose key risks and token characteristics prior to listing, aligning disclosure practices with capital market norms and reducing information asymmetry.

Taken together, these reforms are intended to elevate both the operational resilience and ethical standards of Korea's digital asset ecosystem. While some market participants may view the compliance burden as significant, regulators regard these measures as necessary to ensure long-term sustainability, institutional trust, and global competitiveness.

Outlook: Toward a Regulated and Globally Competitive Crypto Hub

As the enactment and implementation of DABA nears with key infrastructure reforms progressing, South Korea is positioned to become one of the world's most advanced and efficiently regulated jurisdictions leading the way for the business and trading of digital assets. In accordance with the expected timeline for passage by the end of 2025 and implementation in 2026, the DABA will introduce a comprehensive set of standards, procedures and overall regulatory framework with robust enforcement to lead the markets on a global basis.

The phased strategic implementation by the South Korean government, which encompasses necessary tax reforms, licensing standards and procedures, and infrastructure modernization is designed to prevent regulatory fragmentation seen in other markets while creating a model that is sound, efficient and appropriate.

Talk to us

Speak with one of our legal professionals about how we can assist you in navigating Korea's evolving digital asset regulations, including compliance strategies, system implementation, and risk management under the new regulatory regime.

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