

GOVERNMENT ESTABLISHES LEGAL BASIS TO PROMOTE PEER-TO-PEER LENDING

The National Assembly passed an act on online investment-linked financing on October 31. The new legislation is expected to remove the legal uncertainties on P2P lending, promote stable development of the P2P lending industry¹ and provide more protection for both lenders and borrowers.

BACKGROUND

Since February 27, 2017, the government has been regulating the P2P lending industry with a flexible 'guideline' system to protect investors and foster development of the fintech sectors. The government has since made revisions to the 'guideline' on February 27, 2018 and January 1, 2019 to strengthen measures to protect investors from unfair and risky practices.²

KEY FEATURES

The new legislation established a legal basis for the operation of P2P lending businesses and the regulatory oversight role of the FSC. The legislation stipulates that:

- ▶ P2P lending firms must be registered with the FSC and have at least 500 million won in capital.
- ▶ P2P lending firms must publicly disclose information related to transaction structure, financial management status, loan size, delinquency rate, etc.
- ▶ Interest on P2P loans shall not exceed 24 percent under the Credit Business Act.
- ▶ High-risk practices, such as lending to P2P businesses and largest shareholders, lending loans prior to raising funds from investors, and maturity mismatch between investment and loan, will be prohibited.
- ▶ A P2P lending ceiling will be established for both borrowers and lenders.
- ▶ P2P lending firms will abide by a set of guidelines to provide investors with information to help make investment decision and protect investors in the event of bankruptcy or embezzlement.
- ▶ The FSC and FSS will assume the regulatory oversight role over the P2P lending industry.

¹ Total investments in P2P lending: 37.3 billion won (end of 2015) → 2.34 trillion won (end of 2017) → 6.2 trillion won (end of June 2019)

² Enhancing rules on disclosure and requirements to keep separate accounts for investor funds and interest payments.

SCHEDULE

The specifics of the new legislation will be publicly announced within this year in order to speed up the registration and application process for the P2P lending firms during the second half of 2020.

In the meantime, the government will closely communicate with market participants and experts in the process of determining the specifics of the enforcement decree.

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