

GOVERNMENT PREPARES ENFORCEMENT DECREE ON PEER-TO-PEER LENDING BUSINESSES

The government drafted the Enforcement Decree of the Act on Online-linked Financing as the new legislation on peer-to-peer (P2P) lending is scheduled to take effect on August 27, 2020. The enforcement decree stipulates details about entry requirements and regulations on business operation and investor protection. It will be open for public comment from January 28 to March 9, 2020.

KEY PROVISIONS

I. ENTRY REQUIREMENTS

P2P lending businesses must be registered with the Financial Services Commission. The enforcement decree sets different standards for minimum capital requirements according to P2P lenders' loan balance.

(KRW)

P2P loan balance	Capital requirements at registration	Capital maintenance requirements
Less than 30 billion	500 million	350 million
30 billion to less than 100 billion	1 billion	700 million
100 billion or more	3 billion	2.1 billion

After registration, P2P lending firms must maintain a capital level of at least 70 percent of the minimum capital. In the case that a firm's P2P loan balance changes from one of the three established categories to another, the firm must re-register demonstrating the capital requirement for the new category.

II. RULES ON BUSINESS OPERATION

- ▶ P2P lending businesses shall charge fees only at rates announced on their online platforms.
- ▶ Principal investing is permitted only when more than 80 percent of investments for P2P loan balance have been raised. The act of notifying principal investment to other investors or borrowers, and that of redeeming principal and interest payments before others shall be prohibited.
- ▶ P2P lending business operators shall be prohibited from preserving principal for investors or making pledges to preserve principal.

- ▶ P2P lending businesses shall be required to manage default rates.

III. SCOPE OF BUSINESS

P2P lending business operators may also engage in credit bureau business, financial investment business, electronic financial transactions business, insurance solicitation business and loan brokerage business upon receiving authorization by other financial laws and regulations.

P2P lending businesses shall be prohibited from outsourcing their contract making functions with regard to P2P investment and loans.

IV. INVESTOR PROTECTION

The following rules are drawn up to encourage rational investment decisions and protect investment capital.

- ▶ For certain investment products (e.g. PF, collateralized products), P2P lending business operators are required to disclose information to investors for a certain period (within 72 hours) prior to raising funds.
- ▶ Investments shall be kept in depositories such as banks, securities finance companies and mutual savings banks.
- ▶ P2P lending to the same borrower will be limited to 7 percent of the P2P loan balance or KRW7 billion. For P2P lending operators whose loan balance is below KRW30 billion, the lending cap to the same borrower will be set at KRW210 million.
- ▶ Individual investors may lend up to KRW5 million to the same borrower for a total of KRW50 million¹ per year. Accredited investors² may lend up to KRW20 million to the same borrower for up to KRW100 million per year.
- ▶ Credit finance institutions will be eligible to make investment within a 40 percent limit of the P2P loan amount.³

V. REQUIREMENTS FOR CENTRAL REGISTRY

A central registry will be set up to manage and maintain up-to-date information about online P2P financing transactions, such as information about borrowers and investors, and will also manage limits on loans and investments.

#

For any inquiry, please contact Foreign Press & Relations Team at fsc_media@korea.kr.

¹ Up to KRW30 million for real estate investment products

² Income qualified investors designated by the Financial Investment Services and Capital Markets Act

³ Within 20 percent of the P2P loan amount for real estate P2P financing products