

FSC TO INSPECT FRAUD-PRONE SECTORS FOR FINANCIAL CONSUMER PROTECTION

The FSC and the FSS unveiled plans for comprehensive inspections targeting fraud-prone areas to stem potential damages to financial consumers from illegal activities.

BACKGROUND

As low interest rates and ample liquidity in financial markets prompted a growing number of retail investors to jump into investment in high-risk financial products, incidents of financial fraud or improper practices have been on the rise, making retail investors vulnerable to huge losses. Frequent incidents of consumer damages could undermine investors' trust in financial markets and spread into systemic risks. As such, the financial authorities will launch comprehensive inspections on targeted areas deemed vulnerable to fraud or other illegal activities.

TARGET AREAS & INSPECTION PLANS

(TARGET) Four areas where consumer losses from illegal activities are concentrated

- ▶ private equity funds;
- ▶ peer-to-peer lending;
- ▶ illegal activities by unregistered financial service providers; and
- ▶ illegal predatory lending practices & vishing

(INSPECTION FRAMEWORK) Inspection teams made up of officials from the FSS and other relevant institutions will be created to cover each target area and will report their progress once a month at the financial risk assessment meeting.

(SECTOR-SPECIFIC PLANS)

- ▶ **PRIVATE EQUITY FUNDS:** A two-track approach of (a) self-inspection of all private equity funds (a total of 10,394 as of May 2020) and (b) official site inspection of all private fund managers (a total of 233 as of May 2020)

(a) **Self-inspection** (from July to September 2020): A taskforce made up of fund sellers, managers, trustees and administrators will begin self-inspections from mid-July and report results to the FSS upon completion. If any irregularities or illegalities are found during the inspection, the T/F is required to immediately report to the FSS.

(b) **Site-inspection** (until 2023): An FSS-led inspection team will be established by mid-July to probe all private fund managers over the next three years. If any illegalities are detected, the financial authorities will take swift actions such as remedies for investors, sanctions against financial institutions and referral to prosecutors.

- ▶ **P2P LENDING:** The FSS and relevant institutions will scrutinize all 240 P2P lending platforms as the Act on Online Investment-linked Financing (or 'P2P Act') takes effect on August 27, 2020.
- ▶ **ILLEGAL ACTIVITIES BY UNREGISTERED FINANCIAL SERVICE PROVIDERS:** The financial authorities will crack down on illegal fundraising schemes soliciting investors with false, misleading, or exaggerated advertisements.
- ▶ **ILLEGAL PREDATORY LENDING & VISHING¹:** The government-wide measures to crack down on such illegal activities will be implemented.

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

¹ [Government Unveils To Root Out Vishing \(Press release, June 24\)](#) & [FSC Seeks Revisions to Credit Business Act to Tighten Rules on Illegal Predatory Lending \(Press release, June 29\)](#)