Financial Services Commission

Press Release

May 3, 2021

AUTHORITIES INTRODUCE MEASURES TO STRENGTHEN OVERSIGHT ON QUASI-INVESTMENT ADVISORY BUSINESSES

The financial authorities held the 3rd taskforce meeting on the prevention of unlawful and unfair trading activities in stock markets on April 30 and reviewed progress in the implementation of various measures. At the meeting, the authorities introduced and decided on the measures to strengthen management and supervision on the quasi-investment advisory businesses. The measures are aimed at (a) preventing quasi-investment advisory businesses from engaging in unauthorized business activities, (b) strengthening management from the time of their business registration to operation and exit and (c) bolstering detection of illegal activities using social media chatrooms, etc.

BACKGROUND

A quasi-investment advisory business provides investment advisory services to an unspecified number of individuals. There are no particular entry requirements for these businesses as they are only required to register with the authority.[1] With the goal of preventing damages to investors, the government has been working on regulatory improvements. Since September last year, the FSS has conducted inspections on 351 entities and detected a total of 54 cases where illegal activities are suspected. As the sales practice of quasi-investment advisory businesses has shifted to online spaces such as social media chatrooms and Youtube, the number of investor complaints being filed has also increased.[2] Based on false or exaggerated promises of investment returns, investors are lured into paying high fees, inflicting financial damages to investors. As such, the financial authorities along with private sector experts have set up a taskforce and prepared the following measures to strengthen oversight on quasi-investment advisory businesses.

KEY MEASURES

I. ROOT OUT UNAUTHORIZED BUSINESS ACTIVITIES

- **STRENGTHEN PUBLIC AWARENESS ON UNLAWFUL ACTIVITIES:** The authorities will strengthen efforts to better inform investors about the typical types of illegal activities, including stock advisory social media chatrooms, copy trading and AI-based automated trading to raise awareness about unlawful sales practices

---

1 Number of registered entities: 54 (1997) → 422 (2010) → 959 (2015) → 2,032 (2018) → 2,122 (2020)
2 Number of investor complaints filed: 905 (2018) → 1,138 (2019) → 1,744 (2020) → 663 (Q1 2021)

adopted by quasi-investment advisory businesses and prevent damages to investors.

- **PREVENT TWO-WAY COMMUNICATION CHANNELS:** Stock advisory social media chatrooms that provide two-way communication channels online with membership fees are considered as 'investment advisory businesses.' Thus, one-on-one sales practices through two-way communication mechanisms are only permitted for the registered 'investment advisory businesses.'[3] This rule, in effect, prohibits quasi-investment advisory businesses from operating social media chatrooms.

- **CLARIFY BUSINESS TYPES FOR PERSONAL BROADCASTING SERVICES:** Personal broadcasting services that provide investment advisory in return for direct compensations[4] are required to register as 'quasi-investment advisory businesses' until the end of July this year.

II. STRENGTHEN MANAGEMENT FROM REGISTRATION TO EXIT

- **REGISTRATION STAGE:** Registering a business with false information will be punishable just as operating a business without registering. On the registration form, their sales mechanisms will be broken down further to include newly emerged mechanisms, such as live online broadcasting, online video uploading and mobile app, so that the authorities can easily identify the status of their business operation.

- **OPERATION STAGE:** Quasi-investment advisory businesses are required to clearly indicate the nature of their business and types of services they are not legally permitted to offer via advertisement or when providing services, while also indicating the potential loss of principal on an investment. In addition, Quasi-investment advisory businesses will be prohibited from (a) promising compensation for loss, (b) using misleading advertisement to be taken as a financial company and (c) displaying false profit rate or unrealized gain.

- **EXIT STAGE:** The authorities will root out disqualified entities by expanding the ground for revoking business registration to include those that have been subject to a monetary sanction under the Financial Investment Services and Capital Markets Act for twice or more over a five-year period and those that have been in violation of the Consumer Protection in Electronic Commerce Act and the Door-to-door Sales Act.

III. BOLSTER DETECTION OF ILLEGAL ACTIVITIES ON SOCIAL MEDIA

- **UNNOTICED INSPECTION:** The authorities carried out unnoticed inspections on ten different occasions in 2020 and detected six unregistered entities. In 2021, the authorities will increase the total number of unnoticed inspections being carried out to more than forty to strengthen detection of illegal entities.

---

[3] Investment advisory businesses are recognized as financial investment businesses subject to the strengthened consumer safeguard measures put in place by the Financial Consumer Protection Act.

[4] Personal broadcasting services receiving advertising profits and viewer contributions with no direct compensations are not required to register as 'quasi-investment advisory businesses.'

- **GENERAL INSPECTION:** The authorities carried out general inspections together with the Korea Financial Investment Association on 341 cases and detected unlawful activities in 48 cases in 2020. The number of general inspections in 2021 will be increased to about 600 cases.

- **OTHERS:** The authorities will weed out disqualified entities on a regular basis through revocation of business registration being carried out in the first half of every year for those that have disqualifying reasons. For those that have been detected as unregistered entities, the authorities will request that the Korea Communications Standards Commission block their websites.

EXPECTATION

The measures are expected to enhance the effectiveness of regulatory oversight on quasi-investment advisory businesses. The introduction of rules that target unfair sales practices will help prevent the provision of misleading information or false advertisements to investors. While working on amendments to relevant regulations, the authorities will immediately begin to implement the measures that require no legislative actions.

# # #

For press inquiry, please contact Foreign Media Relations at fsc_media@korea.kr.