

VICE CHAIRMAN SPEAKS ABOUT IMPORTANCE OF INVESTOR PROTECTIONS IN MEETING ON DIGITAL ASSETS

FSC Vice Chairman Kim So-young attended a meeting on the enactment of a law on digital assets with members of the National Assembly and officials from other relevant government agencies on May 24.¹ The following is a summary of Vice Chairman Kim's opening remarks.

VICE CHAIRMAN'S REMARKS

(GOVERNMENT MEASURES ON DIGITAL ASSETS) The government has been working on strengthening investor protections for digital asset transactions while providing support for innovation using blockchain technologies through an inter-ministerial approach.² Starting from March 2021, the government has put in place a registration system for digital asset service providers through the revised Act on Reporting and Using Specified Financial Transaction and began to implement regulatory measures for anti-money laundering duties and investor protections.³

These measures were intended to minimize damages to users resulting from indiscriminate issuance of digital assets. Despite the need to further promote new and innovative technologies, however, there exist concerns about risks to investor protection and market stability as digital assets issued overseas are being traded in domestic markets without any regulations.

(FUTURE PLAN ON DIGITAL ASSETS) As it has become evident from the recent crash of TerraUSD and Luna, the rapid growth of the newly emerging digital asset markets such as stablecoins and DeFi have spurred discussions globally about their impact on the stability of financial system, consumer protection and monetary and economic policies.⁴ In line with these discussions, there are currently thirteen relevant bills on digital asset investor protection pending at the National Assembly.⁵

¹ Rep. Sung Il-jong (People Power Party), Rep. Yoon Jae-ok (People Power Party), Rep. Kim Hee-gon (People Power Party), Rep. Yoon Chang-hyun (People Power Party) and other members of National Assembly, officials from the Korea Fair Trade Commission, the National Police Agency, the Financial Supervisory Service and the heads of digital asset service providers

² Taskforce composed of relevant ministries: Office for Government Policy Coordination (overall coordination and supervision), Financial Services Commission (management and supervision of digital asset service providers), Ministry of Science and ICT (assisting blockchain technology development), Ministry of Economy and Finance (discussion on CBDC), Ministry of Justice, National Policy Agency (response to illegal activities using digital assets), etc.

³ (a) Separate keeping of customer transaction information, (b) separate management of customer deposits and digital asset service provider's own finances, (c) prohibition on trading digital assets issued by one's own exchange or an exchange that is in special relationship, etc.

⁴ (U.S.) Executive Order on Ensuring Responsible Development of Digital Assets (announced in March 2022)
(FSB) Assessment of Risks to Financial Stability from Crypto-assets (February 2022)
(EU) MiCA, Markets in Crypto-Assets regulation (September 2022)

⁵ Including 7 bills on new legislation for the digital asset industry, 4 revision proposals for the Electronic Financial

Recently, the government has made “building digital asset infrastructure and relevant regulatory framework” as one of the key national policy initiatives and made an announcement accordingly. Some of the details of this policy task will include creating an environment where investors can invest in digital assets safely and allowing initial coin offerings (ICOs) in domestic market starting with the digital asset issuance methods that can ensure investor protection mechanisms.

To this end, while making efforts to protect investors, the FSC will participate in discussions for the enactment of a law on digital assets led by the National Assembly. In particular, given the traits of digital assets such as decentralization, anonymity and trans-borderness, it is important to strengthen international cooperation. In order to prepare an effective regulatory framework on digital assets, the FSC will closely follow regulatory practices overseas and bolster international cooperation through consultation and engagement with international organizations and major countries. In the process of building a regulatory framework, authorities will actively seek ways to effectively regulate newly emerging types of digital assets such as stablecoins that are having an impact on consumers and financial market stability.

Even before the establishment of a regulatory framework, the FSC will continuously work on investor protection measures by closely looking into illegal activities (fraud, negligence, etc.) using digital assets through a close-knitted system of cooperation with the Office for Government Policy Coordination, the Ministry of Justice, the Prosecutor’s Office and the National Policy Agency. We expect that meaningful discussions will take place at today’s meeting for the enactment of a law on digital assets. The government will spare no efforts in incorporating policy suggestions raised at today’s meeting into the regulatory framework.

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