

## FSC ANNOUNCES REVISIONS TO P2P LENDING GUIDELINES

The FSC announced changes to the peer-to-peer lending guidelines on July 20 to ensure that investor protection measures are put in place during the one-year deferred registration period until August 26, 2021.

The Online Investment-linked Finance Act scheduled to take effect on August 27, 2020 grants the business entities already engaged in P2P lending services a one-year deferral of P2P business registration to facilitate a seamless transition and prevent any disruption in their business operation during the registration review process. There have been concerns about the possibility of regulatory arbitrage by unregistered P2P lending service providers and of subsequent damage to investors. As such, the revised guidelines will include various investor protection measures prescribed in the Online Investment-linked Finance Act to be applicable to the unregistered P2P lending service providers.<sup>1</sup>

### **KEY CHANGES IN GUIDELINES**

#### **I. STRENGTHEN DISCLOSURE RULES**

- a) Require P2P lending platforms to disclose information about financial management status and liquidation process
- b) Require P2P lending firms to provide investment information by different product types

#### **II. PROHIBIT UNFAIR SALES ACTIVITIES**

- a) Require firms to match the maturity date, interest rate and total amount of investment to those of loan products to prevent loan scams
- b) Prohibit discriminatory behavior in favor of or against certain investors
- c) Prohibit offering or accepting excessive rewards to and from investors
- d) Prohibit loss coverage for investors

#### **III. RESTRICT SALES OF HIGH-RISK INVESTMENT PRODUCTS**

- a) Restrict sales of high-risk P2P loans or investment products, such as collateralized debt obligations
- b) Restrict P2P lending to private loan service providers or special purpose vehicles

#### **IV. TIGHTEN ADVERTISING RULES**

- a) Apply more stringent rules on P2P loan advertisement materials placed on platforms other than its own

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<sup>1</sup> Registered entities will be subject to the Online Investment-linked Finance Act beginning on August 27, 2020.

- b) Prohibit advertising on other platforms to recruit investors

#### **V. IMPROVE REQUIREMENTS FOR INVESTMENT MANAGEMENT**

- a) Require investments to be kept in depositories such as banks, securities finance companies and savings banks with equity capital of KRW1 trillion or more and BIS ratio of 10 percent or higher over a two-year period
- b) Prohibit third-party transfer or securitization of investments

#### **VI. LIMITS ON LOANS AND INVESTMENT**

- a) Lending cap: Limit the maximum amount of P2P lending to the same borrower to either 7 percent of the total P2P loan balance or KRW7 billion,<sup>2</sup> whichever is the smaller amount
- b) Investment cap: Lower the current investment cap for retail investors as shown in the table below and cap corporate investment on an investment product to 40 percent of the total loan amount.

	As is	To be
Retail investors	- KRW5 million to same borrower - KRW20 million to single P2P firm (KRW10 million for real estate)	- KRW5 million to same borrower - KRW10 million to single P2P firm (KRW5 million for real estate)
Accredited investors <sup>3</sup>	- KRW20 million to same borrower - KRW40 million to single P2P firm	- KRW20 million to same borrower - KRW40 million to single P2P firm

#### **SCHEDULE**

The revised guidelines will go into effect from August 27 until August 26, 2021. The financial authorities will closely review audit reports on about 240 P2P lending firms and begin the registration review process for qualified entities.

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<sup>2</sup> For P2P lending operators whose loan balance is KRW30 billion or less, the lending cap to the same borrower will be KRW210 million.

<sup>3</sup> Income qualified investors with interest and dividend income of at least KRW20 million or earned income of at least KRW100 million