

AUTHORITIES PROVIDE CONSULTING TO VASPs AND ADVISE SUPPLEMENTARY ACTIONS PRIOR TO REGISTRATION

As a follow-up to the government's plan to enhance supervision on virtual asset service providers (VASPs) and their transaction activities,¹ the FSC and relevant institutions provided on-site consulting to the 25 VASPs between June 15 and July 16 and advised them to take supplementary measures prior to their business registration.

Out of the 33 VASPs that have already obtained the ISMS certification or are in the pending status, a total of 25 entities showed interest in receiving consulting from the authorities.² As such, the FSC along with other relevant institutions provided on-site consulting to the 25 VASPs to review their preparation for business registration and check the level of stability in their transactions system.

KEY DETAILS

(PREPARATION FOR REGISTRATION) Pursuant to the Act on Reporting and Using Specified Financial Transaction Information ("the Act" hereinafter), VASPs should file necessary documents for registration until September 24 and adhere to AML duties from the time of their registration. As such, VASPs should have their own internal procedures, human resources and facilities ready to implement the AML requirements at the time of registration.

When consulting was provided, no VASPs were found to have met all the registration requirements, and they have shown inadequate levels of preparedness for the implementation of the AML duties and other requirements set forth by the Act. Out of the 25 VASPs, 19 entities have obtained ISMS certification, but only four VASPs were found to have their business operation with real-name verified accounts. The VASPs that have obtained ISMS certification but have no real-name accounts may still apply for business registration but for the category that is barred from offering exchange services between virtual assets and a fiat currency. With regard to the level of preparedness in adhering to the AML requirements, the lack of employees overseeing this matter and insufficient system preparation for suspicious transactions reporting appeared to be problematic.

As such, the authorities have advised the VASPs to take supplementary measures prior to their business registration. The authorities plan to continue to work on improving the VASPs' AML capacity through inspection, supervision, education, etc.

¹ Please click [here](#) to see the press release dated May 28, 2021.

² KoFIU, FSS, Korea Exchange, Korea Securities Depository, Korea Deposit Insurance Corporation, Koscom, Financial Security Institute, Korea Financial Telecommunications & Clearings Institute

(STABILITY IN TRANSACTIONS SYSTEM) Having a stable transactions system and a consumer damage prevention mechanism is not a prerequisite for business registration. However, the VASPs have been advised on these matters for the purpose of user protection.

At the time of consulting, the level of internal control mechanisms³ for stable maintenance and management of virtual asset transactions appeared to be inadequate. Unlike in stock markets where a variety of players take up different functions and provide different services, different types of services are often provided by the same entities in the virtual asset market. This has exposed the issue of fairness in market order, safety in user's assets, system stability, etc. These matters will be dealt with in the legislative process of drawing up relevant regulations at the National Assembly. In the meantime, the authorities will take stringent measures on VASPs engaging in illegal activities.

(CAUTION FOR USERS) Users of virtual asset services are advised to practice caution as the current legal framework (the Act) on VASPs is largely aimed at imposing AML duties on VASPs and has limits in providing protections for users. Virtual asset service users are also advised to check the status of business registration of their VASPs as an abrupt closure of business from September 25 may result in losses.

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

³ Internal rules, data management policy, service management, etc.