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NEWSLETTER

Tax Group

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Korea's New Foreign Omnibus Account Regime

••• Unlocking Tax Treaty Benefits through Post-Withholding Tax Refund Claims

1. Background: Evolution of the Foreign Omnibus Account System

Foreign investment in the Korean stock market has exhibited a long-term growth trend despite periods of volatility. As of the end of 2025, foreign investors' total equity holdings in Korea reached approximately KRW 1,309 trillion, a substantial increase from KRW 509.7 trillion in 2018. Notwithstanding this growth, the regulatory framework governing foreign investment in Korean equities had long been regarded as relatively inaccessible, particularly for foreign retail investors and small- to mid-sized institutional investors. Traditionally, foreign investors were required either to register directly with Korean financial authorities under the foreign investor registration regime (which remained in effect until December 2023) or to open individual accounts with Korean financial institutions, creating practical and administrative barriers.

To address these issues, Korea introduced the foreign omnibus account system in 2017, aligning its capital market infrastructure more closely with global practices. A foreign omnibus account is an account opened in the name of a foreign financial investment firm, through which foreign ultimate investors may collectively purchase and settle Korean equities without opening individual accounts with Korean securities brokerage firms.

Since its introduction, the regulatory framework has been gradually refined to enhance usability. A notable development occurred in 2023, when the obligation to report omnibus account transaction details on a T+2 basis was abolished, significantly reducing operational burdens.

Despite these improvements, the foreign omnibus account system had not been widely used, largely due to (i) overly restrictive eligibility requirements for account opening and (ii) the absence of clear and practical implementation guidance.

Under the prior framework, a foreign financial investment firm seeking to open an omnibus account was required to be a controlling shareholder or affiliate of a Korean financial investment firm or a Korean general partner of collective investment vehicles, while lawfully conducting, outside Korea, business activities equivalent to investment dealing, investment brokerage, or collective investment business. These requirements effectively excluded many small- and mid-sized foreign financial institutions from using omnibus accounts on behalf of their investors.

2. Regulatory Relaxation and Practical Guidance

As part of its broader policy agenda to facilitate Korea's inclusion in the MSCI Developed Markets Index, the Korean government has been pursuing regulatory reforms to activate the foreign omnibus account framework in the foreign exchange and capital markets. In this context on November 27, 2025, the government announced the Foreign Omnibus Account User Guidelines.

This Guideline relaxed the eligibility requirements for opening foreign omnibus account, eliminating the requirement that a foreign financial investment firm be a controlling shareholder or affiliate of a Korean financial investment firm or a Korean general partner. As a result, foreign investors are now permitted to trade Korean equities directly through their local securities firms without opening separate accounts with Korean brokerage firms, thereby improving accessibility to the Korean stock market.

Beyond expanding eligibility, the reforms significantly streamline operational and administrative processes for foreign asset managers and investors. Under the new framework, a global custodian acting on behalf of individual funds managed by foreign asset managers may establish consolidated settlement accounts in Korea and submit account-opening documentation on behalf of those funds. This represents a substantial departure from prior practice, under which foreign asset managers were required to open accounts and submit documentation separately for each fund, resulting in considerable administrative burden.

In addition, procedures previously required for foreign corporate investors—such as notarization and strict face-to-face identity verification—have been simplified. Foreign entities may now satisfy identity verification requirements through authorized representatives, and notarization requirements have been relaxed. By utilizing foreign omnibus accounts, foreign retail investors are expected to be able to handle currency exchange, stock trading, and settlement through a single account with their local securities firm, enhancing efficiency and convenience.

Against this backdrop, Korea's first foreign omnibus account was opened in August 2025 through a partnership between a major Korean securities brokerage firm and a Hong Kong securities firm, and trading has commenced. Following this initial launch, interest among Korean securities firms has increased, and additional partnerships between Korean and foreign securities firms are being explored.

3. Application of Reduced Tax Treaty Rates for Non-Residents Using Foreign Omnibus Accounts Through Refund Claims

Although the foreign omnibus account regime enhances operational efficiency and market access, foreign investors should note that Korean withholding tax treatment and access to tax treaty benefits depend on the ability to substantiate beneficial ownership and satisfy applicable procedural requirements.

Under current Korean tax law, Korean-source income arising from investments made through foreign omnibus accounts is generally subject to withholding tax at domestic statutory rates (22% for dividends, including local surtax). However, eligible investors may seek applicable tax treaty benefits through post-withholding refund claims.

To apply for tax exemption or reduced withholding under an applicable tax treaty, a non-resident must, within five years from the end of the month in which the withholding tax was imposed, submit an application for tax exemption or relief under the relevant tax treaty, together with supporting documentation evidencing entitlement to such benefits. These documents include, in particular, a certificate of residence issued by the tax authority of the non-resident's country of residence, as well as other evidentiary materials supporting the claim for exemption or relief. The application must be filed with the district tax office having jurisdiction over the payor of income.

Under Korean tax law, a non-resident may file such application through an authorized agent. In the context of securities transfers, where a non-resident opens and uses a foreign omnibus account through its local securities firm, the Korean securities company that opens and maintains the omnibus account and bears the withholding obligation under the Korean law may be regarded as an agent of the non-resident account holder for purposes of submitting the relevant tax treaty exemption or relief application.

4. How LK can help

Korean retail investors are already actively trading foreign listed securities—primarily U.S.-listed stocks—through omnibus accounts established by the Korea Securities Depository (KSD), the central securities depository of South Korea, with global custodian banks for the benefit of Korean securities firms. This structure enables Korean retail investors to directly access foreign equity markets through their domestic brokerage firms and has become a well-established and widely used investment channel in Korea.

Lee & Ko has played a significant role in this international securities settlement environment involving omnibus accounts in Korea. In particular, Lee & Ko provides cross-border withholding tax services to KSD—an institution central to the operation of omnibus accounts in Korea—as well as to more than 30 Korean securities firms that have opened foreign accounts dedicated to the foreign investments made by Korean retail investors. In this regard, Lee & Ko has one of the most extensive advisory track records in Korea in connection with omnibus account-based cross-border securities investment structures.

In addition, Lee & Ko has substantial experience in assisting overseas funds and non-resident investors with refund claims for Korean withholding taxes, including numerous successful cases involving Korean equity investments by foreign investors.

Based on its extensive experience and established working relationships with KSD and Korean securities firms—both of which are key participants in the foreign omnibus account business for non-resident investors and foreign brokerage firms—Lee & Ko is well positioned to provide practical guidance on Korean market practice and to support efficient and effective tax refund claims for foreign securities firms and non-resident investors interested in investing in Korean equities through foreign omnibus account structures.

Our assistance includes:

- (i) analysis of withholding tax obligations and tax treaty applicability;
- (ii) preparation and support of refund claims for excess withholding tax;
- (iii) review of documentation and contractual arrangements with Korean securities firms; and
- (iv) engagement with Korean tax and regulatory authorities throughout the investment process.

Should you require further assistance regarding the Foreign Omnibus Account Regime or related tax matters, please feel free to contact us at any time.

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