

NEWSLETTER

August 2022

Digital Finance Team

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Financial Regulation Innovation

••• Policy Direction of FSC

Lee & Ko's Digital Finance Team takes a close look at the establishment of the Financial Regulation Innovation Council, the direction of the financial regulation innovation announced by the Financial Services Commission, and the points to consider in relation to future improvements to financial regulations.

1. Establishment of the Financial Regulation Innovation Council

On July 19, 2022, the Financial Regulatory Innovation Council, a private organization established to promote financial regulation innovation in collaboration between the market and the government, was established. At the first meeting, the financial authorities stated that the Korean financial industry faces the necessity to have digital transformation in response to industrial and technological changes, caused by digital transformation and the so-called "Big Blur" phenomenon. The financial authorities emphasized that in order for the financial industry to develop as an independent industry that is one of the pillars of a dynamic economy, bold financial regulation innovation is necessary. In addition, the authorities stated that they would support the growth of both financial companies and big tech, whether online or offline, enable domestic companies to engage in the same business as global financial companies, and conduct a fundamental review of the existing regulations without any limitations.

Moreover, the financial authorities stated that the Financial Supervisory Service will take the lead in devising an improvement plan regarding the five following primary issues, that have been reviewed based on industry feedback: (i) improvement of restrictions on business scope, and investment in subsidiaries, so that financial companies' IT/platform-related sales and investment in new technologies can be revitalized, with respect to regulations on the separation of finance and commerce, which block the digitalization of the financial industry; (ii) supporting financial companies to develop into financial platforms, through measures including allowing pilots of financial product brokerage services on online platforms; (iii) building infrastructure for digital financial innovation by upgrading My Data, open banking,

and regulatory sandbox systems to the next level, and establishing a regulatory system for new digital industries such as virtual assets and fractional investment; (iv) improving the trust system, improving the capital market infrastructure through the introduction of an alternative exchange (ATS), and improving the investment vitality by eliminating inconvenience for investors, and improving the ESG disclosure system; and (v) improving the financial regulators' administration of supervision, sanctions, and inspection to increase the regulatory innovation.

2. Direction of the Financial Services Commission's Financial Regulation Innovation

■ Background and Objectives of the Promotion

New technologies such as big data, AI, cloud and blockchain are being combined with finance, and the structure of the financial industry is changing with the entry of new players such as fintech and big tech. Factors that determine the competitiveness of the financial industry are changing from human and physical assets and offline branch networks to data and new technology utilization capabilities. As a result, existing financial regulations created in the analog era are not functioning properly for the current digital reality. In addition, due to the recent Big Blur phenomenon, there is a greater need to increase efficiency through regulatory improvement, such as by promoting convergence between the financial industry and the other commercial industries. Therefore, in new fields such as virtual assets, a regulatory system that can induce responsible development of industries is needed. In other words, the government and the market need to work together to find a new regulatory system suitable for the digital era so that the financial industry can actively respond to changes in new technologies and industrial structures.

Against this backdrop, the financial authorities said they would create an institutional base for players to lead the global financial market in the Korean financial industry through innovation in financial regulations.

■ Direction of Promotion

The financial authorities are expected to first select four major areas, nine major tasks, and 36 detailed tasks to review, focusing on industry requests identified through the demand survey conducted by the associations of the financial sector (June to July). The details are as below.

< Tasks for Financial Regulatory Innovation, "Four Major Areas, Nine Major Tasks, 36 Specific Tasks" >

I . Facilitation of Digital Transformation of the Financial Industry	
1. Promotion of financial and non-financial convergence	<ol style="list-style-type: none"> 1) Easing restrictions on investment in subsidiaries 2) Deregulation of incidental business of financial companies 3) Advancement of insurance services through utilization of non-financial information 4) Improvement of credit card companies' data utilization regulations

2. Increased use of external resources and new technologies	5) Improvement of the business outsourcing system 6) Improvement of non-face-to-face verification of real names systems 7) Improvement of regulations on insurance solicitation by utilizing digital technology 8) Activation of healthcare services by insurance companies
3. Establishing a flexible regulatory system that enables various business models	9) Improvement of systems related to digital universal banks 10) Review of the introduction of financial product brokerage through online platforms 11) Invigoration of platform business for card companies 12) Deregulation of the “one company, one license” regulation within an insurance group
II . Building Digital Financial Innovation Infrastructure	
4. Innovation based on new technologies such as Data and AI	13) Expansion of the scope of information provision for the advancement of My Data 14) Improvement of network separation and cloud regulations to promote the introduction of technology 15) Expansion of open banking into open finance (expansion of the participating financial institutions, etc.) 16) Improving the predictability of institutionalization and the substantiality of financial regulations
5. Building a balanced new industry regulatory system	17) Enactment of the Framework Act on Digital Assets 18) Establishing a regulatory system for digital securities 19) Reviewing whether to permit financial companies to conduct businesses related to virtual assets
III . Advancement of the Capital Market	
6. Expansion of capital market autonomy and promotion of competition	20) Revitalization of public offering funds 21) Strengthening autonomy in the management of trusts, such as expanding the scope of trust property 22) Increasing the self-regulation of sellers when setting and receiving fund sales remuneration 23) Implementation of an Alternative Exchange (ATS)
7. Boosting capital market investment demand	24) Improvement of the capital market system in line with the global standards 25) Deregulation of the investment environment in the bond market, such as the expansion of customer RP collateral 26) Rationalization of regulations on transactions in over-the-counter markets (unlisted stocks) 27) Improvement of systems for foreign-investor-friendly disclosure such as public disclosure in English, etc. 28) Revisiting ESG Disclosure Plan
8. Alleviation of corporations’ burdens	29) Rationalizations of regulations on prohibition of consultation related to the preparation of financial statements of accounting corporations 30) Exemption from external audit of internal accounting of small listed companies 31) Rationalization of requirements for delisting

IV. Improvement of Supervisory Administration

9. Improving administrative guidance, supervisory sanctions and inspection practices

- 32) Innovative improvement of financial administration guidance
- 33) Improvement of administration of supervision, inspection and sanctions
- 34) Improvement of procedures for reporting on overseas expansion of financial companies
- 35) Provision of and support for domestic and overseas essential information related to overseas expansion
- 36) Rationalization of regulations on major shareholders, such as the scope of specially affiliated parties

In addition, the financial authorities said that they would focus on finding and improving regulations that are acting as a hindrance to realization of specific business models that the market desires. They will also actively seek alternatives that are suitable for the trend of convergence and integration between industries, without assuming the necessity of traditional regulatory frameworks such as separation of banking and commerce.

3. Implications

In the future, financial authorities are expected to improve financial regulations first, focusing on “four major areas, nine major tasks, and 36 detailed tasks.” In this regard, there is a possibility that there will be significant changes in regulations related to digital finance. The newly launched Financial Regulatory Innovation Council is expected to continue to discover tasks through collecting opinions from industry associations, industry meetings, on-site visits, and suggestions through the Office for Government Policy Coordination and the Ministry of Economy and Finance; deliberate on key conflicts (between industries and stakeholders); and actively participate in the pan-government regulatory innovation system. Accordingly, it is necessary to observe the trends of regulatory improvement related to the “four major areas, nine major tasks, and 36 detailed tasks”, actively submit opinions as appropriate, and discuss them with the relevant industry associations if necessary.

Lee & Ko’s Digital Finance Team will continue to monitor changes in the regulatory environment in the digital finance field in the future, and will promptly provide more useful information by conducting in-depth analysis of their impact on the related industry. If you require any assistance in this regard, please contact Lee & Ko’s Digital Finance Team.

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