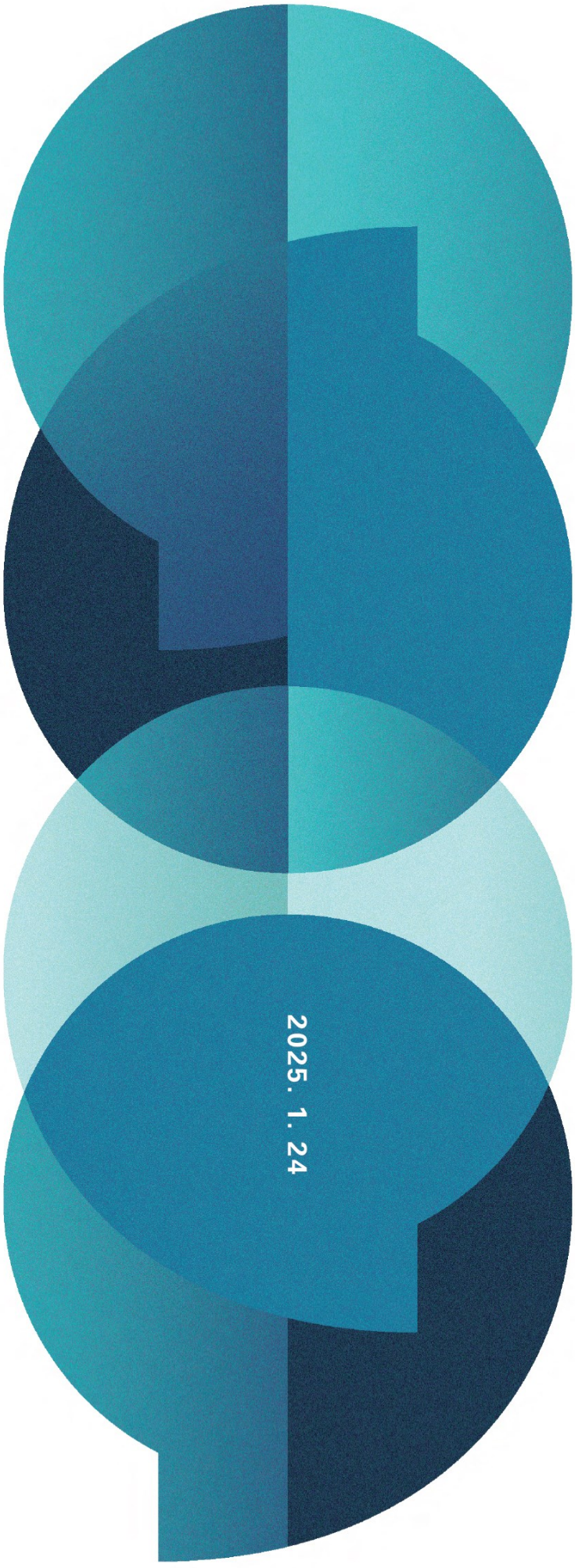
2025 ISSUES & TRENDS



BKL 2025 Outlook Report

Overview:
Corporate Legal Trends to Watch in 2025

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Corporate Legal Trends to Watch in 2025

The Growing Importance of Legal Compliance Amid Multifaceted Risks of 2025

There is a Korean proverb that states, "You can survive anything, even an attack by a tiger, so long as you keep your wits about you." This proverb encapsulates the idea that, with a well-devised strategy and informed decision-making, even the most formidable crisis can be overcome. For companies, particularly foreign entities operating in Korea, the current landscape in 2025 may be akin to the seemingly endless ocean in the Odyssey, filled with a multitude of complex risks and uncertainties. However, as the proverb states, as long as the fundamentals of the Korean economy remain intact, strategic risk management, coupled with a solid understanding of the underlying economic fundamentals, can create pathways to new and better opportunities.

In the face of mounting risks, the role of the legal industry will become more crucial than ever. Legal assessments are no longer confined to risk management; they must now be a key driver in the strategic decision-making process of businesses. Legal professionals, whether part of an in-house team or external counsel, will need to adopt a more proactive, cross-disciplinary approach, blending their legal expertise with a nuanced understanding of the evolving political, economic, and technological landscape.

Looking ahead, the second term of the Trump administration, which will begin in January 2025, is expected to introduce a major shift in international diplomacy and global business dynamics. South Korea's export-reliant economy will be particularly vulnerable to these changes, with real-time implications across trade, industry, and investment sectors. Key variables to monitor include:

- Reorganization of global supply chains;
- Intensifying competition for technological sovereignty;
- Strengthening of trade barriers, including the imposition of universal tariffs; and
- Heightened tensions in U.S.-China relations.

In this environment, foreign companies operating in Korea must stay vigilant to changes in U.S. customs and trade policies, as well as the reactions of other major countries. Foreign companies must also prepare for potential volatility in international financial markets, particularly in relation to fluctuations in exchange rates driven by changes in U.S. interest rate policies.

Moreover, South Korea's unique political landscape adds another layer of uncertainty surrounding the country's future. The impeachment motion against President Yoon Seok-yeol, triggered by his declaration of martial law on December 3, 2024, is set to reach a conclusion in the first half of 2025. Should the Constitutional Court dismiss the National Assembly's impeachment motion, President Yoon will resume office. However, if the motion is upheld, President Yoon will be removed from office, and a new presidential election will be held within 60 days. The resulting political volatility could impact several key areas, including:

- Domestic and foreign economic policies;
- Foreign investment regulation;
- Business licensing processes; and
- Financial market stability.

Given these factors, legal compliance will take on heightened importance. Companies will need to adapt their compliance systems to align with shifts in government policies, closely monitor regulatory changes, and ensure critical business decisions undergo a robust legal review process.

Another significant risk factor is prosecutorial investigations. Since the second half of 2024, the prosecutor's office appeared to focus on economic cases. However, due to ongoing investigations concerning the legality of President Yoon's emergency martial law, it is unlikely that any new large-scale investigations will be initiated before the first half of 2025. Nonetheless, companies should take proactive steps in risk management, as the prosecution is expected to shift its focus back to financial crimes in the latter half of 2025, once the martial law matter is resolved.

Three Legal Issues Companies Must Closely Monitor and Strategically Address in Management

Amid these uncertainties, three key legal issues will emerge in 2025, impacting companies across all industries and sectors in South Korea. The combination of these risks will demand heightened vigilance at every turn.

First, the continued strengthening of regulatory policies regarding the roles and responsibilities of directors in key decisions related to corporate restructuring—such as spin-offs and mergers—will remain a focal point. These policies include protecting minority shareholders, counterbalancing the influence of majority shareholders, and overseeing corporate value-up programs. As a result, companies must be prepared for an increase in disputes, particularly those raised by minority shareholders. In light of this, it is imperative that companies establish robust operational systems to ensure that all legal risks, including disclosure obligations, are meticulously managed from the early stages of business planning.

Second, the political and social turbulence of 2025 will intensify challenges surrounding human resources and labor management. Specifically, ongoing legislative trends focus on extending the retirement age, promoting work-life balance, protecting vulnerable groups of workers, ensuring remedies for wage arrears, and enhancing workplace safety standards. These developments, combined with the economic downturn and increasing awareness of individual rights, will likely lead to a surge in disputes.

Moreover, should a serious workplace accident occur due to lapses in safety management or negligence on the part of a company—particularly in the current political landscape—the repercussions could be significantly more severe than what would have been in the past three years. Companies must also prepare for the potential implications of the Supreme Court's ruling on December 19, 2024, regarding the calculation of ordinary wages, as well as upcoming decisions on issues such as the classification of the prime contractor as an employer and the treatment of management bonuses in private companies.

Third, regulations governing fair trade, particularly those aimed at curbing market dominance abuses, unfair trade practices in subcontracting and superior-subordinate relationships, and anti-competitive behaviors such as bid-rigging, are expected to become more stringent. Notably, the proposed Online Platform Act is expected to impose significant restrictions on businesses. The two major political parties have proposed different versions of said act, with the Democratic Party's version calling for more stringent regulations. Regardless of the final version that is ultimately enacted, the Online Platform Act is anticipated to impose significant constraints on the operating conditions of businesses. On the other hand, AI-related legislation will present new opportunities for businesses, while simultaneously requiring more sophisticated and rigorous compliance systems. Businesses must closely monitor evolving regulations regarding the prevention against of deepfakes and the promotion of data privacy to ensure timely and effective compliance.

In addition to the issues outlined above, this report also addresses key issues in sectors such as energy, environment, pharmaceutical and biotechnology, construction and real estate, and finance, where an array of new challenges and opportunities are expected to emerge. We also highlight critical considerations in intellectual property and taxation, which remain essential for daily business operations.

We hope that this "BKL 2025 Outlook Report" will serve as a valuable resource for assessing the current landscape and guiding your strategic decisions in navigating these issues.

Bae, Kim & Lee LLC is committed to being a trusted partner to our clients in 2025, leveraging our expertise and upholding our "client-centered" philosophy to deliver exceptional service.

Best wishes,

[Executive editors of this report]

Hyun Beom (Partner, Chairman), Sukchun Kwon (Senior Advisor), Byong Yeol Woo (Senior Foreign Attorney), Kyu Sang Chung (Senior Foreign Attorney), Cheolhyo Ahn (Senior Foreign Attorney), Sunghui Kim (Partner), Surim Kang (Associate), Eugene Ahn (Associate)

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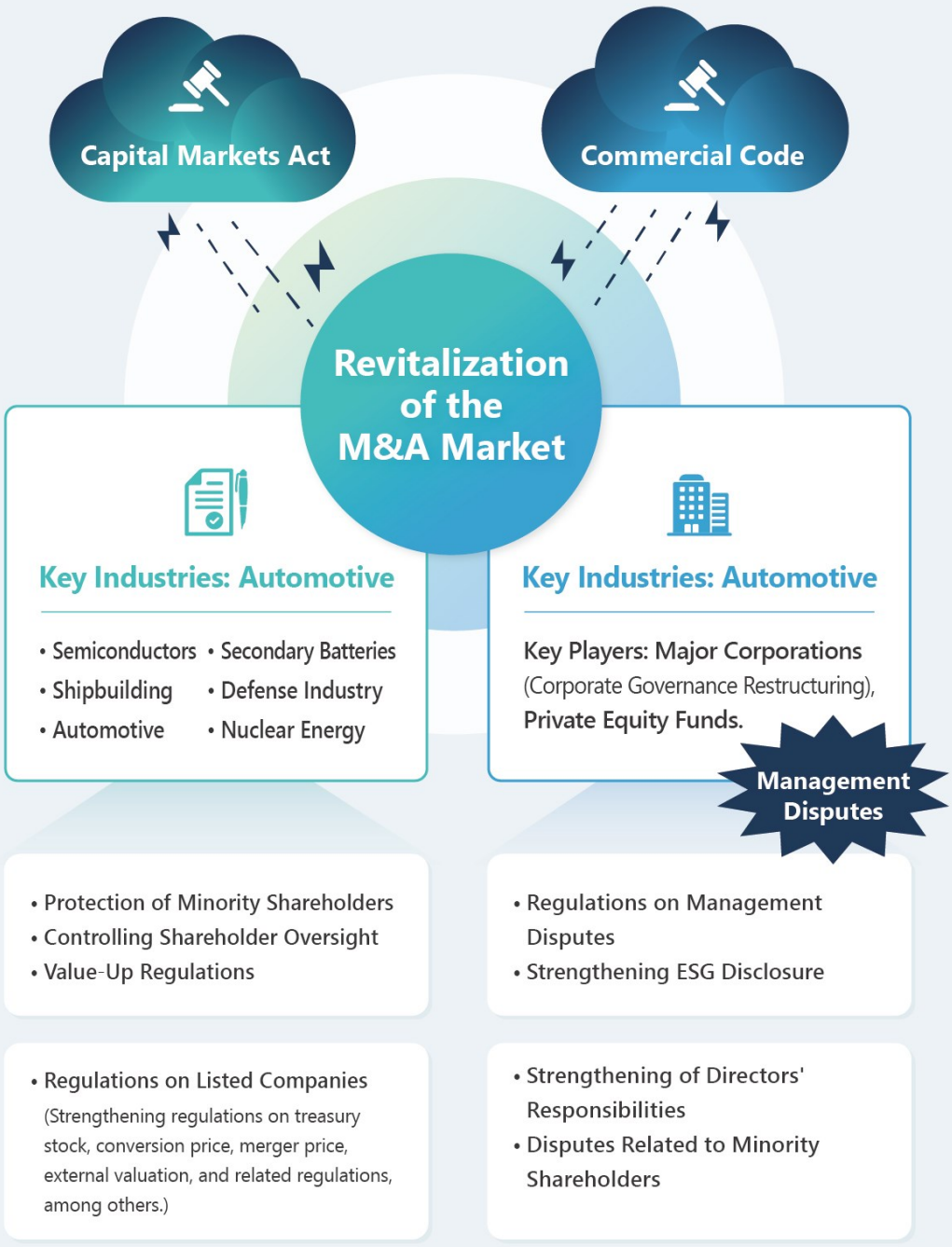


I. 2025 M&A Outlook

1. Anticipated Increase in M&A Activity Driven by Regional and Policy Issues

1) 2024 M&A Review

In the first half of 2024, the global M&A market was expected to rebound, fueled by optimistic predictions surrounding interest rate cuts. However, contrary to these projections, the total value of global M&A transactions only amounted to USD 1.32 trillion—a modest increase of just 5.3% compared to the same period in 2023. This outcome can be attributed to several factors: the delayed implementation of interest rate cuts, the continuation of global geopolitical instability—including the ongoing war in Ukraine and escalating tensions in the Middle East—and the political uncertainties arising from recent elections across Europe and the United States. Collectively, these dynamics have led many market participants to postpone their M&A activities, resulting in a more tempered market environment than initially expected.

However, in September 2024, the U.S. Federal Reserve enacted a 0.5% reduction in its benchmark interest rate, followed by an additional 0.25% cut in November. Similarly, the European Central Bank implemented corresponding adjustments, opting for a 0.25% reduction in both June and October. Together, these measures illustrate the influence of anticipated interest rate reductions across major global markets in the latter half of 2024.

Additionally, the confirmation of a second Trump administration has instilled a sense of political stability in the United States, which many anticipate will generate momentum in the global M&A market throughout 2025.

2) Impact of the Trump Administration's Policy Direction

The incoming Trump administration is expected to stimulate consumption and economic growth through large-scale tax cuts and expanded tax deductions for individuals and businesses. Having previously expressed dissatisfaction with the interest rate policies set by Federal Reserve Chair Jerome Powell, President-Elect Trump is likely to advocate for further reductions in the benchmark interest rate to drive economic growth. The administration also aims to enhance the efficiency of federal finances by implementing budgetary reductions, while actively promoting the growth of the cryptocurrency industry.

On the other hand, the Trump administration is expected to reverse several environmental initiatives, including the Green New Deal, mandatory electric vehicle adoption, and policies aimed at curbing automotive carbon emissions. Instead, the administration is likely to support the fossil fuel industry while relaxing or eliminating energy-related regulations. Another key priority for the administration will be strengthening national security by reshoring supply chains for critical industries—such as semiconductors, rare earth elements, and batteries—back to the United States.

Aligned with its "America First" manufacturing strategy, the incoming Trump administration is set to drive increased investment in U.S.-based advanced industries and infrastructure. This push is expected to lead to heightened activity and M&A in various sectors, including semiconductors, machinery and equipment, and fossil fuel infrastructure. However, should the administration escalate regulations

aimed at Chinese suppliers, companies reliant on such components may face significant challenges when attempting to enter the U.S. market.

3) Impact of the Third Consecutive Term of Prime Minister Modi in India

Foreign direct investment (FDI) in India stood at $28.57 billion in 2014, the first year of Prime Minister Modi's administration. Under his leadership, this figure experienced substantial growth, reaching $52.34 billion by 2022. This notable increase in FDI can be attributed to the Modi administration's proactive initiatives to promote foreign investment and bolster infrastructure development. This upward trajectory is anticipated to continue during Prime Minister Modi's third consecutive term, which began in 2024. In light of this favorable investment climate, South Korean companies are expected to expand their investments in India and pursue M&A opportunities aimed at tapping into the burgeoning Indian market.

4) Expansion of Investment in Reconstruction Projects in Ukraine

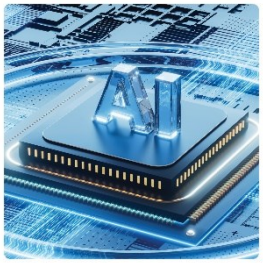
In February 2024, the World Bank projected that the cost of rebuilding Ukraine in the aftermath of the Ukraine-Russia War would reach approximately $486 billion. However, this figure is expected to increase significantly, as the Ukrainian government's reconstruction plans not only involve the restoration of destroyed infrastructure but also aim to revamp surviving assets into more climate-friendly and digitally advanced structures.

In support of these reconstruction efforts, the South Korean government has pledged assistance through grants and financial contributions from the Economic Development Cooperation Fund. In September 2023, a joint public-private reconstruction team from South Korea was dispatched to Ukraine to collaborate with the Ukrainian government in developing and finalizing post-war recovery initiatives.

While the end of the conflict remains uncertain, large-scale investments in Ukraine's reconstruction are expected to follow once the war ends. As a result, Korean companies are likely to expand their investments and actively pursue M&A opportunities in Ukraine and its neighboring countries.

2. Prospects for M&A by Industry

1) Semiconductor



The prices of key memory products such as DRAM and NAND flash have been rising, driven by production cuts from major companies. This has led to continued strong financial performance in the sector, with sustained demand from AI-related server applications. Meanwhile, demand in upstream industries, including smartphones and PCs, is showing signs of recovery. Supported by this upward trend in the semiconductor industry, there is a possibility of increased investment and potential M&A deals involving overseas companies.

2) Shipbuilding

Orders for new ships are increasing as global shipbuilders focus on building eco-friendly fleets. Domestically, shipyards are selectively securing orders, with a streamlined portfolio centered on LNG carriers and container ships, thereby enhancing production efficiency and profitability. Additionally, there is potential for M&A activity as companies look to enter the U.S. MRO (Maintenance, Repair, and Overhaul) market.

3) Automobile & Secondary Battery

In 2024, automotive demand was subdued due to the prolonged period of high interest rates. However, with expectations for future rate cuts, vehicle purchase conditions are expected to improve, and the launching of new models will likely lead to a gradual recovery in sales.

That said, the electric vehicle (EV) market has faced challenges due to reduced demand in key markets such as the U.S. and Europe, along with over-supply from Chinese manufacturers. As a result, domestic battery producers have seen a significant decline in performance. Should the incoming Trump administration reverse its green policies, further demand contraction is expected, worsening market outlook in 2025. In response to these challenges, there is a likelihood of consolidation or industry restructuring among EV and secondary battery companies.

4) Defense Industry

In recent years, the global security environment has become increasingly unstable, marked by the escalation of armed conflicts such as the Ukraine-Russia war and the Israel-Hamas conflict. This shift has led to an increase in defense spending across nations, spurring growth in the global defense industry. As a result, South Korean defense manufacturers have experienced growth in exports. Given the continued nature of international conflicts, it is expected that the defense sector's growth and foreign exports will persist in 2025.

5) Nuclear Power Generation

With the election of President Trump, the U.S. is expected to increase its focus on nuclear power and Small Modular Reactors (SMRs). Given the competitiveness of domestic nuclear power companies in construction and operation, there is potential for increased overseas orders and exports of nuclear power plants. Consequently, domestic companies are expected to pursue more active overseas investments and M&A opportunities in the nuclear energy sector.

3. Outlook on Deals and Restructuring Related to Corporate Governance Reforms of Major Conglomerates

In recent years, major conglomerates have actively pursued corporate governance restructuring initiatives, such as spin-offs (including both demergers and physical spin-offs) and business transfers, under the banner of selective focus by business line, maximizing synergies across business units, and enhancing shareholder value.

That said, as these restructuring efforts continue, the anticipated tightening of M&A-related regulations is expected to present significant challenges. For example, it has been customary for newly established spin-off entities to allocate shares to treasury stocks held by the parent company during demergers of listed corporations. However, in June 2024, the Financial Services Commission (FSC) proposed amendments to the Enforcement Decree of the Capital Markets Act and related regulations, which seek to restrict the allocation of new shares to treasury stock in such scenarios (see Section II.3.1 below).

In addition, discussions are underway regarding amendments to Article 382-3 of the Commercial Act to expand the scope of directors' fiduciary duties to include not only the "company" but also its "shareholders." This proposed amendment appears to be driven by criticism that past business restructuring processes of major conglomerates have insufficiently accounted for the interests of minority shareholders. The intention behind the amendment is to institutionalize the consideration of shareholder interests in the execution of business restructurings (see Section II.4.1 below).

Considering these potential legislative changes, a substantial number of deals aimed at corporate governance restructuring are likely to be undertaken by major conglomerates in 2025.

4. Prospects for M&As by Private Equity Funds (PEFs)

< Recent Trends in PEFs >

Year	Number of General Partners (GPs)	Cumulative Committed Capital	Cumulative Drawn Capital	Institutional PEF Investment Amount	Undrawn Commitments
2023	422	KRW 136.4 trillion	KRW 98.9 trillion	KRW 32.5 trillion	KRW 37.5 trillion
2022	415	KRW 125.3 trillion	KRW 97.1 trillion	KRW 36.9 trillion	KRW 28.2 trillion

In the domestic M&A market, private equity firms (PEFs) have emerged as key players driving market growth. As of 2023, the number of General Partners (GPs) managing domestic institutional PEFs increased to 422, up by 7 compared to the previous year. Additionally, the committed capital for institutional-only PEFs reached approximately 136.4 trillion KRW in 2023, while actual investments made totaled 98.9 trillion KRW, representing year-on-year increases of 8.9% and 1.9%, respectively.

However, the investment deployment scale of institutional-only PEFs in 2023 amounted to 32.5 trillion KRW, reflecting an 11.9% decrease from 36.9 trillion KRW in 2022. Meanwhile, the undrawn committed capital (dry powder), which indicates the potential for additional investments, stood at KRW 37.5 trillion at the end of 2023, reflecting a 33% increase from KRW 28.2 trillion in 2022. Furthermore, the total exit value through methods such as M&A and IPOs was 10.8 trillion KRW in 2023, showing a 15% decrease compared to the previous year. In contrast, the intermediate exit value from dividends or third-party sales increased by approximately 48% to 8 trillion KRW.

The decline in investment deployment and the reduction in final exits, such as M&A, are largely attributed to the economic slowdown caused by high interest rates, which have led to a contraction in the domestic M&A market.

Recently, asset managers have diversified their investment strategies by rolling out infrastructure funds, targeting sectors such as industrial waste treatment facilities and data centers. Going forward, these infrastructure funds are expected to diversify beyond traditional SOC assets, such as roads and ports, with a growing focus on digital infrastructure.

Furthermore, due to the delayed interest rate cuts, PEFs are currently operating with more limited available capital than in previous years. Consequently, there has been a noticeable increase in the formation of consortiums, with PEFs teaming up with financial investors (FIs) and strategic investors (SIs) to engage in transactions.

At the same time, PEFs have increasingly embraced activist strategies, moving away from traditional buyout approaches to actively engaging in corporate decision-making. In 2023, the number of domestic companies targeted by activist funds surged nearly tenfold, from 8 in 2019 to 77, with similar cases continuing to emerge. This shift is primarily driven by the recent slowdown in the Korean M&A market, which has reduced the availability of attractive acquisition targets, coupled with a significant increase in uninvested committed capital (dry powder) held by PEFs, prompting them to adopt activist strategies as a viable alternative.

Additionally, regulatory changes regarding tender offers also appear to have contributed to this trend. Previously, PEFs were required to deposit funds in advance to initiate a tender offer. However, in 2023, regulatory changes allowed PEFs to initiate a tender offer solely based on Letters of Commitment (LOCs) issued by investors. Going forward, PEFs' activist strategies are expected to persist not as a temporary phenomenon, but as a sustained approach to enhancing returns.

5. Outlook on the Increase in M&A Activity Due to Management Disputes

As evidenced by recent cases involving Hanmi Pharmaceutical, Our Home, and Korea Zinc, disputes over corporate control have been on the rise. Several factors underpin this trend: (i) the dilution of the largest shareholder's stake due to inheritance taxes and other succession-related issues, leading to minimal disparity in ownership between the largest and second-largest shareholders; (ii) a shrinking M&A market, prompting PEFs to increasingly intervene in management disputes as a new area of focus; and (iii) the "Korea Discount" phenomenon, where the undervaluation of domestic companies in the stock market makes them prime targets for PEFs, often at relatively low acquisition prices.

Recent cases also illustrate a notable trend where owner families are joining forces with PEFs to engage in corporate control disputes. These disputes are no longer limited to simple tender offers; they now involve multifaceted strategies, including public campaigns to win over minority shareholders, share buybacks, capital increases, and injunction filings, resulting in increasingly complex and varied conflict dynamics.

Looking ahead, as equity dilution caused by inheritance and corporate succession continues to grow, related activities such as M&A, corporate restructuring, and disputes over corporate control are expected to increase.

II. Prospects for the Introduction of Regulations, Strengthening of Supervision, and Disputes in Relation to M&A

1. Introduction of Regulations and Strengthening of Supervision due to Changes in M&A Trends

1) The Likelihood of Increased Oversight and New Regulations in Response to Rising Management Disputes

Recently, PEFs have attempted to acquire control of major publicly listed companies, such as Korea & Company and Korea Zinc, through tender offers. This trend is expected to continue, with similar acquisition attempts likely to emerge. In response to concerns over short-term stock price fluctuations and the resulting market instability caused by these ownership disputes, regulatory authorities, including the Financial Supervisory Service, have indicated a move toward increased oversight. For instance, the Financial Supervisory Service has recently launched investigations into allegations of unfair trading involving tender offerors, target companies, and the securities firms acting as tender offer managers.

Looking ahead, disputes arising from tender offers are anticipated to increase, particularly among listed companies where the equity gap between the largest and second-largest shareholders is narrow, and the company is undervalued. These disputes are likely to fuel further regulatory scrutiny and tighter oversight by authorities.

In this context, the recent disputes have reignited discussions about ensuring that minority shareholders also benefit from corporate control premiums. As a result, the long-debated introduction of a mandatory tender offer regime under the Capital Markets Act may gain momentum. The government's proposed amendment to the Capital Markets Act mandates that, when acquiring more than 25% of a listed company's shares to become its largest shareholder, the acquirer must conduct a tender offer for more than 50% plus one share of the total outstanding shares at the same price as the acquisition. Monitoring the legislative progress of this proposal will be crucial in the coming months.

2) The Growing Importance of ESG and Upcoming Disclosure Regulations

Global PEFs, particularly European PEFs, apply, more often than before, ESG-specific premiums or discounts in the calculation of enterprise value, considering the ESG performance and risk of the target companies. In Korea, there has been a discussion on the introduction of a system that obligates large-

scale listed companies to disclose ESG matters. Such system was originally scheduled to be introduced in 2025, but the introduction has been postponed until 2026 in consideration of the difficulties faced by companies in preparing for the disclosure.

In the future, the introduction of regulations such as ESG disclosures, along with the growing emphasis on the importance of ESG factors and their impact on corporate value, must be considered during M&A transactions. Specifically, when the target company is located in Europe or operates in industries that export to European countries, it is crucial to thoroughly verify whether the company complies with ESG-related principles and disclosures, including the European Sustainability Reporting Standards and the Corporate Sustainability Due Diligence Directive (CSDDD).

2. Potential Regulations for Minority Shareholder Protection, Controlling Major Shareholders, and Enhancing Corporate Value (Value-Up)

1) Pre-disclosure of Insider Trading

Effective July 24, 2024, the revised Capital Markets Act imposes a new pre-disclosure requirement on insiders, including executives and major shareholders, in relation to changes in their holdings in listed companies. Specifically, if a transaction involves either more than 1% of the company's total issued shares or exceeds KRW 5 billion in transaction value (based on cumulative transactions over the preceding six months), the insider must disclose key information—such as the purpose of the transaction, the transaction amount, and the transaction period—at least 30 days prior to the commencement of the transaction. Non-compliance with this disclosure obligation may result in a fine, which can be up to 2/10,000 of the company's market capitalization, with a maximum cap of KRW 2 billion. However, certain financial investors—specifically those with high levels of internal controls and a low likelihood of utilizing non-public material information, such as pension funds and foreign financial investors equivalent to domestic financial investors—are exempt from this pre-disclosure obligation.

2) Potential Amendments to Laws for Minority Shareholder Protection

Several amendments to the Commercial Code are currently under review in the National Assembly, with a primary focus on enhancing the protection of minority shareholders' rights and limiting the influence of controlling shareholders. Key provisions include the mandatory implementation of cumulative voting, expanded separate elections for audit committee members, the allowance of advisory shareholder proposals, and the mandatory adoption of electronic voting. Proponents argue that these measures are essential for safeguarding the interests of minority shareholders, while critics have raised concerns about potential conflicts of interest among shareholders and the risk that these measures could be used by activist investors to target corporate governance. Given these differing viewpoints, it is important to closely monitor the progress of these legislative developments.

In parallel, proposed amendments to the Capital Markets Act are aimed at protecting the interests of general shareholders in listed companies. One key proposal is to allow shareholders of the parent company to receive up to 20% of a subsidiary's newly issued shares through preferential allocation when the subsidiary is listed following a demerger. Additionally, the current five-year review period for the stock exchange's listing process following a demerger would be abolished, allowing decisions to be made based on a continuous evaluation of the parent company's efforts to protect the interests of its general shareholders, without a fixed time frame. The amendments also seek to apply the same

level of scrutiny to other corporate restructuring methods, such as business transfers or in-kind contributions, which may bypass traditional demerger procedures.

If these amendments are enacted, listed companies will face increased regulatory burdens when determining M&A structures and corporate governance, as they will need to account for these new requirements. However, from the perspective of general shareholders, these changes could offer valuable opportunities to benefit from the growth potential of promising business units, irrespective of corporate restructuring processes.

3) Introduction of Measures to Promote Shareholder Returns and Enhance Corporate Value (Value-Up)

The concept of the "Korea Discount," which posits that South Korean companies suffer from low capital efficiency and are undervalued in the market, has long been a subject of discussion. In response to this, relevant governmental agencies unveiled the "Corporate Value-Up Support Plan for the Advancement of the Korean Stock Market" on February 26, 2024, which aims to enhance corporate growth and competitiveness through regulatory reforms. As part of this initiative, reforms have been introduced to allow the determination of shareholders entitled to dividends after the dividend amount has been set. Specifically, the amendment to the standard articles of incorporation for listed companies enables the establishment of a dividend record date following the declaration of the dividend amount, thereby facilitating the efficient allocation of dividend rights. In addition, the revision of the Capital Markets Act is being pursued to remove the requirement for quarterly dividends to set the record date on the last day of each quarter.

Further, on June 5, 2024, the Korea Exchange will implement revised guidelines for the Corporate Governance Report, which will require companies to include a new section on their "Corporate Value Enhancement Plan." Beginning in 2025, companies will be mandated to disclose whether they have formulated such a plan, the approach taken, and the extent of their communication with investors. This new disclosure requirement will necessitate the inclusion of specific details, such as the date of the plan's announcement, the involvement of the board of directors in the planning process, and the key points discussed. In addition, companies will be required to provide comprehensive information on investor communication, including the dates, parties involved, communication channels, and the participation of executives. These new requirements reflect an important shift toward greater transparency and enhanced shareholder engagement, with a clear emphasis on the company's efforts to improve corporate value and communicate effectively with shareholders.

3. Introduction of Other Regulatory Measures for Listed Companies

1) Strengthening Regulations on Treasury Stock Systems

On June 4, 2024, the Financial Services Commission (FSC) issued a legislative notice proposing amendments to the Enforcement Decree of the Capital Markets Act and the Regulations on the Issuance and Disclosure of Securities (hereinafter referred to as the 'Securities Issuance and Disclosure Regulations'). These amendments are primarily aimed at increasing transparency in the acquisition and disposal of treasury shares by companies, with the overarching goal of protecting shareholder value. The amendments are expected to be implemented in the near future.

Target Issue	Key Provisions
Demergers	• Prohibition of new share allocation to treasury shares.
Mergers of Listed Companies	• Prohibition of new share allocation to shares held by surviving company and treasury shares held by the dissolved company.
Listed Companies Holding More Than 5% in Treasury Shares	• A report on the status of treasury shares, their intended purpose, and future plans for handling (such as additional acquisitions or cancellations) must be prepared, approved by the board of directors, attached to the business report, and disclosed in the business report.
Disposal of Treasury Shares	• The purpose of the disposal, the counterparty, the reasons for selection, and the expected dilution effect on the share value must also be disclosed.
Acquisition of Treasury Shares Through Trust	• If the final acquisition amount is lower than the planned or disclosed amount, a justification must be submitted. • No new trust agreements may be entered into until at least one month after the conclusion of the planned treasury share acquisition period. • If the trustee disposes of shares during the trust period, the same disclosure requirements as for direct disposals must be followed, including reporting the major details of the disposal.

2) Regulations Related to Conversion Price of Convertible Bonds and Convertible Shares

Effective December 1, 2024, the amended regulations governing convertible bonds and similar instruments will introduce the following rules concerning the conversion price of convertible bonds, warrants, and convertible shares:

Target Issue	Key Provisions
Downward Adjustment of Conversion Price (Refixing)	• The conversion price can only be adjusted downward to a value determined by a specific formula that reflects the dilution effect. • In the case of a refixing due to fluctuations in market price, if the adjustment is intended to bring the conversion price below 70% of the initial conversion price, it must be approved by a special resolution at a shareholders' meeting.
Delayed Payment for Privately Issued CBs	• If more than one-month elapses between the board resolution date for the issuance of private convertible bonds and the payment date, the conversion price will be determined by reflecting the weighted average price on the third trading day prior to the payment date (instead of the previously designated subscription date).
Issuance Price of Convertible Shares	• The issuance price must not be set below the conversion price.

Therefore, if more than one month passes between the board resolution date and the actual payment date, it is important to note that the recalculation of the conversion price, along with any resulting

adjustments to the issue price, may deviate from the initially anticipated ownership percentage to be acquired by the purchaser.

3) Regulatory Improvements on Merger Valuation and External Evaluation Systems

With the amendment to the Enforcement Decree of the Capital Markets Act, effective from November 26, 2024, mergers between listed companies that are not affiliated will no longer be required to apply a prescribed valuation formula. Instead, the merger price may be determined freely, provided that an external evaluation is conducted to ensure fairness in the valuation. In the case of mergers between affiliated listed companies (including companies that were affiliates within one year from the board resolution date), the existing merger price formula will continue to apply. Additionally, the appointment of external evaluators will require the consent of the auditor or the approval of the audit committee.

For mergers between non-affiliated companies, this change strikes a balance by offering greater flexibility while strengthening external evaluation requirements to better protect minority shareholders.

Meanwhile, the amendment to the Capital Markets Act proposed in the National Assembly on December 3, 2024, extends similar regulations to listed companies. Rather than applying a uniform valuation formula, it mandates a comprehensive consideration of stock prices, asset value, and earnings potential to determine a fair merger price. The amendment also includes provisions for external evaluations and the disclosure of opinion statements from the board of directors on the merger's purpose, expected benefits, and fairness of the valuation, aimed at reducing information asymmetry for general shareholders. Monitoring the legislative progress on this front will be crucial to understanding how these changes will impact shareholder protection.

4. Strengthening of Board Members' Roles and Responsibilities and the Potential for Increased Disputes with Minority Shareholders

1) Potential Amendments to the Duty of Loyalty for Directors

Under the current Commercial Act, the duty of loyalty owed by directors is defined solely in relation to the "company." In other words, directors are required to perform their duties faithfully, in accordance with laws and the company's articles of incorporation, for "the benefit of the company" itself. Among the proposed amendments to the Commercial Code currently before the National Assembly, many include provisions to expand the duty of loyalty to encompass "the proportional interests of shareholders and the company," with the aim of upholding the principle of shareholder equality and protecting the rights of minority shareholders.

If these amendments are passed and enacted, directors will be obligated to make decisions that align with the interests of all shareholders, not just the company, for every board resolution. In this scenario, breaches of the duty of loyalty by directors and resulting issues such as misappropriation could lead to an increase in management disputes. Furthermore, there may be a heightened likelihood of minority shareholders initiating lawsuits against directors, including derivative actions. In response to these concerns, rather than amending the Commercial Act for all companies, discussions have been raised about a potential alternative: revising the Capital Markets Act to impose restrictions specifically on listed companies for the protection of minority shareholders.

2) Strengthened Board Review and Disclosure Obligations for Merger Decisions

Under the recent amendments to the Enforcement Decree of the Financial Investment Services and Capital Markets Act and the Regulations on Securities Issuance and Disclosure, the board of directors of a listed company pursuing a merger with another entity must prepare a written opinion addressing the following matters. All directors must sign this opinion statement, which will be attached to the securities registration statement and the material event report for public disclosure.

- The purpose and expected benefits of the merger
- The fairness of the merger consideration
- The reasonableness of the merger ratio and other transaction terms
- Reasons cited by any directors opposing the merger, if applicable
- Any other matters prescribed and announced by the Financial Services Commission

The introduction of a mandatory requirement for the preparation and disclosure of board opinions seeks to address prior criticisms that general shareholders were not provided with sufficient information regarding board decisions on mergers. This aligns with practices in major jurisdictions, such as the United States, where disclosure of board opinions on the rationale, economic effects, and fairness of merger terms (including the merger price and ratio) is standard. In Korea, boards have historically shown a tendency to approve proposals with high unanimity, raising concerns that publicly available materials alone may not provide sufficient insight into whether key decisions surrounding a merger were subjected to thorough deliberation. The new disclosure requirement is expected to place greater responsibility on directors to adhere strictly to standards, such as the business judgment rule, when determining whether a merger is in the company's best interest. However, this added transparency may also lead to an increased likelihood of disputes with minority shareholders regarding the content of board opinions and related matters.

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Part 2 | Labor and Employment

The Three Major Issues for 2025

Government Policies and Legislative Trends

Employment Extension Methods (Retirement Age Extension vs. Re-employment After Retirement)

- Flexible Working Hours
- Protection of Disadvantaged Workers
- Enhance Industrial Safety

Anticipated Important Judicial Decisions

Supreme Court

- Ordinary Wages and Continued Employment Conditions
- Primary Contractor as Employer
- Performance-Based Incentives in Private Enterprises

Trial Court Level

- Working Conditions After Establishment of Worker Dispatch Relationships
- Worker Status (under the LSA and the Trade Union Act)

Legal Disputes Expected to Rise Amid Economic Downturn and Growing Awareness of Rights

- Voluntary Retirement
- Layoffs and Ordinary Dismissals
- Transfers Between Affiliates
- Workplace Harassment
- Industrial Safety and Serious Accidents
- Assertion of Rights Through Labor Union Formation (for workers in special employment arrangements and labor providers for online platforms)

I. Government: Outlook for Policy and Regulation

1. Legislative and Policy Trends for Extending the Retirement Age

Extending the retirement age has become inevitable due to Korea's demographic changes, the transition to a society with increasing elderly issues, and the gap between the current retirement age (60) and the age at which National Pension benefits begin under the existing laws.

The National Assembly has pre-announced amendments to the *Act on Prohibition of Age Discrimination in Employment and Elderly Employment Promotion* ('고용상 연령차별금지 및 고령자고용촉진에 관한 법률' in Korean), which propose extending the retirement age to 65. However, strong disagreements between the business community and labor community over how to address elderly employment—whether through a uniform extension of the retirement age or re-employment after retirement—are likely to pose challenges.

At present, the government's core policy direction appears to be towards maintaining the current retirement age of 60, while promoting 'continuous employment after retirement age' and offering related government support. Specifically, the government is expected to incentivize businesses to re-employ elderly workers as part-time or contract employees, ensuring their continued participation in the workforce.

Simultaneously, discussions on wage system reforms, which are closely tied to retirement age extension, are anticipated to continue in 2025.

2. Introduction of Flexible Working Hours and Other Systematic Improvements

The recently proposed *Special Act on Strengthened Competitiveness and Innovative Growth of the Semiconductor Industry* ('반도체산업의 경쟁력 강화 및 혁신성장 특별법안' in Korean) focuses on government subsidies and exemptions for semiconductor R&D workers from the 52-hour workweek requirement. If enacted, this bill could effectively serve as a Korean version of the "white-collar overtime exemption[1]."

However, there is significant debate over the method of implementing these exemptions. The liberal opposition party objects to creating special exceptions through this law, advocating instead for the use of existing systems—such as the selective work hours system or flexible work arrangements under *the Labor Standards Act* (the 'LSA', '근로기준법' in Korean), or amend the existing the LSA. This divide between the ruling and opposition parties remains deep.

Additionally, the government and the ruling party are pursuing broader measures to enhance work-hour flexibility, such as shifting the calculation of work hours by business type from a weekly to a monthly basis. However, it remains uncertain whether they will secure the cooperation of the opposition parties to implement these changes.

[1] The 'White-Collar Overtime Exemption', introduced in the United States in 1938, exempts high-level managerial positions, professional roles, and high-income earners from working hour regulations. Japan implemented a similar system in 2018.

3. Strengthening Measures to Protect Disadvantaged Workers

In 2025, the government is expected to implement several policies aimed at protecting disadvantaged workers:

Expanded Application of the LSA to Workplaces with Fewer than Five Regular Employees	• Under the LSA, critical provisions affecting employee rights—such as restrictions on dismissal, additional wages for overtime work (Article 56), shutdown allowances (Article 46), and annual paid leave (Article 60)—currently apply only to workplaces with five or more full-time employees. - As of 2023, approximately 30% of all employees in Korea are estimated to work at workplaces with fewer than five employees. • Responding to demands from the labor community, the government plans to expand the application of the LSA to workplaces with fewer than five employees. - However, recognizing the challenges this poses for small businesses and self-employed individuals, the government is expected to pursue a phased approach, engaging in tripartite social discussions among the labor, the corporate, and the government representatives.
Enhanced Protection for Disadvantaged Workers	• The government is expected to take on a greater role in supporting so-called disadvantaged workers, such as unorganized employees not represented by labor unions. - Plans include the establishment of additional "worker connecting centers" to promote the rights and interests of these workers, increasing the total number of such centers to 10 by 2025. • In response to Korea's low birth rate, the government plans to expand childcare support programs, which include: - Raising the monthly childcare leave allowance to up to KRW 2.5 million; - Eliminating the current post-leave payment system, which defers 25% of childcare leave benefits until six months after the employee's return to work; and - Introducing new subsidies to cover work shared during childcare leave.
Stricter Measures Against Overdue Wages	• Addressing overdue wages remains a major policy objective for the Ministry of Employment and Labor under the current administration. • In 2025, the government is expected to maintain its focus on this issue with key measures, including: - Imposing stricter sanctions on companies that habitually delay wage payments; - Correcting illegal workplace practices and fostering compliance with labor laws by both labor and management; and - Reducing serious workplace accidents, etc.

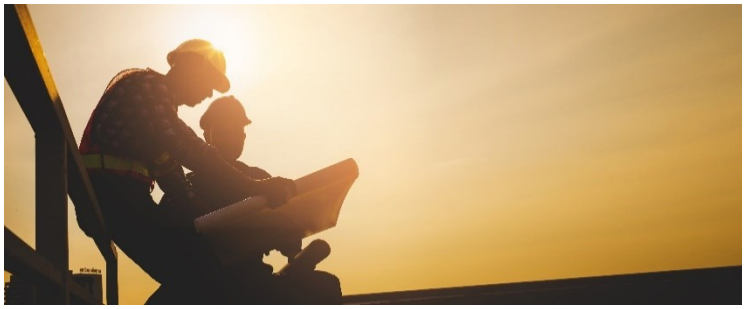
4. Enhancement of Occupational Safety

The government is expected to continually strengthen occupational safety measures to reduce industrial accidents. However, its approach is likely to shift towards emphasizing self-regulated preventions through risk assessments, rather than focusing primarily on punitive measures. In this model, labor and management, as those most familiar with the worksite itself, are encouraged to proactively identify and address hazardous or dangerous conditions.

A risk assessment should be led and overseen by the employer, with participation from the personnel in charge of safety and health, supervisors, and general employees. Therefore, the employer must thoroughly prepare in advance by establishing rules and standards for conducting the risk assessment, selecting responsible individuals and participants, and identifying hazardous and risk factors within the workplace. This preparation should allow the employer to evaluate and determine the level of risk, prioritize measures to reduce risks, and implement those measures effectively, ensuring that the risk assessment process is carried out properly.

II. Labor and Business Communities: Outlook for Direction and Activities

1. Labor Community



The labor community is expected to call for: (1) the expansion of the application of the LSA to workplaces with fewer than five employees, (2) the extension of the retirement age, (3) amendments to Articles 2 and 3 of *the Trade Union and Labor Relations Adjustment Act* ('Trade Union Act', '노동조합 및 노동관계 조정법' in Korean), which pertain to expanding the definition of employers and clarifying the scope of liability for damages related to industrial actions (commonly referred to as the 'Yellow Envelope Act'), and (4) the protection and guarantee of rights for all workers, including those employed in non-standard forms such as online platform employees and special types of employment.

2. Business Community

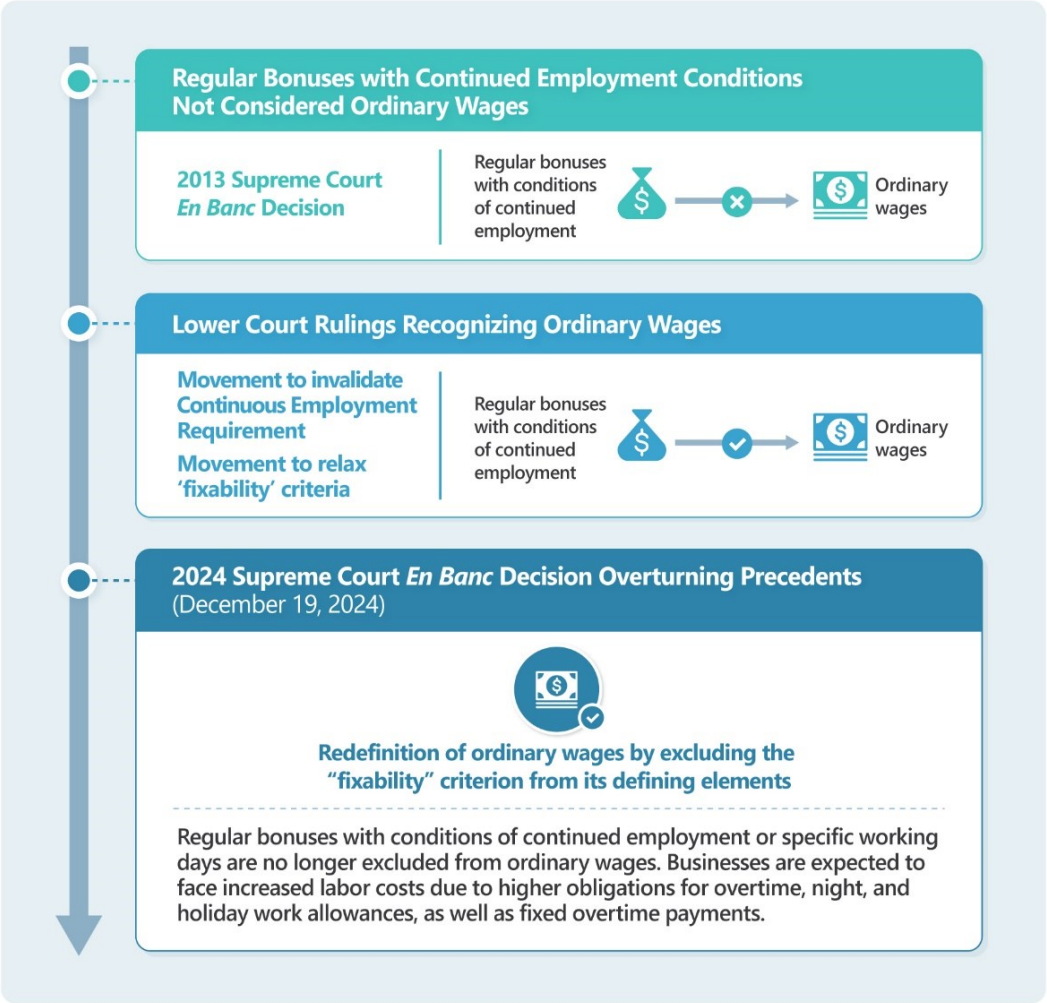
The business community, on the other hand, is likely to advocate for greater labor market flexibility and the modernization of labor-management relationships. Specifically, to enhance labor market flexibility, they are expected to request measures such as the flexibilization of working hours and rationalization of wage systems centered on job roles and performance. To modernize labor-management relationships, they are likely to demand the prohibition of workplace takeovers, the allowance of replacement workers during industrial actions by labor unions, and the improvement of the unfair labor practice system.

Additionally, in response to the demands of the labor community, the business community is anticipated to favor a "rehiring after retirement" approach over extending the retirement age. Regarding the expansion of the LSA to workplaces with fewer than five employees, they are expected to propose a phased approach, considering the challenges faced by small business owners and self-employed individuals. As for the Yellow Envelope Act, they are likely to continue opposing to its implementation.

III. Court: Outlook for Supreme Court Decisions and Dispute Trends

1. Outlook for Supreme Court Decisions

1) Cases Regarding Ordinary Wages Tied to Continued Employment



On December 19, 2024, the Supreme Court issued landmark decisions in cases involving wages tied to continued employment or those contingent on meeting specific working-day thresholds. This ruling unanimously overturned the criteria for determining 'ordinary wages' established by the 2013 *en banc* decision (Supreme Court *en banc* Decision 2012Da89399, December 18, 2013, '2013 Decision'), and redefined the concept of 'ordinary wages' (Supreme Court *en banc* Decisions 2020Da247190 and 2023Da302838, December 19, 2024, collectively the "2024 Decisions").

According to the 2013 Decision, the indicators of ordinary wages included compensation for predetermined work, regularity, uniformity, and fixability. Among these, 'fixability' referred to the need for the wage to be predetermined in advance, ensuring that it could serve as the basis for calculating additional pay for overtime work. Thus, wages contingent on conditions such as continued employment or a minimum number of workdays were excluded from ordinary wages due to their lack of fixability, as their fulfillment could not be guaranteed in advance.

However, the 2024 Decisions redefined the concept of ordinary wages by excluding 'fixability' as an indicator. The Court redefined ordinary wages as 'wages determined to be paid regularly and uniformly as compensation for predetermined work.' Specifically, the Court eliminated fixability on the grounds that it lacked a legal basis, was inconsistent with the mandatory nature of ordinary wages, and weakened the predictability of wage calculations by linking ordinary wages to potentially variable factors such as actual work performed. Instead, the Court emphasized that ordinary wages should fully reflect the value of predetermined work, regardless of *post hoc* variability.

Based on this new legal principle, the Court ruled that wages contingent on continued employment qualify as ordinary wages if they exhibit regularity and uniformity as compensation for predetermined work, regardless of the employment condition. Similarly, wages tied to a minimum number of workdays were deemed ordinary wages, provided the condition was set within the scope of predetermined workdays. For instance, in a five-day workweek system, a 15-day minimum work condition was considered reasonable for workers fully performing their predetermined duties, making such wages qualify as ordinary wages.

The Court, however, acknowledged the potential impact of overturning the 2013 Decision on numerous labor-management relationships and the social costs of ensuing legal disputes. Therefore, it ruled that the new principle would only apply beginning with ordinary wage calculations from the date of the 2024 Decisions, and not retroactively other than the exceptions. Exceptions include the specific *en banc* case itself and other ongoing parallel cases in court as of the decision date, to which the new principle would apply retroactively.

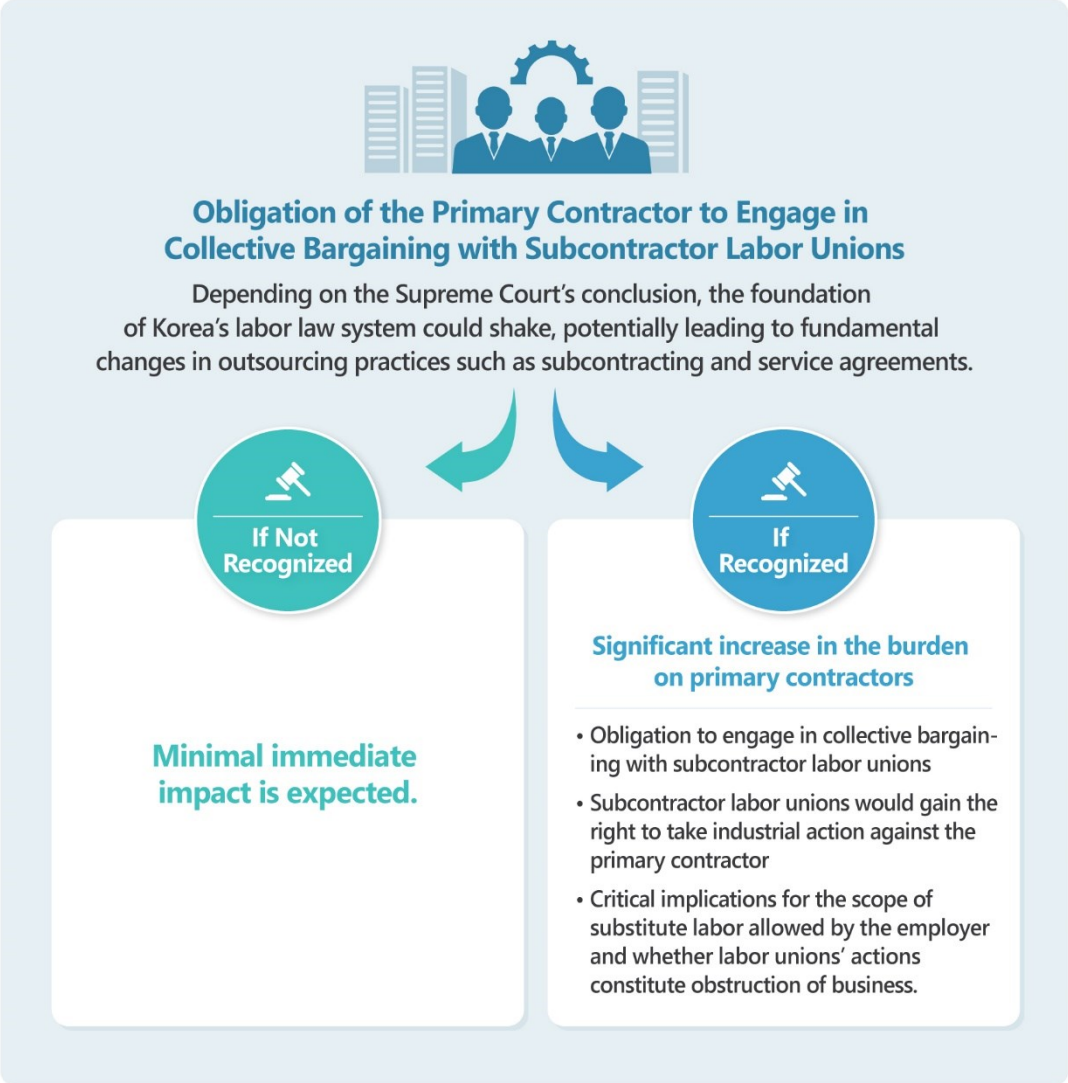
Under the 2013 Decision, 'fixability' had been firmly established as a key indicator of ordinary wages in judicial rulings, administrative practices of the Ministry of Employment and Labor, and labor-management interactions. Despite limiting the retroactive application, the 2024 Decisions fundamentally redefined the concept of ordinary wages, with potentially hundreds of pending cases affected. The immediate application of this new principle for wage calculations is expected to significantly increase the financial burden on businesses.

Under the new legal framework, ordinary wages are now defined solely as 'wages determined to be paid regularly and uniformly as compensation for predetermined work,' without consideration of whether they were actually paid. While this simplification appears straightforward, it blurs the

distinction between ordinary wages and average wages. Consequently, the likelihood of applying Article 2(2) of the LSA, which ensures that ordinary wages serve as the minimum threshold for average wages, has increased. This necessitates comparing ordinary wages and average wages for salary calculations. Moreover, businesses offering fixed overtime pay may face challenges in revising their payment structures. Additionally, businesses that provide fixed overtime pay have encountered the issue of needing to increase these payments.

Looking ahead, disputes over issues such as the "compensation for predetermined work" or conditions tied to the number of workdays are expected to rise, suggesting that litigation surrounding ordinary wages will continue for the foreseeable future.

1) Cases Regarding Whether the Primary Contractor Is an Employer



The issue centers on whether the primary contractor is obligated to engage in collective bargaining with a subcontractor's labor union, despite lacking a direct employment relationship.

The Hyundai Heavy Industries case, involving in-house subcontracting, was brought before the Supreme Court in 2018 and is currently under review by the Supreme Court's *en banc* panel. Meanwhile, in 2024, *the CJ Logistics case*, which concerns consignment service agreements, was also submitted to the Supreme Court. In *the Hyundai Heavy Industries case*, the lower court ruled that the primary contractor has no obligation to engage in collective bargaining with the subcontractor's labor union. In contrast, in *the CJ Logistics case*, the lower court recognized the primary contractor's duty to engage in such collective bargaining.

Under the current Trade Union Act, only employers with a direct employment relationship are required to engage in collective bargaining. However, the labor community argues that the primary contractor with substantial control over working conditions should also be deemed an employer in this context. This interpretation has gained traction in Labor Relations Committee rulings and some trial court decisions, fueling ongoing controversy.

If the primary contractor's status as an employer is acknowledged in the context of collective bargaining, the primary contractor would then bear the obligation to engage in collective bargaining with numerous subcontractor unions. Subcontractor unions could also initiate industrial action against the primary contractor. Furthermore, such recognition would impact the scope of an employer's right to replacement work under Article 43 of the Labor Union Act and the application of criminal obstruction of business charges against union activities. If the Supreme Court upholds this view, the primary contractors could face significant new obligations, including engaging with multiple subcontractor unions and accommodating industrial actions. Such a decision could profoundly impact contracting, outsourcing practices, and the broader labor law framework in Korea.

This issue also intersects with the Yellow Envelope Law currently under legislative consideration, adding further complexity. The timing of the Supreme Court's decision will be closely watched.

2) Cases Regarding Performance-Based Incentives in Private Enterprises

The key question is whether performance-based incentives paid by private enterprises qualify as wages under the LSA and should therefore be included in severance pay calculations.

Historically, performance-based incentives in private enterprises have not been considered 'compensation for labor.' However, in 2018, the Supreme Court ruled that performance-based incentives in public institutions constitute wages, prompting numerous lawsuits seeking similar recognition for private-sector incentives.

A case involving a major company is currently pending before the Supreme Court. Its outcome could have far-reaching implications for private enterprises.

2. Need for Attention to Significant Trial Court Decisions

1) Issue of Setting Working Conditions Once a Worker Dispatch Relationship Is Recognized

While the Supreme Court has established criteria for determining worker dispatch relationships, controversies remain regarding their application, leading to numerous disputes over unlawful dispatch claims.

Since the establishment of the legal principles in Korea governing the recognition of worker dispatch relationships, the Supreme Court has recently issued decisions addressing the determination of working conditions following the establishment of such relationships (Supreme Court Decisions 2019Da222829 and 2019Da222836, March 12, 2024).

The rulings state that, when a worker dispatch relationship is established and there are no employees of the employing company performing similar or equivalent tasks, it is generally presumed that the working conditions should be autonomously negotiated between the employing company and the dispatched worker, provided these conditions do not fall below the worker's existing conditions. However, if the employing company denies the existence of the worker dispatch relationship and autonomous negotiations on working conditions do not occur, the court may determine appropriate working conditions. This determination is based on a comprehensive consideration of factors such as the nature and value of the work performed, the employing company's wage and employment structure (e.g., pay scales based on employment type or job category), the legislative intent of the Dispatch Workers Act, principles of equity, and the working conditions applied to other dispatched workers directly employed by the employing company.

Given that the courts can now make normative decisions on working conditions even when no comparable employees exist within the employing company, disputes seeking judicial review of working conditions in cases involving worker dispatch relationships are expected to increase. Monitoring trends and tendencies in lower court decisions on this issue will be crucial.

2) Employee Under the LSA vs. Worker Under the Trade Union Act

The Supreme Court has established criteria for identifying an employee under the LSA and a worker under the Trade Union Act. However, disputes continue to arise, particularly as the industrial landscape evolves and employment types diversify.

With changes in industrial structures and the diversification of employment types, disputes over the employment status of special types of workers and laborers for online platforms have become increasingly common. Against this backdrop, the Supreme Court recently ruled that 'TADA[2]' drivers qualify as employees under the LSA (Supreme Court Decision 2024du32973, July 25, 2024). In this decision, the Supreme Court introduced specific considerations for online platform workers. The Court stated: 'When determining whether workers for online platform who provide labor via online platforms are considered employees, the unique business structure where direct, individual employment contracts are less necessary due to the intermediary role of the online platform, as well as the characteristics of labor management influenced by algorithms or multiple business participants involved in the allocation and execution of tasks, must be appropriately factored into the existing criteria for determining employee status under the LSA.'

Furthermore, the Supreme Court recently made a landmark decision recognizing drivers-for-hire as employees under the Trade Union Act for the first time (Supreme Court Decision 2020da267491, September 27, 2024).

[2] A Korean transportation company that provides ride-hailing services.

In light of these developments, disputes over employee status under the LSA and the Trade Union Act are expected to continue throughout next year.

3. Outlook for Dispute Trends

With the global economic downturn, both domestic and foreign companies operating in Korea are likely to continue pursuing restructuring and workforce reductions in 2025. This is expected to lead to legal disputes concerning HR issues such as voluntary retirement programs, layoffs or ordinary dismissals tied to business discontinuation, and employee transfers between affiliates.

Disputes related to workplace harassment are expected to continue as workers become increasingly aware of their rights and as the focus on creating safe work environments intensifies. Similarly, issues concerning industrial safety and serious accidents are anticipated to continue. Furthermore, workers for online platform are likely to keep advocating for their rights, including through the establishment of labor unions.

In cases of discrimination, the Labor Relations Commission can identify comparable employees ex officio as part of its discrimination correction system. A notable Supreme Court ruling (Decision 2019Du53952, November 30, 2023) held that comparable employees can be presumed, even if none currently exist within a company's HR structure. This precedent is expected to lower the threshold for discrimination claims, potentially leading to an increase in disputes within this area.

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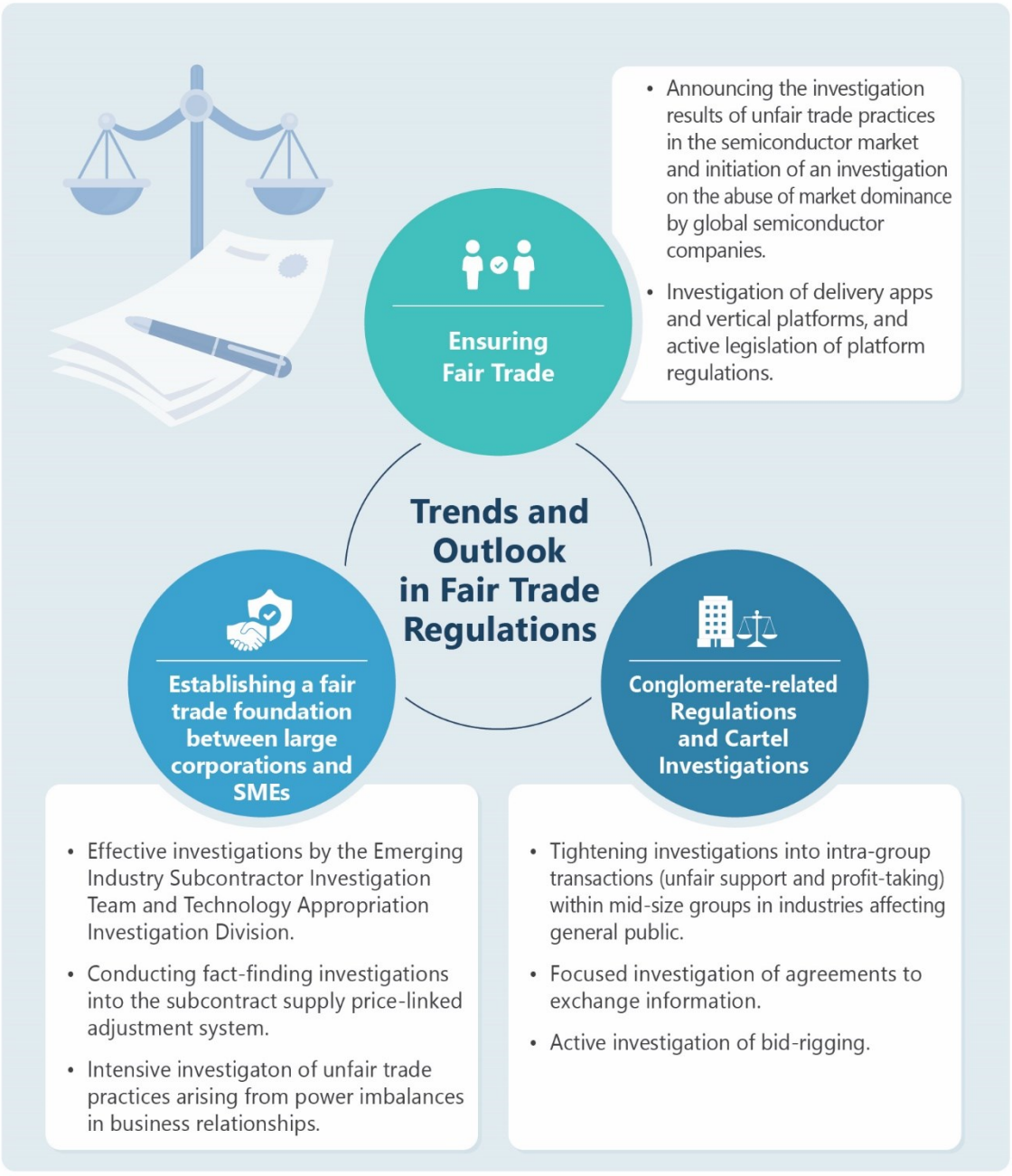
Part 3 | Fair Trade

I. Overview of Fair Trade Regulations



The Korea Fair Trade Commission (the "**KFTC**") announced its 2024 major operational plans to establish a fair market economy that supports public livelihoods and foster innovation. The KFTC outlined 4 key tasks as follows:

Establishing a stable business environment for small and medium-sized enterprises ("SMEs") and small businesses	• Nullifying unfair terms in subcontractor agreements and supporting damage recovery for companies that have been injured. • Eliminating unfair practices that affect restaurant franchisees and small- and medium-sized suppliers.
Establishing a fair trade order to foster a dynamic economy	• Enacting the Platform Competition Promotion Act, addressing collusion, and enhancing regulations on anti-competitive practices.
Creating an environment where consumers' rights and interests are guaranteed	• Improving refund policies and validity period of mobile gift cards, reward points, etc. • Conducting focused review of consumer protection issues in digital environments, including SNS markets and short-form video platforms.
Reasonable enforcement of conglomerate-related regulation system	• Defining the scope of conglomerates in a reasonable manner, and strictly enforcing measures against unfair intragroup transactions.

The KFTC has undertaken various measures, including the following: proposing amendments to the Monopoly Regulation and Fair Trade Act (the "**MRFTA**") and the Act on Fair Transactions in Large Retail Business (the "**Large Retail Business Act**") to regulate platforms; amendments to the Fair Transactions in Subcontracting Act to nullify unfair terms in subcontractor agreements; rectification of unfair terms and conditions used by foreign companies engaged in cross-border transactions, such as AliExpress and Temu; and investigations of collusion among financial institutions concerning loan-to-value (LTV) ratios and government bonds.

In 2025, the KFTC is expected to focus on investigating unfair trade practices by conglomerates to address public welfare concerns and reduce economic polarization, rather than introducing a new regulation. In addition, based on the results of various market surveys conducted in 2024, the KFTC is likely to initiate *ex-officio* investigations into relevant industries, particularly those that have drawn significant public attention, such as the semiconductor industry and delivery apps.

II. Establishment of Fair Trade Order

1. Inspection of Unfair Trade Practices in the Semiconductor Industry

In 2024, the KFTC initiated investigations on unfair trade practices in the semiconductor distribution market, including resale price maintenance by foreign semiconductor companies such as NXP and Texas Instruments. The investigation is ongoing, and the results are expected to be released in 2025.

In addition, the KFTC conducted a market survey on the semiconductor industry in the second half of 2023 and published a report in February 2024 reflecting the findings of the survey. The findings are as follows:

(i) The report highlights the characteristics of the semiconductor fabless industry, noting that a small number of leading companies (typically 1-5) hold market dominant positions and drive

technological developments.

(ii) It observes that, while companies such as AMD and Intel are fostering competition through new market entries, NVIDIA's market dominance and concentration are unlikely to diminish in the short term due to its rapid technological developments based on its CUDA design platform.

(iii) It emphasizes the need for competition authorities to carefully monitor unfair competition, such as an abuse of market dominance. For example, companies such as Synopsys, which have led the innovation of electronic design automation ("**EDA**") software products, dominate the market by leveraging their technological superiority as a core strength. The report further notes that these major EDA software companies, with their market dominance, may use compatibility with their software solutions as a barrier to entry for new competitors. Additionally, these companies may intervene with the distributors in setting resale prices or limit margins for the sale of their EDA software.

Furthermore, the KFTC conducted an AI market survey in the second half of 2024. The survey covered not only the generative AI development market but also related cloud service providers, AI accelerator companies, and domestic fabless companies. The KFTC published a summary results of this survey in December 2024, and BKL's analysis of the report can be found here.

Based on the results of the AI market survey, the KFTC is expected to initiate an investigation on the alleged abuse of market dominance by foreign semiconductor companies in 2025. In particular, the investigation is likely to focus on the AI accelerator market, the EDA related market, and the foundry market, which have been identified as exhibiting significant market concentration.

The KFTC is currently reviewing (1) the merger between Synopsys and Ansys, global suppliers of EDA software which is used in semiconductor chip design, and (2) the merger between AMD and ZT Systems, a manufacturer of AI-related servers. The results of these reviews are expected to be released in 2025.

2. Inspection of Unfair Trade Practices in the Platform Industries and Legislation of Platform Regulations

In 2024, the KFTC initiated investigations on 3 major delivery apps and vertical platforms (e.g., fashion and lifestyle), and these investigations are expected to continue in 2025. In addition, the KFTC sought to address public welfare issues, such as delivery app commission rates and delivery costs, through self-regulatory measures via the Delivery Platform-Seller Council for Mutual Growth. This trend is expected to continue in 2025, with similar self-regulatory councils to expand to other platform sectors directly related to the public beyond delivery apps.

Legislative debates on platform regulation are expected to intensify. In the 22nd National Assembly, 19 platform-related bills have been proposed. The liberal Democratic Party supports the enactment of a new law to specifically regulate online platforms, while the conservative People Power Party advocates to amend the existing MRFTA to incorporate provisions regulating dominant platforms. As a result, legislative debates are likely to be contentious. Despite these differences, both parties agree on the need for stricter regulation of certain practices by large platforms with market dominance, including self-preferencing, tying, restrictions on multi-homing, and most-favored-nation ("**MFN**") clauses. However, there appear to be differing views on key details, such as the criteria and scope of ex-ante presumption and ex-post designation method (See Section 1 of Part 5 below for details).

III. Establishment of Foundation for Fair Trade between Conglomerates and SMEs

1. Focused Investigations on Subcontracting and Price Adjustment System

In addition to a downturn in the construction industry, an economic slowdown is anticipated in South Korea in 2025, likely leading to an increase in disputes related to subcontracting transactions. In response, the KFTC is expected to focus its investigations on issues such as non-payments, delayed payments, and unfair determination of subcontractor fees.

Furthermore, the KFTC established the Emerging Industry Subcontractor Investigation Team and Technology Misappropriation Investigation Division in 2023, which are expected to become more active in 2025. Businesses related to software development and content production are advised to strengthen their compliance with the Fair Transactions in Subcontracting Act. Meanwhile, businesses in industries prone to technology misappropriation, such as robots, sensors, home appliances, and energy equipment, should issue requests for technical data in advance and exercise caution not to use any blueprints received from business partners for unintended purposes.

Nevertheless, the KFTC is expected to continue its market survey on the implementation of the subcontractor supply price-linked adjustment system, which requires adjustments in prices paid to subcontractors based on changes in the prices of underlying raw materials or goods being supplied by the subcontractors, notwithstanding the actual contracted prices. Although the system was introduced in October 2023, it has been confirmed that many companies are not implementing the system, citing agreements with their subcontractors to waive its application. During the 2024 National Assembly audit, it was also noted that the implementation rate of the supply price-linked adjustment system remains significantly low. Accordingly, the KFTC is expected to inspect practices aimed at circumventing the system, such as coercing subcontractors to waive its application or splitting subcontractor agreements.

2. Investigation of Unfair Trade Practices Arising from Power Imbalances in Business Relationships

The KFTC is expected to focus on investigating unfair trade practices stemming from power imbalances in business relationships as part of its efforts to address public welfare concerns and prevent economic bipolarization. In 2024, the KFTC conducted a market survey on exclusive distributorships and a written market survey on agents. Based on these findings, it is highly likely to initiate *ex-officio* investigations on industries where unfair trade practices were frequently identified. Notably, the KFTC may investigate the travel industry, which was newly included in the 2024 written market survey on agents.

Furthermore, the KFTC is expected to conduct follow-up *ex-officio* investigations based on the results of its written market survey on franchise transactions. These investigations are anticipated to focus on issues such as unfair practices related to mobile gift certificates, the current status of payment methods for goods and services, including failure to accept payment by credit cards. Disputes over the allocation of business territories among franchisors, franchisees, and delivery companies (platforms) are also expected to become more frequent.

Meanwhile, as a follow-up to the written market survey in the distribution sector, the KFTC is likely to initiate *ex-officio* investigations on industries where unfair trade practices were identified, such as specialty retail stores. Additionally, legislative discussions are underway to amend the Large Retail Business Act to

regulate intermediary platforms. In this regard, the KFTC may investigate unfair trade practices by intermediary platforms toward sellers.

IV. Conglomerate-related Regulations and Cartel Investigation

The KFTC has focused on enhancing policies to ease burdensome regulations on conglomerates, such as amending regulations on holding companies. Moving ahead, the KFTC is expected to focus on investigating intra-group transactions, including unfair support and self-dealing, particularly in industries closely related to the public. A market survey on intra-group transactions published in late November 2024 revealed a gradual decline in the proportion of intra-group transactions by conglomerates. Consequently, the focus of KFTC investigations in 2025 is likely to shift from conglomerates to mid-sized corporate groups in sectors such as food, pharmaceuticals, and apparel, which may directly impact consumer price.

Following the amendment to the MRFTA in 2021, which introduced agreements to exchange information as a distinct type of collusion, the KFTC is expected to intensify its investigations in this area. Notably, the KFTC plenary session ordered a reinvestigation of the alleged collusion among four major banks regarding LTV ratios, and further investigation is anticipated in 2025. Moreover, a hearing before the plenary session to address alleged collusion among primary dealers (PDs) regarding treasury bonds is also expected to take place in 2025.

Meanwhile, the KFTC investigated potential collusions in markets related to consumer prices, such as sugar and beverages, in 2024. This focus is expected to persist, with the KFTC likely to actively investigate bid-rigging cases referred by other agencies, including the Public Procurement Service

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Part 4 | Trends in Online Platform and AI Regulations

I. Trends in Online Platform Regulations

Trends in Platform Regulation Legislation

Platform Business Legislation

Proposed Amendment to the MRFTA

- Proposed by the KFTC and the conservative People Power Party
- Prohibiting self-preferencing, tying, restrictions on multi-homing, and demanding MFN clauses
- Penalty: **8% of the relevant turnover**

Proposed Online Platform Act

- Proposed by the liberal Democratic Party
- **Added prohibition on restricting data portability and access** to the proposed MRFTA amendments
- Penalty: **10% of the relevant turnover**

The Large Retail Business Act

- Also applicable to online intermediary platforms
- Obligation to either separately deposit 50% or more of the sales proceeds with a financial institution or obtain payment guarantee insurance to prevent delayed payments, as highlighted in the TMON and WeMakePrice cases

Trends in Platform Investigations

KFTC's continued *ex-officio* investigations of **delivery apps**

Investigations into Google and major gaming companies regarding **in-app payment fees** are expected

Potential fact-finding **investigation into dark pattern behaviors** by major platforms

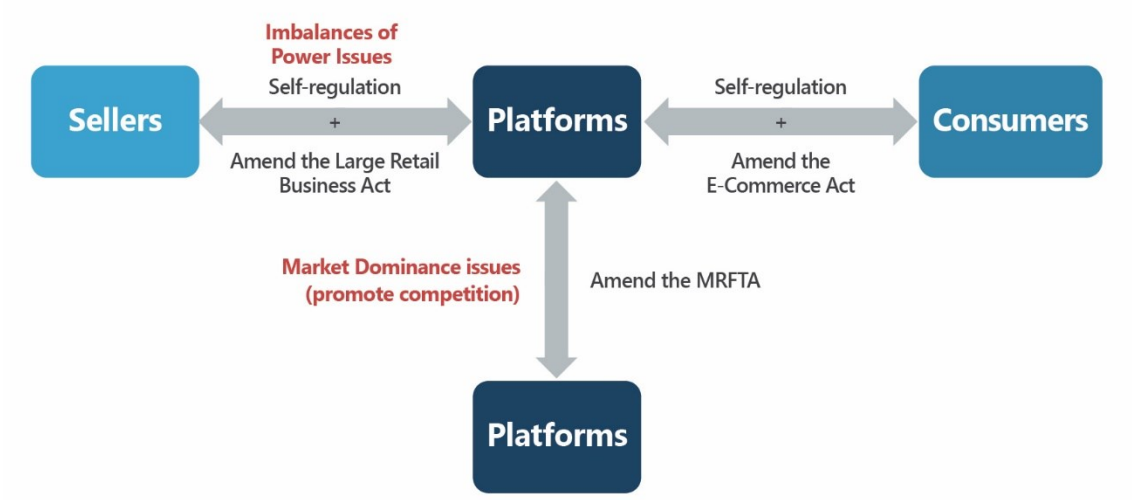
1. Legislative Trends in Platform Regulations

1) Overview

On December 29, 2023, the KFTC announced its plan to enact the Platform Competition Promotion Act. Subsequently, during the 22nd National Assembly in 2024, a number of legislative bills to regulate online platforms were proposed, primarily by members of the liberal Democratic Party. However, the KFTC decided to propose an amendment to the MRFTA rather than enacting a separate law to regulate platforms (which was a similar approach taken by Assemblymen Minkuk Kang of the conservative People Power Party on October 28, 2024). Both the proposed Online Platform Monopoly Regulation Act (the "**Online Platform Act**") and the proposed amendment to the MRFTA aim to regulate anti-competitive practices by large, market dominant platforms.

Meanwhile, the KFTC amended the Act on the Consumer Protection in Electronic Commerce (the "**E-Commerce Act**") and the Enforcement Decree of the Act to protect consumers in transactions with platforms. Accordingly, regulations on dark pattern behaviors will come into force on February 14, 2025.

Additionally, the KFTC proposed an amendment to the Large Retail Business Act to protect sellers and suppliers in their transactions with platforms, a similar approach taken by Assemblymen Minkuk Kang of the People Power Party on October 28, 2024. This amendment classifies online intermediary platforms exceeding a certain scale as large-scale distributors, imposing obligations to meet payment settlement deadlines and separately manage funds for payment.



2) Legislative Debates on the Amendment to the MRFTA and Enactment of the Online Platform Act for Regulating Platforms

Intense debates are anticipated in the National Assembly regarding the KFTC's proposed amendment to the MRFTA and the Democratic Party's proposed bill to enact the new Online Platform Act. Both bills introduce stricter regulations on large platforms exceeding a certain scale compared to the existing MRFTA. However, the two bills differ in the method and criteria for designating dominant

platforms. Both bills prohibit self-preferencing, tying, restrictions on multi-homing, and demands for MFN clauses. The proposed Online Platform Act further provides for provisions prohibiting restrictions on data portability and access. It also establishes a legal basis for issuing a cease-and-desist order and imposes stricter penalties by allowing administrative fines of up to 8% or 10% of the relevant turnover.

	Proposed Amendment to the MRFTA - Proposal by Assemblymen Minkuk Kang and the KFTC (Bill No. 2204947)	Proposed Online Platform Act - Proposal by Assemblymen Namgeun Kim (Bill No. 2201416)
Designation Method	Ex-post presumption	Ex-ante designation
Threshold	1) A single online platform with 10 million or more number of users has market share that exceeds 60% in the relevant market; or 2) three or less online platforms with respective number of users of 20 million or more have aggregated market share that exceeds 85% or more in the relevant market (online platforms with market share of less than 20% is excluded); ※ online platforms with annual turnover less than KRW 3 trillion are excluded	A single online platform with 1) a minimum capital of KRW 15 trillion; 2) annual turnover of KRW 3 trillion or more, based on the last 3 fiscal years; and 3) monthly average users of 10 million and 50,000 sellers.
Types of prohibited practices	1) self-preferencing, 2) tying, 3) restriction of multi-homing, 4) demanding MFN clauses	1) self-preferencing, 2) bundling, 3) restriction of multi-homing, 4) restrictions on data portability and access, and 5) demanding MFN clauses
Other obligations		To disclose basic data on search and exposure rankings, display standards, and to submit reports on the business overview and disclosure status to the KFTC
Presumption of anti-competitive effect	If a dominant platform operator engages in prohibited practices, it is presumed to be anti-competitive.	
Grounds for rebutting presumption of anti-competitiveness	1) If there are no anti-competitive effects or other concerns; or 2) If it is difficult to achieve purposes such as protecting information and ensuring safety through any other means	
Penalties and Sanctions	Cease-and-desist order and administrative fines of up to 8% of the relevant turnover	Cease-and-desist order and administrative fines of up to 10% of the relevant turnover

Discussions on the proposed Online Platform Act and the amendment to the MRFTA are expected to take place in the Subcommittee for Legislative Review under the National Policy Committee of the National Assembly. However, intense debates are anticipated in 2025, as the liberal and conservative parties hold differing views on the approach, as outlined above. Additionally, various opinions are

expected from the industry regarding issues, including: (i) whether to adopt an ex-post presumption or an ex-ante designation approach; (ii) how to determine the scale of platforms subject to designation; and (iii) how to define the types of prohibited practices.

3) Legislative Discussions on the Amendment to the Large Retail Business Act

The proposed amendment to the Large Retail Business Act, introduced on October 28, 2024, seeks to extend the application of the Act to online intermediary platforms exceeding a certain scale that facilitate business-to-consumer (B2C) transactions of goods or services (including gift certificates) and receive purchase orders. Specifically, platforms with annual Korean turnover from intermediary transactions of KRW 10 billion or more, or an intermediary transaction amount of KRW 100 billion or more, will be subject to the Act. Moreover, online intermediary platforms exceeding the specified scale would be obligated to draft and deliver distributor agreements in advance and would be prohibited from imposing promotional costs, coercing exclusive transactions, or demanding economic benefits against the distributors. Furthermore, these platforms would be obligated to either separately deposit 50% or more of the sales proceeds with a financial institution or obtain payment guarantee insurance to prevent delayed payments, as highlighted in the TMON and WeMakePrice cases. If enacted, the amendment is expected to significantly impact the payment fund management system for online intermediary platforms.

Various opinions from the industry are expected regarding the definition of intermediary transactions and the thresholds for turnover and transaction amount. Additionally, discussions are likely to continue on whether applying the Large Retail Business Act to online intermediaries (which did not account for online intermediary transactions at the time of its enactment) may raise issues of regulatory consistency.

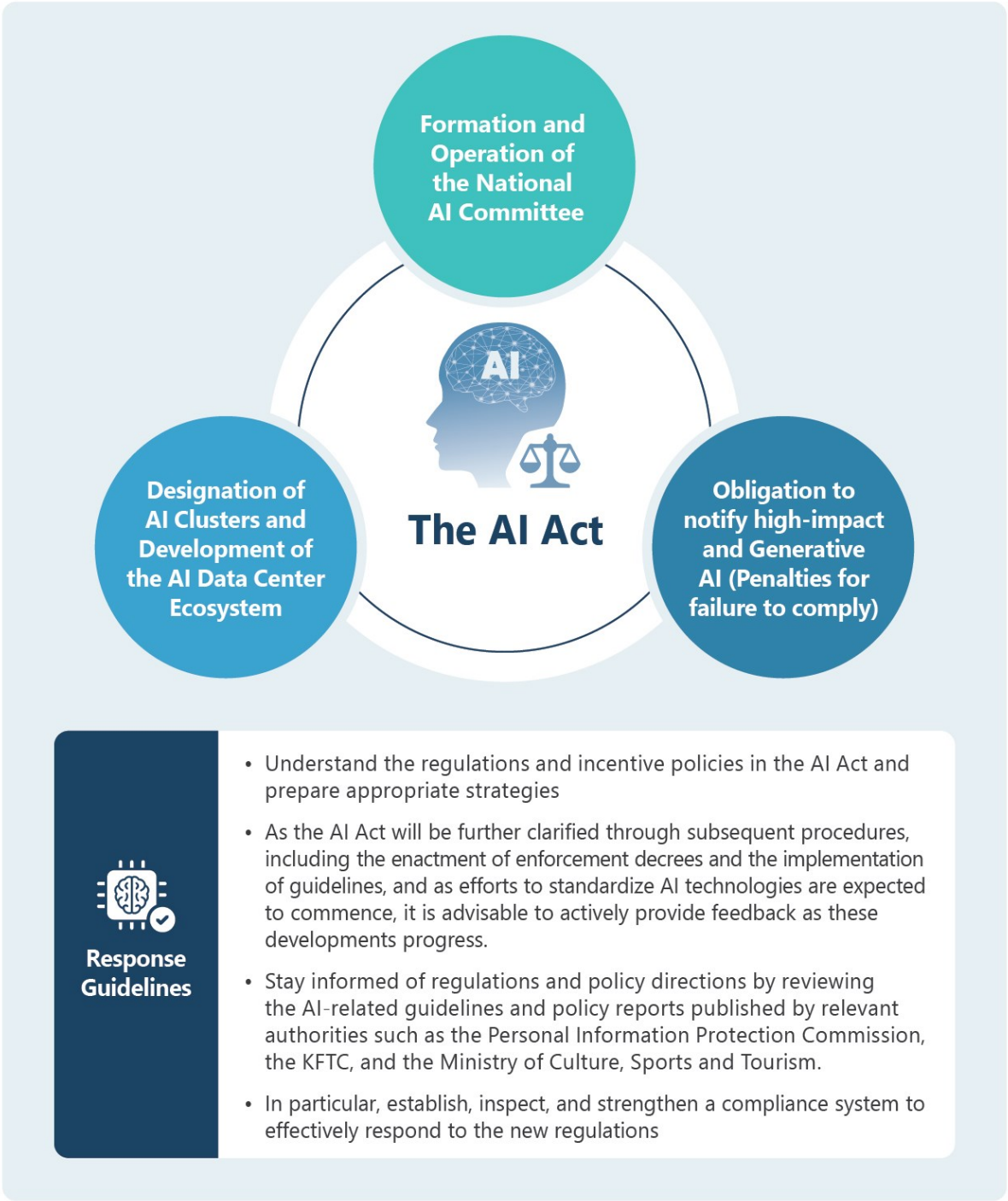
2. Trends in Platform Investigations

In July 2024, the KFTC initiated ex-officio investigations on delivery apps, and these investigations are expected to continue in 2025. Although the Delivery Platform-Seller Council for Mutual Growth reached an agreement on commission rates, social concerns over various unfair trade practices involving delivery apps remain prominent. Hence, discussions on self-regulation are likely to persist.

In November 2024, the Citizens' Coalition for Economic Justice and others organizations filed a complaint with the KFTC against Google and several major gaming companies, alleging collusion and abuse of market dominance in connection with agreements to pay in-app payment fees as rebates. Investigations into these allegations are expected to continue.

Additionally, if the amended Enforcement Decree of the E-Commerce Act comes into force on February 14, 2025, the KFTC is highly likely to conduct a market survey on major platforms for dark pattern behaviors. The amended Enforcement Decree prohibits practices such as displaying or advertising only partial prices instead of the total price required for purchasing goods or services on the initial screen without justifiable grounds, and pre-selecting options to induce consumers to purchase additional goods or services during the purchase process. Accordingly, platforms are advised to review their systems for any dark patterns before the amended Enforcement Decree comes into force.

II. Trends in AI Regulations



1. Enactment of the AI Act

1) Overview

The Act on the Development of Artificial Intelligence and Establishment of a Foundation of Trust (the "**AI Act**") was passed by the National Assembly plenary session on December 26, 2024. The AI Act

combines and aligns 19 bills proposed during the 22nd National Assembly. It aims to support the advancement of AI technologies and industries while imposing obligations on AI service providers to ensure transparency and stability, thereby fostering a trust-based environment.

2) Key Details

The AI Act comprises three main parts: (i) provisions related to the establishment of AI policies, including the establishment of a master plan and the operation of the National AI Committee, the AI Policy Center, and the AI Safety Research Institute; (ii) measures to support the advancement of AI technologies and industries, including the establishment of industrial infrastructure, support for the development of AI technologies, and the revitalization of AI industries; and (iii) obligations imposed on the government and AI companies to foster trust in AI, including the establishment of AI ethics principles, self-regulation, obligations to ensure safety, and responsibilities concerning high-impact AI systems.

Specifically, the AI Act provides a legal basis for the organization and operation of the National AI Committee to support the adoption and utilization of AI technologies. It also provides for the designation of AI industrial complexes and promotes the development of an AI data center ecosystem. Additionally, the Minister of Science and ICT is granted the authority to conduct market surveys and issue corrective orders pursuant to the AI Act.

In particular, the AI Act defines "high-impact AI systems" as systems that may significantly impact or pose risks to human life, physical safety, or fundamental rights. Service providers utilizing high-impact AI systems are required to disclose their use to purchasers. Additionally, AI systems whose cumulative computation resources used for training exceed the thresholds prescribed by Presidential Decree are subject to safety obligations, and providers must submit the results of their compliance to the Minister of Science and ICT.

The AI Act also includes provisions regulating high-impact AI systems and AI impact assessments, and allows service providers to request confirmation from the Minister of Science and ICT on whether their products or services qualify as high-impact AI. Notably, if a service provider fails to fulfill its obligation to notify the use of high-impact AI or generative AI, comply with a cease-and-desist order or corrective order, or appoint a local representative in Korea (in case of global Big Tech companies), administrative fines of up to KRW 30 million may be imposed. However, apart from the cease-and-desist order or corrective order, the AI Act does not provide specific grounds for imposing administrative sanctions on AI service providers who fail to meet their obligations under the AI Act.

3) Implications

With the enactment of the AI Act, South Korea became the second jurisdiction in the world, after the European Union (EU), to establish a comprehensive legal framework governing AI, marking a significant shift for AI technology and industries as a whole. Accordingly, service providers should thoroughly understand the regulations and policies on incentives outlined in the AI Act and develop strategies to ensure compliance and leverage potential opportunities.

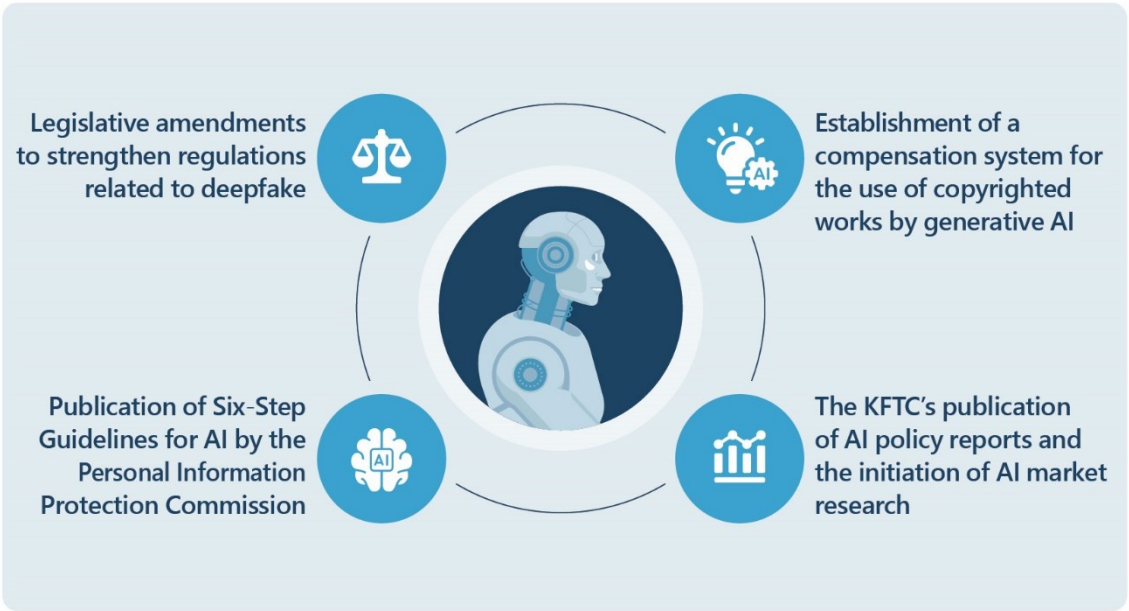
As the utilization of AI technologies continues to expand, legal requirements mandating transparency in high-impact AI and generative AI services have been explicitly stipulated by law in Korea.

Accordingly, companies providing AI-based services should incorporate these requirements from the initial stages of developing their services to ensure compliance with regulatory obligations. Moreover, with the regulatory framework governing high-impact AI systems—those that may significantly impact or pose risks to human life, physical safety, or fundamental rights—becoming increasingly stringent, companies should conduct AI impact assessments to evaluate the societal impact and develop measures to improve. Furthermore, as administrative fines of up to KRW 30 million may be imposed for failing to notify, comply with a cease-and-desist order or corrective order, or designate a local representative, changes in the operational strategies of both Korean and foreign companies are anticipated. Consequently, companies should reassess their risk management and compliance systems to mitigate legal risks.

Since the AI Act provides for the designation of AI industrial complexes, promotes the development of an AI data center ecosystem, and provides policy incentives to help companies explore new growth opportunities, companies may leverage government support to strengthen their R&D investments and expand their data infrastructure. At the same time, as the AI Act's emphasis on fostering trust extends beyond regulatory compliance and requires the development and utilization of AI technologies that fulfill social responsibilities, companies may be able to enhance their competitiveness in the market by enhancing their ethical standards for AI and developing trusted AI services.

The AI Act will be further clarified through subsequent regulatory procedures, including the enactment of enforcement decrees and guidelines. These are expected to play a pivotal role in standardizing AI technologies, bridging gaps between technological advancements and legal frameworks, and providing clear guidance to ensure compliance with regulatory requirements. In 2025, efforts to enact additional legislation to clarify the AI Act and establish AI technology standards are expected to gain momentum. Accordingly, stakeholders should closely monitor these developments and actively share their perspectives throughout the process.

2. Government's Policy Direction and Regulatory Framework for AI



1) Legislative Trends to Strengthen Regulations Against Illegal Deepfakes, Including the Amendment to the Act on Promotion of Information and Communications Network Utilization and Information Protection

As incidents involving the creation and distribution of deepfake pornography targeting the general public via the messaging app Telegram garnered public attention since August 2024, the amended Act on Special Cases Concerning the Punishment of Sexual Crimes (the "**Sexual Crime Punishment Act**"), came into effect on October 16, 2024. The amendment aims to prevent crimes and illegal activities arising from the misuse of AI technology. Moreover, the Act on the Protection of Children and Youth Against Sex Offenses (the "**Youth Protection Act**"), which also took effect on October 16, 2024, provides for obligations requiring police officers to request the Korea Communications Standards Commission to delete or block access to child or youth sexual exploitation materials posted, streamed, or distributed online (Article 38-2 of the Youth Protection Act).

In connection with the recent deepfake crisis, a series of regulatory bills have been proposed, including an amendment to the Protection of Communications Secrets Act, proposed on September 20, 2024. The proposed amendment, which has gone through the public consultation stage (from October 16, 2024 to October 25, 2024), is now scheduled for review by the Legislation and Judiciary Committee before being submitted to the plenary session of the National Assembly for deliberation and resolution. The proposed amendment provides for a new provision, which permits measures to restrict communications for individuals suspected of crimes under the Sexual Crime Punishment Act or the Youth Protection Act (Article 5, subpar. 13). However, some critics have expressed concerns that such measures may lead to excessive internet censorship and surveillance. As such, in the process of refining legal frameworks to address deepfake technology, the key issue is likely to revolve around striking an appropriate balance between regulations to protect victims' rights and fundamental rights protected under the Constitution, as well as the promotion of the use of AI technology.

The AI Act also requires that content produced using generative AI technologies, including deepfake content, must be clearly marked as AI-generated through technical indicators such as watermarks. Furthermore, if such content is deemed to significantly impact human life, safety, or fundamental rights, or is likely to cause social disruption, it will be classified as high-impact AI and subject to more strict regulations.

2) Progress on the Personal Information Protection Commission's Six-Step Guidelines for AI

The Personal Information Protection Commission announced plans to finalize its "Six-Step Guidelines for AI" by December 2024, aiming to clarify the principles and standards for applying the Personal Information Protection Act in AI environments. The guidelines categorize the AI development and service lifecycle into 3-stages: planning and data collection, data training, and AI service deployment.

Among the six guidelines, the following has already been published: (i) Criteria for pseudonymization of unstructured data (February 2, 2024), (ii) Reference model for generating synthetic data (May 30, 2024), (iii) Guidelines on processing publicly available personal information for AI development and services (July 17, 2024), and (iv) Guidelines on using and protecting personal video information for mobile video processing devices (October 14, 2024). The remaining two guidelines—(v) Guidelines for biometric information and (iv) Guidelines for ensuring transparency—are scheduled for release.

These guidelines are expected to help businesses in mitigating legal uncertainties that they may face in developing AI technologies and services, and to assist in establishing personal information protection measures tailored to the risk level of each specific technology.

3) Trends in Compensation System for the Use of Copyrighted Works in Generative AI Training

With the advancement of AI technology, discussions regarding the use of copyrighted works as data for AI training have become increasingly active. In particular, multifaceted discussions are underway to establish appropriate compensation system for copyrighted works used in AI training. The Ministry of Culture, Sports and Tourism has operated the 2024 AI-Copyright System Improvement Working Group until the end of 2024 and plans to reorganize the laws and regulations starting in 2025. Meanwhile, the Korea Copyright Commission is also conducting research to develop fair compensation system for the use of literary works in AI training.

The Ministry of Culture, Sports and Tourism and the Korea Copyright Commission will announce plans to enhance the AI-copyright system by the end of 2025. This initiative is anticipated to serve as a crucial starting point for establishing fair and transparent compensation system for the use of copyrighted works in AI training.

4) The KFTC Publishes AI Policy Report and Outlines Policy Direction for Generative AI Market

Fair and open competition among players in the AI market is essential for fostering creative business activities and protecting consumers. In this regard, the competition authorities of the G7 countries and the European Commission (EC) gathered during October 3-4, 2024, to discuss major issues related to competition in the AI market and adopted a joint statement. Following the meeting, competition authorities in various countries, including Canada, France, and Japan, have published reports addressing competition in the AI market.

The KFTC also conducted a written market survey of more than 50 Korean and foreign companies to analyze trade relationships and competitive dynamics in the Korean generative AI market, and to identify relevant competition and consumer issues. Based on the findings, the KFTC published its "Generative AI and Competition" policy report on December 17, 2024. The report incorporates the results of the market survey, expert opinions from industry, academia, and research institutes, and a review of various literatures. It addresses the following topics: (i) the current status of the generative AI value chain; (ii) an analysis of competitive dynamics in the Korean generative AI market; (iii) an analysis of competition and consumer-related issues and challenges; and (iv) future policy directions.

The report provides a detailed analysis of the competitive dynamics across four key segments: the AI semiconductor market, cloud computing market, data market, and AI service market. The report highlights that a small number of dominant players with significant market power are emerging, raising potential anti-competitive concerns. These concerns arise from the substantial capital investment and advanced technologies required to develop generative AI, as well as the structural characteristics of the market, including economies of scale and network effects. Moreover, it identifies the following practices as conducts that may raise anti-competitive concerns: (i) unilateral conduct, such as restricting access to essential inputs, inducing and retaining customers, and misappropriating technology; (ii) mergers among companies within the AI industry, including investments or partnerships by financially robust, vertically integrated businesses with startups in the AI market; and

(iii) conducts that may harm consumers' interest, such as failing to obtain proper consent from users when collecting data.

The report provides an objective analysis of the competitive dynamics in the AI market and appears to focus on establishing competition policies for future AI-related markets rather than serving purely investigative purposes. Based on the report, the KFTC is expected to enhance the existing regulatory framework to establish a foundation for fair competition in the AI ecosystem, potentially through the MRFTA and the Framework Act on Consumers. Additionally, the KFTC is likely to monitor anti-competitive practices arising in the AI ecosystem. Accordingly, it is essential to stay informed about legislative developments in AI competition policy and to reinforce compliance measures proactively.

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Part 5 | Energy/Environment

I. Outlook for Energy-Related Industries and the Markets

1. Changes in the Electricity Market System

Changes in the Electricity Market System

Introduction of a Regional Electricity Rate System

- **(Government)** Expects to address the imbalance in power supply and demand across different regions
- **(Industry)** Concerned about challenges in additional construction, perceived discrimination against private power plants, and reverse discrimination impacting certain regions

Improvement of the RPS System for New and Renewable Energy

- Introduction of Government-Led Competitive Bidding
- **(Government)** By reducing market uncertainty, expects to stimulate investment and lead to a decrease in prices
- **(Considerations)** Concerned about abolishing the obligation to supply RECs may hinder investment activation and violate the reliance and vested interests of existing businesses

Trend of Rising Industrial Electricity Rates

- **(Industry)** Concerned about the potential weakening of industrial competitiveness due to increased electricity rates
- **(Impact)** Heightened interest in direct power purchase agreements (PPAs) in areas specialized in distributed energy

1) Introduction of a Regional Electricity Rate System

The Ministry of Trade, Industry and Energy (MOTIE) has announced plans to implement a **locational marginal pricing (LMP)** system, which will assign distinct wholesale electricity prices for different regions by the first half of 2025. This initiative is part of the preliminary steps to establish a regional electricity rate system under the Special Act on Activation of Distributed Energy, to promote an efficient distribution of power plants within Korea.

During the 31st Energy Committee meeting held on May 22, 2024, the MOTIE outlined a roadmap for the differentiation of **wholesale electricity rates**, set to launch in the first half of 2025. This approach will enable accurate assessment of regional electricity costs, followed by a phased introduction of a **retail rate differentiation system** beginning in 2026. The proposed LMP framework divides the

country into three distinct regions: the metropolitan area, non-metropolitan area, and Jeju island, each subject to different system marginal prices (SMP).

The government anticipates that the implementation of LMP will lead to a reduction in SMP in regions with a higher concentration of power generators, and facilitate the entry of new generators into areas characterized by comparatively high SMP. This shift is expected to address regional imbalances in electricity supply and demand. However, concerns have been raised within the energy sector regarding the complexities associated with constructing additional power plants despite the potential price signals, the possible transfer of transmission constraints to non-metropolitan private power producers, which may disproportionately affect existing private facilities, and the perceived unreasonableness in differentiating between metropolitan and non-metropolitan areas, potentially leading to reverse discrimination against certain local governments. Thus, close attention will be necessary regarding the future implementation and specifics of the LMP system as it develops.

2) Trend of Rising Industrial Electricity Rates

As of October 24, 2024, the Ministry of Trade, Industry and Energy and Korea Electric Power Corporation raised the industrial electricity rate for large-scale customers by 10.2%, increasing it from KRW 165.8 per kWh to KRW 182.7 per kWh. Similarly, the industrial electricity rate for small and medium-sized businesses increased by 5.2%, moving from KRW 164.8 per kWh to KRW 173.3 per kWh. Overall, this represents an average increase of 9.7%. In the past three years, industrial electricity rates have increased seven times in total. Given that the average rate was KRW 105.5 per kWh in 2021, this marks an increase of more than 60% over that period. Consequently, concerns are continuously being voiced in the industrial sector, particularly among major industries such as semiconductors and steel, which consume more electricity than others. There is also growing public sentiment that if electricity rates for industrial use continue to rise while rates for other purposes, such as household use, remain unchanged, it could undermine industrial competitiveness. As attention turns to whether this trend of increasing industrial electricity rates will continue in 2025, the timing and direction of overall electricity rate adjustments remain under scrutiny.

Rising rates have sparked increased interest in self-generation or direct power purchase agreements (PPAs) within the distributed energy sector – authorized under the Special Act on Activation of Distributed Energy – particularly among industrial users. However, the limited opportunities to purchase electricity via PPAs suggest that calls for broader access will likely continue to grow.

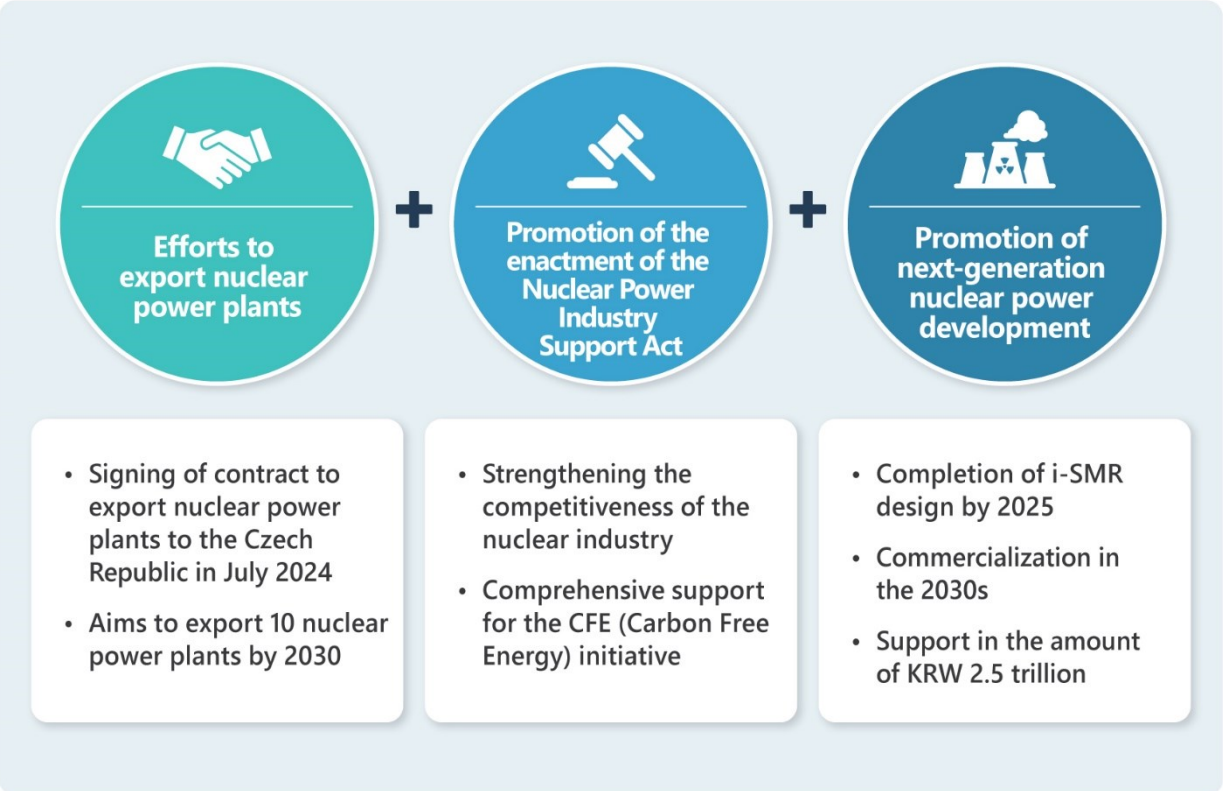
3) Improvement of the RPS System for New and Renewable Energy

On May 16, 2024, the Ministry of Trade, Industry, and Energy announced the "Strategy to Expand Renewable Energy Supply and Strengthen Supply Chains". This plan includes a reform of the Renewable Portfolio Standard (RPS) system aimed at systematically increasing the supply of renewable energy under government leadership. The new approach involves the government directly announcing the bidding quantities for each renewable energy source based on annual plans for electricity supply and demand. This marks a shift from the current RPS system, which encourages renewable energy expansion indirectly through mandatory suppliers (large-scale power generation companies with a capacity of 500 MW or more). Under the new system, the government will evaluate bidders using both price or non-price indicators and will establish long-term (20-year) fixed-price contracts with the successful bidders at their bid prices. Power generation facilities that have already

entered into long-term fixed contracts with mandatory suppliers under the existing RPS system will retain their current contracts. However, facilities operating in the Renewable Energy Certificate (REC) spot market will be encouraged to transition to long-term contracts.

The current RPS system has several structural limitations, including a complex REC weighting system, uncertainty surrounding REC prices in the spot market, and market inefficiencies caused by having a mandatory supplier that serves as both a REC supplier and demander. To address these issues, the government plans to introduce government-led competitive bidding, which is expected to reduce market uncertainty. This change aims to stimulate investment in the renewable energy sector and lower renewable energy prices by incorporating competitive elements. However, if the obligation of the mandatory supplier to provide REC is removed, it may hinder investment in the renewable energy industry and negatively impact the vested interests of existing power generation facilities that rely on on REC sales. Therefore, it will be crucial to consider these factors moving forward. The government has announced its intention to propose an amendment to the Act on the Promotion of Development, Use, and Diffusion of New and Renewable Energy in the second half of 2024. This amendment will incorporate improvements to the RPS. However, the introduction of a formal bill has been delayed due to ongoing political uncertainties in Korea. Consequently, it will be important to monitor the timing and details of this proposal closely.

2. Establishment of a Foundation to Support the Growth of the Nuclear Power Generation Industry



In the 'Economic Policy Direction for 2024', the government announced a shift away from the previous nuclear phase-out policy and plans to actively promote nuclear power plant exports. This has already

yielded results, such as signing a contract to export a nuclear power plant to the Czech Republic in 2024. It was anticipated that this government policy direction would continue, with a substantial budget for nuclear power allocated for 2025. However, given recent political developments, it is important to observe how effectively the nuclear power policy initiatives and related efforts can be pursued.

1) Signing of Contract to Export Nuclear Power Plants to the Czech Republic and Ongoing Efforts for Future Exports

Team Korea, led by Korea Hydro & Nuclear Power Co., Ltd., and including KEPCO Engineering & Construction Company, Inc., Doosan Enerbility Co., Ltd., Daewoo Engineering & Construction Co., Ltd., and KEPCO Nuclear Fuel Co., Ltd., has been selected as the preferred bidder for the construction of a new nuclear power plant in the Czech Republic in July 2024. This marks the first achievement in 15 years since the awarding of the contract for the UAE Barakah nuclear power plant in 2009. The project represents the largest investment initiative Czech history, involving the construction of up to four large-scale nuclear power plants at the Dukovany and Temelin sites, with an estimated project cost of approximately KRW 36 trillion. The final contract is anticipated to be signed in March 2025, barring any unforeseen circumstances.

The government has strongly expressed its commitment to achieving the goal of exporting 10 nuclear power plants by 2030, using the Czech project as a springboard. It has pledged to make comprehensive efforts not only to secure orders for nuclear power plant but also to promote the export of nuclear power plant facilities. This includes expanding cooperation with promising countries considering the construction of new nuclear power plants and implementing tailored marketing strategies for each nation's specific needs.

2) Promotion of the Enactment of the Nuclear Power Industry Support Act

In July 2024, the government announced plans to enact a special law aimed at supporting the nuclear power industry. This initiative is intended to establish a solid institutional foundation that allows the industry to grow independently of political influences. In September 2024, at the initiative of Representative Koh Dong-jin of the People Power Party, representing Gangnam-gu Byeong in Seoul, the "Special Bill to Support the Development of the Nuclear Power Industry" was submitted to the National Assembly and is currently under review by the Standing Committee.

The bill includes provisions aimed at enhancing the competitiveness of the nuclear industry and fully supporting the "CFE (Carbon Free Energy) Initiative." Specifically, the bill outlines the following measures: ▲ establishment and implementation of a five-year "Basic Plan to Strengthen Nuclear Industry Competitiveness" that operates independently of the administration's regime, ▲ creation of a special committee under the President to enhance nuclear industry competitiveness, ▲ development and implementation of a performance certification system, such as power purchase agreements, to facilitate the use of nuclear energy for "carbon-free transitions and the expansion of carbon neutrality" ▲ provision of administrative, financial, and tax incentives for semiconductor and other businesses that achieve certification for utilizing nuclear energy, ▲ formation of a Nuclear Industry Export Support Group under the Prime Minister's leadership, ▲ necessary financial backing to help expand nuclear industry exports, ▲ implementation of policies to diversify and advance the domestic nuclear industry, including the development, demonstration, popularization, and research and development of small and medium-sized reactors (SMRs), ▲ promotion of technology

development projects within the nuclear industry, and ▲ fostering and securing high-quality talent in the nuclear power sector, along with the designating of training institutions to prepare a skilled workforce.

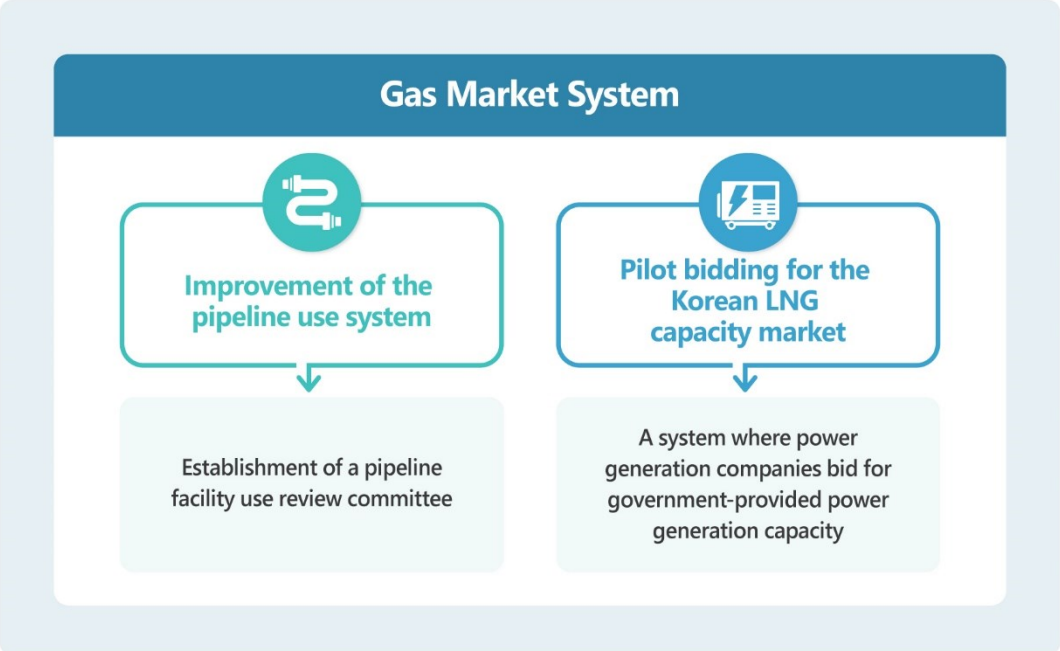
If this bill is enacted, it will provide stable government support for the nuclear industry from a mid- to long-term perspective, significantly increasing interest in nuclear energy within related sectors. However, it is necessary to monitor whether this bill will successfully pass the National Assembly and be enacted into law.

3) Promotion of Next-Generation Nuclear Power Development, Including Commercialization of SMRs

The government's ongoing support and efforts to foster the nuclear power industry extend not only to existing nuclear power plants but also to next-generation nuclear technologies. In particular, SMRs, which have been reduced to one-fifth the size of traditional large nuclear power plants, have garnered significant interest from major technology companies in the United States. South Korean government is also working to secure related technologies.

In June 2024, the Ministry of Science and ICT approved the "Plan to Promote Technology Development and Demonstration to Secure Next-Generation Nuclear Power". This plan includes goals such as completing the design of an innovative Small Modular Reactor (i-SMR) by 2025, promoting its commercialization in the 2030s, and launching a large-scale project worth KRW 2.5 trillion to support technology development and demonstration. These initiatives aim to position Korea at the forefront of next-generation nuclear power technology and the market in the 2030s. In addition, KRW 32.9 billion of the government's 2025 nuclear power-related budget has been allocated to the i-SMR technology development project. By establishing such policies, the government aims to encourage the growth of SMR-related industries and provide active support throughout 2025.

3. Efforts to Improve the Gas Market System



1) Improvement of the Pipeline Use System

As the private import of LNG expands and the number of requests from facility users for gas intake to the pipeline network of Korea Gas Corporation increases, conflicts of interest among various stakeholders have become more pronounced. Consequently, operating natural gas infrastructure in a fair and efficient manner has emerged as a major issue in the gas market.

To address this, Korea Gas Corporation has implemented revised Pipeline Facility Use Regulations starting January 2024. These changes include the establishment of a **pipeline facility use review committee** and an **intake guide system** that allows facility users to participate. The review committee consists of seven members: one representative from the Ministry of Trade, Industry and Energy, and two members each recommended by facility users, Korea Gas Corporation, and the Ministry of Trade, Industry and Energy. This committee will deliberate on the feasibility of gas intake at specific points, determine the appropriate amount of gas intake, and address other matters as requested by a majority of its members regarding the use of gas pipeline facilities. The intake guide system allows Korea Gas Corporation to establish and manage gas intake plans for facility users, taking into consideration grid operation conditions to ensure smooth gas intake.

However, private importers of LNG have raised concerns that network neutrality has not been fully achieved despite the revisions to the Pipeline Facility Use Regulations. This is largely due to the current structure in which Korea Gas Corporation, as the sole gas wholesaler, operates and manages the pipeline network. As a result, Korea Gas Corporation continues to monopolizes both the infrastructure and information related to the pipeline network. It will be important to observe the direction in which improvements or adjustments are made moving forward.

2) Pilot Bidding for the Korean LNG Capacity Market

The Ministry of Trade, Industry and Energy has announced the commencement of **pilot bidding for the Korean LNG capacity market** on October 31, 2024. The LNG capacity market is designed for power generation companies to secure capacity offered by the government through a competitive bidding process. This initiative aims to introduce a competitive framework for new LNG combined heat and power generation, allowing more economical and efficient power generators to enter the electricity market.

Specifically, the entry capacity for each year will be determined through the basic plan for electricity supply and demand, and eligible business license applicants will be selected within that capacity limit. This bidding round will announce a capacity of 1.1 GW with an additional 1.4 GW expected to be auctioned in 2025.

During this bidding process, the eligibility, price, and non-price evaluations of participating integrated energy operators will be assessed. Eligibility will be evaluated based on fundamental requirements, including the business operator's financial standing and the specifications for centrally controllable load-dispatching generators. Among the businesses that meet the eligibility criteria, those that qualify for business licenses will be selected based on a combination of price (50 points) and non-price (50 points) evaluation results. Price evaluation will utilize the **lowest price method**, meaning the wording of the bid price (CP) will be crucial in determining whether a business license is granted.

II. Global Trends in Responding to Climate Change

The climate crisis is anticipated to remain a significant global issue in 2025. During the 29th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP29), which began on November 11, 2024, discussions focused on the expansion of climate finance post-2025 and the establishment of detailed implementation rules for the international carbon market, in line with Article 6 of the Paris Agreement. Given that the second-term Trump administration in the United States is contemplating a potential withdrawal from the Paris Agreement, the pace of transitioning to decarbonized economies in major countries may experience some slow down in 2025. Nevertheless, the trend of introducing carbon pricing systems in major nations is expected to continue, leading to the emergence of global green trade barriers.

1. Introduction of Carbon Pricing Systems in Major Countries

According to a World Bank report, as of 2024, there are 75 carbon pricing systems implemented across major countries and regions, which together account for approximately 24% of global carbon emissions. Carbon pricing serves as a a policy tool that charges companies for their greenhouse gas emissions, incentivizing them to reduce those emissions. Common examples include carbon taxes and emissions trading systems. As the global carbon pricing framework is expected to expand further in 2025, it may represent substantial challenges for the Korean economy, which relies heavily on exports.

EU 	• The EU Carbon Border Adjustment Mechanism (CBAM) is scheduled to be fully implemented starting January 1, 2026 following the current transition period. - During this transition period, major products belonging to six industries, namely steel, cement, nonferrous metals, fertilizers, electric power, and hydrogen, are subject to regulation. As a result, foreign companies, including those from Korea, must calculate and report the greenhouse gas emissions embedded in their products exported to the EU on a quarterly basis. - Starting January 1, 2026, exporting companies must purchase and submit CBAM certificates that correspond to the carbon emissions of their products. The price of these certificates will be linked to the local carbon emission price under the EU Emissions Trading System (EU-ETS). - In 2025, the EU is expected to gradually implement detailed regulations regarding the CBAM registry, approval for importers, and the calculation of local carbon costs in third countries, among other aspects. Additionally, there will be discussions on whether to expand the range of products subject to CBAM. • The final version of the EU Corporate Sustainability Due Diligence Directive (CSDDD) was approved by the EU Parliament and came into effect on July 25, 2024. - As a result, EU exporters that exceed a certain size based on net sales, as well as a significant number of Korean companies in their supply chains, are expected to be impacted. - The EU CSDDD is a directive that mandates companies to conduct due diligence and disclose information to manage environmental and human rights risks that may arise within their supply chains. EU member states must implement or modify their domestic laws within two years of the directive's entry into force. Consequently, the CDSSS is expected to be applied in stages between 2027 and 2029, depending on the size of the company. - Member states may impose administrative fines on companies that violate the CSDDD, with penalties reaching up to 5% or more of their global net turnover.

United States 	• While the U.S. has not implemented a federal carbon pricing system for domestic carbon emissions, it is currently working on several bills aimed at regulating carbon emissions from imported goods produced in third countries. • One notable bill is the Clean Competition Act (CCA), which was reintroduced in the U.S. House of Representatives in late 2023. This act imposes a carbon tax on energy-intensive imports. Proposed by the Democratic Party, it has garnered attention for its bipartisan support from the Republican Party raising questions about its potential passage. - The CCA proposes a carbon tax on energy-intensive products from 12 industries, including cement, steel, aluminum, paper, and petrochemicals. Over time, the scope of the tax is expected to expand to include finished products such as electrical and electronic goods and automobiles. - The tax will initially be set at USD 55 per ton for excess emissions, based on the average carbon intensity of each product in the United States. To accommodate inflation, this rate will increase by 5% each year, potentially reaching approximately USD 90 by 2030. • The PROVE IT (Providing Reliable, Objective, Verifiable Emissions Intensity and Transparency Act) bill was proposed by the U.S. House of Representatives on July 9, 2023, and is currently undergoing legislative procedures. - The bill requires the U.S. to assess the carbon emissions levels of certain products produced in major foreign countries, including the U.S. Its purpose is to objectively verify the U.S.'s competitiveness in low-carbon emissions and to safeguard the associated economic benefits. • Additionally, the Foreign Pollution Fee Act (FPF), proposed by U.S. Senate Republicans on November 2, 2023, shares similarities with the Clean Competition Act (CCA). It imposes a fee based on the level of carbon emissions associated with major products imported into the U.S. - Under the FPF Act, products such as aluminum, cement, glass, iron, and paper will be regulated. If the carbon emissions of these imported products are 10% or higher than comparable products produced in the U.S., fees will be imposed based on the extent of the carbon emissions.
United Kingdom 	• The Carbon Border Adjustment Mechanism (CBAM) is set to be implemented in 2027, and carbon-intensive products such as steel, aluminum, and cement will be subject to regulation. - The UK CBAM will work alongside the UK Emissions Trading System (UK-ETS) to reduce the risk of carbon leakage from the country's energy-intensive industries.
China 	• A nationwide emissions trading system, which has been in place for the power generation sector since 2021, will gradually expand to include the industrial sector.
Türkiye 	• The emission trading system will aim to facilitate a link with the EU and is scheduled to be implemented in 2025 following the establishment of allocation plan in the second half of 2024.
Other countries	• Several countries, including India, Brazil, Indonesia, Thailand, and Taiwan, are also working towards introducing carbon pricing systems, such as emissions trading systems.

Global carbon regulations are expected to tighten further in 2025. A key development will be the expansion of the carbon pricing system, which imposes costs on carbon emissions from products produced abroad. This shift may create a new form of green trade barrier, significantly affecting Korean companies that are classified as net carbon exporters.

Exporters must be well-prepared, as falling to meet carbon emission or reduction standards set by the importing country's carbon pricing system could hinder their market access. For instance, with the EU's CBAM, the transition period ends in 2025, requiring companies to fully comply with obligations. It will also be necessary to monitor the progress of various carbon pricing systems being implemented in other countries and regions, including the U.S., and to develop appropriate response measures.

On the other hand, regulations that impose carbon costs on products from third countries can be seen as discriminatory and trade-distorting against foreign companies, potentially violating World Trade Organization agreements. It seems imperative for Korean government to engage in ongoing consultations with the relevant countries regarding the carbon pricing policies of major international markets.

III. Korean Greenhouse Gas Emissions Trading System (K-ETS)

The emissions trading system is a market-based program designed to reduce greenhouse gas emissions. Under this system, the government allocates annual emission permits to businesses that exceeds certain emission limits, allowing them to operate only within the allocated range. In 2012, Korea enacted the Act on the Allocation and Trading of Greenhouse-Gas Emission Permits ("Emissions Trading Act"). The first commitment period for this system began in 2015 and ran from 2015 to 2017. Currently, we are in the 3rd commitment period, which spans from 2021 to 2025. As of 2024, a total of 847 Korean companies are participating in the emissions trading system.

The national basic plan for the operation of the 4th commitment period (2026-2030) was finalized at the end of 2024. Subsequently, an allocation plan outlining the total emission allowances will be established. Additionally, significant changes to the operation of the emissions trading system and the carbon market are expected in 2025. These changes may include the expansion of carbon market participants and the introduction of derivative products, such as carbon emissions futures.

1. Key Details of Master Plan for the 4th Commitment Period

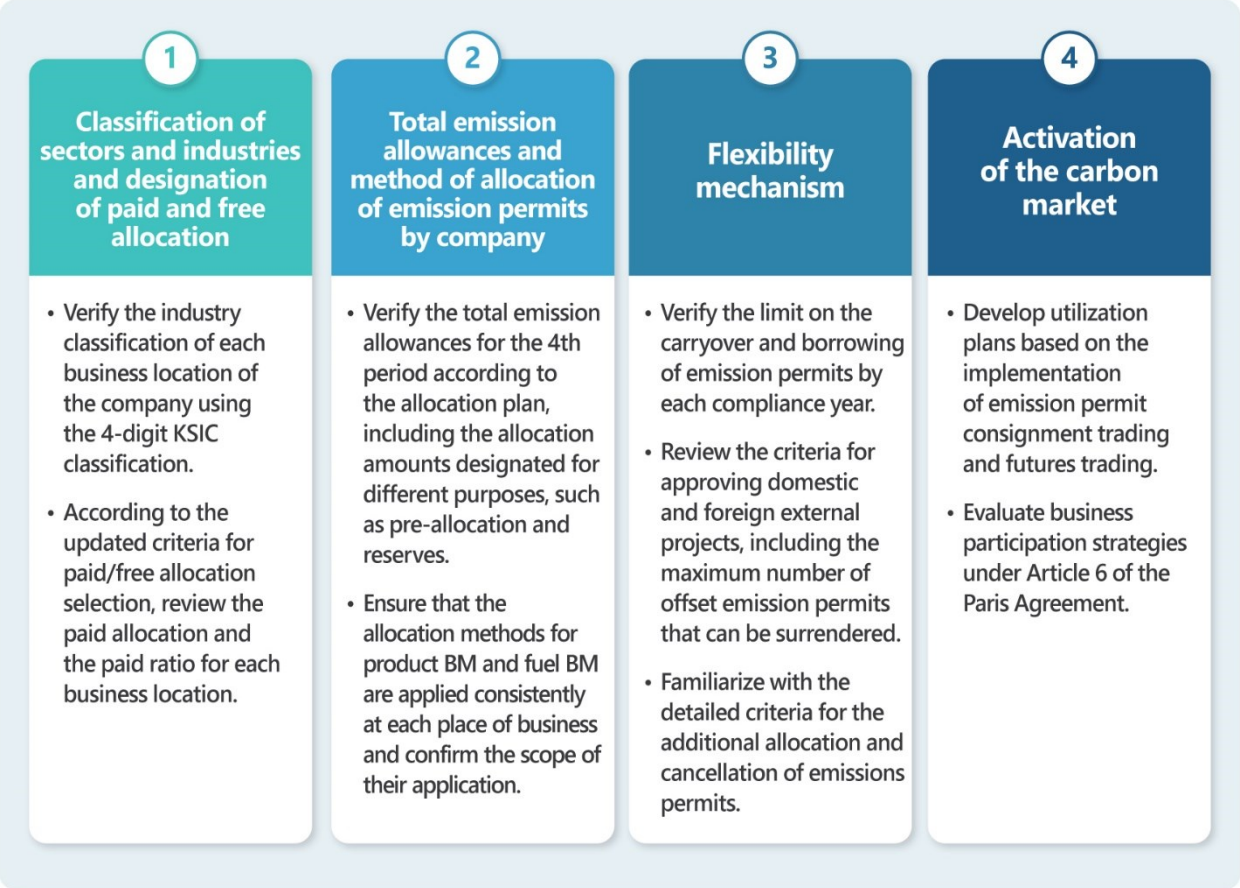
Article 4 of the Emissions Trading Act mandates the government to establish a 10-year master plan every five years. This plan is intended to define the objectives and provide a basic direction for medium- to long-term policies regarding the emissions trading system. The Ministry of Environment has developed the master plan for the 4th commitment period, following a public consultations process that included a hearing held on November 27, 2024. The plan was finalized and officially adopted on December 31, 2024. Below are the key details of the master plan for the 4th period:

	Current (3rd period)	Changes (4th period)
Establishment of total emission allowances	• Total emission allowances will be established for each sector in non-conversion areas including industry, buildings, transportation, waste, and public utilities. • A reserve of 34 million tons will be allocated for market stabilization measures and market-making, in addition to the total emission allowances.	• Total emission allowances will be set without distinction between sectors within non-conversion areas. • Part or all of the reserve may be added to the existing total amount of emission allowances.
Changes to the criteria for determining paid allocation and industry classification	• Assessment based on trade intensity multiplied by the levels of costs incurred. • Classification will be based on corporations.	• Assessment based on trade intensity multiplied by carbon intensity. • Classification will be based on the location of the business. • Expansion of the paid allocation ratio.
Expansion of BM allocation method	• Application of product BM to 12 industries. • Application of fuel BM to the paper and wood sectors. • BM coefficients will be based on average emission efficiency.	• Additional expansion of product BM to include semiconductors and displays. • Expansion of fuel BM to include all sectors. • Upward adjustment of the standard for BM coefficients.
Activation and stabilization of the carbon market	• Only companies eligible for paid allocation will participate in the auction. • Direct sales of emissions permits will be permitted. • Market stabilization due to price volatility.	• All companies eligible for allocation, along with market makers, will participate in the auction. • This includes consignment trading and futures trading. • Introduction of the Korean K-MSR.
Review of exclusion of indirect electricity emissions (5th period)	• The review will consider the inclusion of indirect electricity emissions.	• (5th period) Review of exclusion of indirect electricity emissions in conjunction with the reflection of appropriate carbon costs in electricity prices, among other factors.
Abolition of indicator emission permits and restrictions on carryover between commitment periods (5th period)	• Establishment of indicator emission permits based on compliance years. • Carryover is permitted up to 3 times the net selling volume (*this will be increased to 5 times).	• (5th period) Review of abolition of indicator emission permit system • (5th period) Review of the complete abolition of restrictions on carryover.

2. Response Measures for Companies Eligible for Allocation

The year 2025 will be crucial as it will confirm the operational direction of the 4th commitment period for the domestic emissions trading system. It will also determine the method and quantity of emission permits allocated to each company. Approximately 840 companies eligible for allocation must closely review the relevant details and prepare effectively for the 4th commitment period.

The following summary outlines the key matters that companies should pay special attention to in the master plan for the 4th commitment period and the allocation plan, which is scheduled to be established in June 2025.



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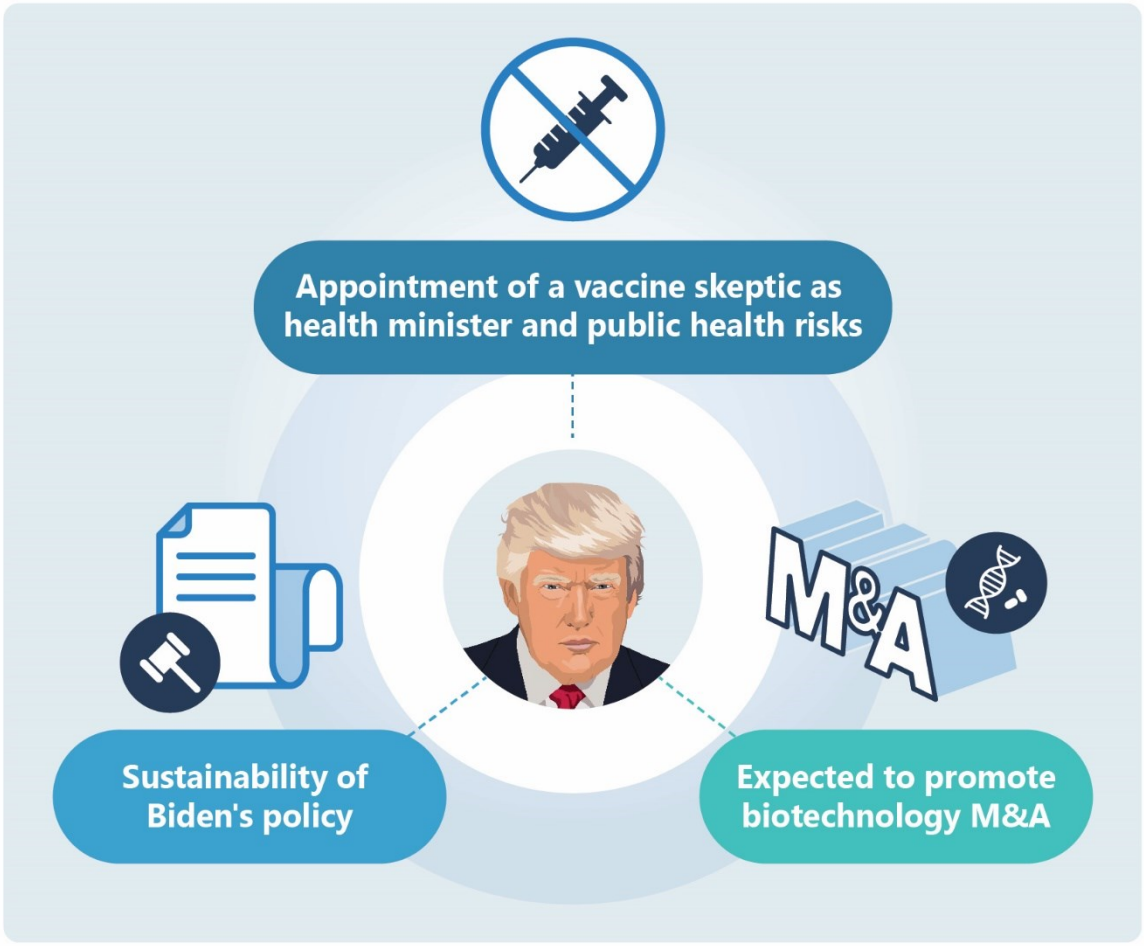
Part 6 | Pharmaceuticals & Biotechnology

I. Trump Administration's Second Term and Outlook for the Pharmaceutical and Biotechnology Industries

1. Trump's Policy for Pharmaceutical and Biotechnology during the First Term

When Trump was elected president, the pharmaceutical industry was optimistic, anticipating that the second administration, like the first Trump administration (2017~2021), would ease regulations and create a business-friendly environment for a boom in the pharmaceutical industry. The first Trump administration focused on deregulation, including streamlining the FDA approval process for new drugs and medical devices (e.g., Fast Track and Breakthrough Therapy Designation) and providing life-threatening patients with opportunities to access experimental treatments that have not yet been approved by FDA (Right to Try). These policies led to rapid growth in the pharmaceutical industry.

2. Trump's Second Term Policy Outlook



1) Policy outlook (1) - Appointment of a vaccine skeptic as the Secretary of Health and Human Services

However, with the nomination of Robert F. Kennedy Jr., who is widely known as a vaccine skeptic, to be the secretary of Health and Human Services (HHS), former congressman Dave Weldon, a vocal opponent of universal vaccinations, to head the Centers for Disease Control and Prevention (CDC), and Martin Makary, a surgical oncologist at Johns Hopkins Hospital who opposed mandatory vaccinations during the COVID-19 pandemic, to head the Food and Drug Administration (FDA), local experts are expressing concerns about the direction of public health policies. Under the second Trump administration, the public health policies are expected to change significantly, and there is the possibility that the FDA and the CDC will experience mayhem for some time.

If Kennedy's nomination as the secretary of HHS is confirmed by the Senate, it could significantly impact the vaccine ecosystem. He has been an anti-vaccine activist for more than 20 years, and has been particularly critical of childhood immunization. This could weaken the government support for immunization programs and make the vaccine approval process more complicated. If vaccine mistrust spreads, vaccination rates will drop and vaccine manufacturers could face significant challenges.

In addition, Kennedy has mentioned plans for large-scale staff cuts at the National Institutes of Health

(NIH), which oversees vaccine research. Such cuts could delay and hinder the FDA's drug approval process. This raised concerns that it could suppress investments in the pharmaceutical industry and slow down the pace of innovation in the pharmaceutical and biotechnology industry.

2) Policy outlook (2) - Sustainability of Biden's policies

It is still unclear what position Trump's second term administration will take on the drug pricing provisions of the **Inflation Reduction Act (IRA)**, which is considered a representative achievement of the Biden administration. Some Republican lawmakers have expressed a desire to repeal the IRA's key provisions that lower prescription drug prices through Medicare drug price negotiations. However, the second administration is likely to adjust its policy priorities by delaying implementation rather than immediately repealing the bill itself because it is about reducing prices.

The Biden administration's **US BIOSECURE Act** passed the House of Representatives with strong bipartisan support in September 2024 and is likely to pass the Senate as well. It bans leading Chinese biotechnology companies from doing business in the U.S. to protect U.S. biotech infrastructure, and is likely to be expanded as it is consistent with the Trump administration's policy of containing China.

In addition, the Biden administration's **National Biotechnology and Biomanufacturing Initiative (NBBI)** focuses on strengthening biotechnology research and manufacturing, promoting innovation, and securing supply chains, which is consistent with the Trump administration's domestic manufacturing-centered policy and is expected to continue.

3) Policy outlook (3) - Expected to promote biotechnology M&A

The resignation of Lina Khan as the chairman of the US Federal Trade Commission (FTC), known for her strict stance on Big Tech, is expected to have a positive impact on M&A in the pharmaceutical industry. The FTC, led by Lina Khan, has been discouraging M&A transactions by pharmaceutical companies by issuing strict guidelines on M&A regulations and filing a lawsuit in 2023 regarding a license agreement between US biotechnology company Maze Therapeutics and France's Sanofi.

Local experts predict that the change in the FTC leadership will encourage M&A transactions by big pharmaceutical companies and create a more favorable environment for small biotech companies to execute exit strategies. In addition, M&A transactions by foreign biotech companies seeking to acquire manufacturing facilities in the U.S. to circumvent U.S. tariffs are also expected to increase.

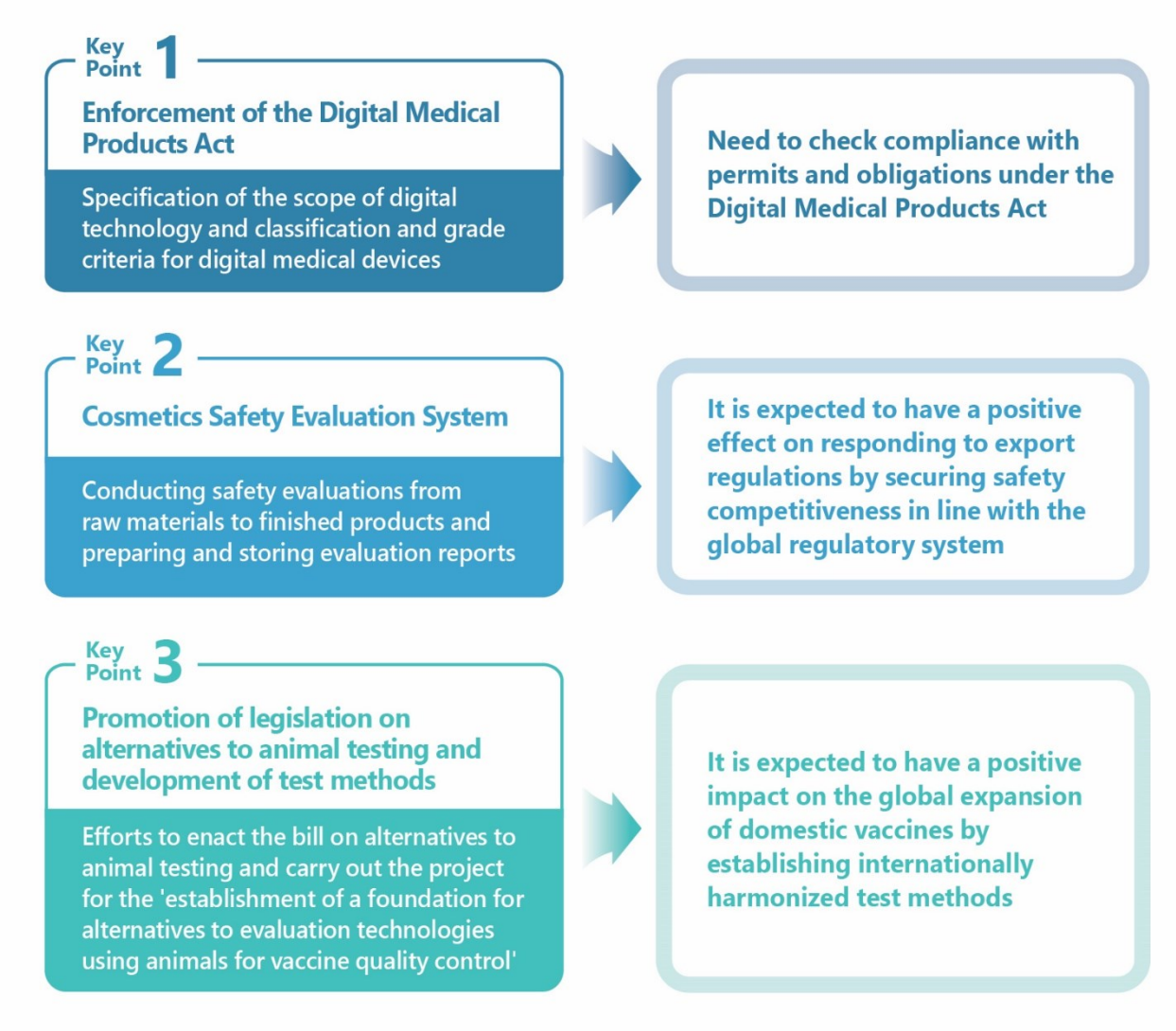
As President Trump pledged during his campaign to actively promote the introduction of generics and biosimilars to reduce pharmaceutical costs, opportunities for Korean biosimilars and generic products to enter the U.S. market are expected to expand. However, these companies will face intense price competition from other Asian manufacturers, necessitating differentiated market strategies. In particular, domestic pharmaceutical and medical device companies that are preparing for FDA clearance or approval should closely monitor and prepare for policy changes and enhancements from regulatory agencies, such as the FDA.

In addition, as the Chinese biotechnology companies are likely to shrink for a considerable period after the enactment of the US Biosecure Act, national-level networking and consulting are needed on how domestic pharmaceutical companies can take advantage of this gap. For example, it can be a new opportunity for contract development and manufacturing organization (CDMO) companies. Korean CDMO companies planning to establish factories in the U.S. should thoroughly review the terms of the Trump administration's tax breaks, subsidies, and partnership benefits, and explore the possibility of benefiting from U.S. government subsidy programs by checking whether they meet the NBBI criteria.

On the other hand, it is necessary to analyze what responsive strategies are being prepared by global companies in Japan and Europe, and short- and long-term strategies are needed not only at the

corporate level but also at the government level. In particular, while U.S. companies reducing their dependence on Chinese active pharmaceutical ingredients (APIs) and looking to India and Southeast Asia as alternatives, Korean pharmaceutical companies need to develop a rapid and flexible strategy that emphasizes Korea's unique strengths to build strategic partnerships with local U.S. companies.

II. Domestic Regulatory Outlook for 2025



1. Enforcement of the Digital Medical Products Act – Clarifying the Criteria for Determining Digital Medical Devices

1) Key details

The Ministry of Food and Drug Safety (the "MFDS") has issued a legislative notice for the enactment of the subordinate enforcement decrees, the enforcement rules, and the public notices, ahead of the enforcement of the "Digital Medical Products Act" on January 24, 2025. The Digital Medical Products Act stipulates that "medical devices using digital technology" are considered "digital medical devices"

and are subject to the Act (Article 2, Subparagraphs 1 and 2 of the Act). Since "digital medical devices" will be subject to regulations specific to digital medical devices, such as licensing review standards, manufacturing and quality control standards, clinical trial plan approval and management standards, electronic infringement security guidelines, and good management system certification standards, it is important to determine which products which products previously regulated under the Medical Devices Act and the Act on In Vitro Diagnostic Medical Devices will now fall within the scope of the Digital Medical Products Act.

Recently, the specific criteria for determining whether a device is a digital medical device have been disclosed, through the legislative notice of the "Regulations on Classification and Grade Designation of Digital Medical Products" (MFDS Notice No. 2024-565, dated December 16, 2024). According to this notice, it seems clear that stand-alone software medical devices are classified as digital medical devices. In addition, for medical devices that combine software and hardware, it seems that it will be possible to determine whether they will be classified as digital medical devices only after substantially examining (i) whether the technology used fits with the definitions of relevant laws such as the Intelligent Robots Development and Distribution Promotion Act and the Act on Utilization and Fostering of National Super-Computers, and (ii) whether the device or software that uses digital technology is an important component (whether it is the device's own hardware, software, or accessory) or has a networking (electronic interface or infrastructure) or secondary purpose (component).

Specifically, according to the legislative notice, software medical devices (product code E) and in vitro diagnostic software medical devices (product code P) will be removed from the existing medical device/in vitro diagnostic medical device classification system and transferred to the digital medical device classification system (existing authorizations will be automatically converted).

2) Implications

For businesses that already have product approvals for software medical devices (product code E) and in vitro diagnostic software medical devices (product code P), the existing product approvals will be automatically converted to product approvals under the Digital Medical Products Act. These businesses must ensure compliance with obligations under the Digital Medical Products Act after January 24, 2025. Containers, packaging, and attached documents that contain information based on existing product approval must be changed before the grace period expires on January 23, 2027.

In addition, if it is unclear whether a medical device that combines software and hardware is a digital medical device, it is necessary to strategically review in advance whether the regulations under the Digital Medical Products Act (manufacturing and quality control standards, clinical trial plan approval and management standards, etc.) will be applied and obtain from the MFDS a determination on whether it is a digital medical device.

2. Cosmetics Safety Evaluation System to Be Introduced

1) Key details

In order to lay the foundation for the introduction of the cosmetics safety evaluation system in Korea in 2025, the MFDS plans to begin preparations for its institutionalization, such as the revision of the

Cosmetics Act, and the drafting of technical guidelines.

"Cosmetics Safety Evaluation" is a system that conducts safety evaluations from raw materials to finished products to verify that cosmetics are safe for the human body and prepares (and stores) evaluation reports. It is being introduced (and operated) in the US, China, Europe, and some Southeast Asian countries. The MFDS plans to postpone the introduction date, originally scheduled for 2026, by two years, considering the preparation period required for establishing a safety assessment infrastructure and the impact on the industry, and to gradually expand the application scope to companies with annual production and import of KRW 1 billion or more and new items from 2028 to 2030, and to fully enforce it on all companies and items from 2031.

The minimum requirements for safety evaluation data include safety information, safety evaluation results, and the signature and certification of the safety evaluator. Detailed requirements will be announced in the form of notices or guidelines reflecting the characteristics of domestic products and industries. Various qualification requirements for evaluators will be set. For example, evaluators must be (i) those who have earned a bachelor's degree in a related major and have work experience, (ii) those who have completed a non-degree curriculum after obtaining a bachelor's degree in a related major, (iii) those who have completed a degree course at a specialized graduate school, or (iv) those who have worked as a custom cosmetic compounding manager and have completed a non-degree course.[3]

2) Implications

As the cosmetics safety evaluation system expands globally, it is expected to help responding to export regulations by securing safety competitiveness in line with the global regulatory systems. Cosmetics manufacturers and sellers need to establish internal infrastructure for the preparation of safety evaluation data and keep an eye on the MFDS's policy trends, such as technical guidelines, before the full implementation of the system.

3. Legislation on Alternatives to Animal Testing and Development of Test Methods

1) Key details

The current Animal Protection Act stipulates that alternatives must be considered first before animal testing, and the Laboratory Animal Act requires the Minister of the MFDS to establish and promote policies for the development of alternatives to animal testing. Further, the Cosmetics Act prohibits, in principle, the distribution and sale of cosmetics manufactured through animal testing if alternatives to the animal testing exist. Although laws supporting alternatives to animal testing are also being developed in Korea, there is no legal basis for them. On July 25, 2024, the "Bill on Promotion of the Development, Dissemination, and Use of Alternatives to Animal Testing"[4] was proposed and is currently pending before the Health and Welfare Committee of the National Assembly. During the parliamentary audit in October 2024, the MFDS stated that it would make active efforts to ensure that

[3] Health Trend, November 6, 2024, "How should we prepare for the cosmetics safety evaluation system?"

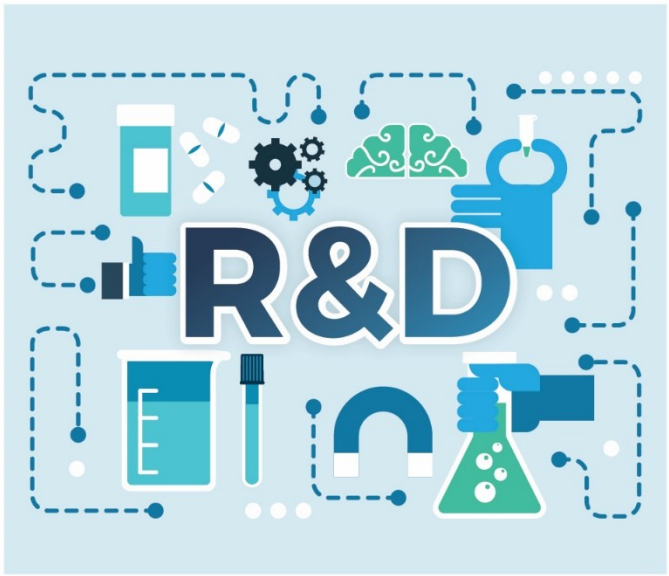
[4] Bill proposed by Rep. Nam In-soon and others on the 15th

the bill on alternatives to animal testing is enacted in accordance with the intent of the law.

From 2025 to 2029, the MFDS plans to invest KRW 11.64 billion to carry out the project for "the establishment of a foundation for alternative evaluation technologies using animals for vaccine quality control." The project aims to develop test methods that can replace laboratory animals used for quality control required for approval of release of botulinum and DTaP (diphtheria, tetanus, pertussis) vaccines. Starting next year, the MFDS plans to conduct verification of related methods, such as a test method that implements the in vivo botulinum toxin mechanism in a test tube, a detoxification test method, and a potency test method, until 2026. From 2027, it plans to lead the regulation of alternatives to animal testing by reflecting them in the World Health Organization (WHO) vaccine-related technical documents through international joint research with foreign institutions, such as those in Europe. The MFDS plans to create an environment for practical technological independence through self-production and supply of reaction reagents (antibodies, etc.) used in testing methods in 2028, and to delete the existing animal testing methods and integrate alternatives to animal testing in the notice on "Biological Product Standards and Testing Methods" in 2029.[5]

2) Implications

In particular, the importance of developing and utilizing alternatives to animal testing is increasingly emphasized in developed countries such as Europe and the United States, and this bill is in line with the global trend as it actively supports research and development of alternatives to animal testing and commercialization of technologies through the establishment of administrative agencies, promotion of large-scale research projects, and enactment and revision of laws. If internationally harmonized test methods are established and disseminated through the verification process of alternatives to animal testing for vaccine quality control, it is expected to have a positive impact on the global expansion of domestic vaccines.



(Proposed) National R&D Project Budget Allocation and Adjustment for 2025

- Intensive R&D investment is expected to be made following announcement of fostering of "advanced bio" field

Promotion of Korean ARPA-H Project

- Mission-oriented R&D project benchmarking ARPA-H in the US
- Additional research projects are expected to be announced in 2025

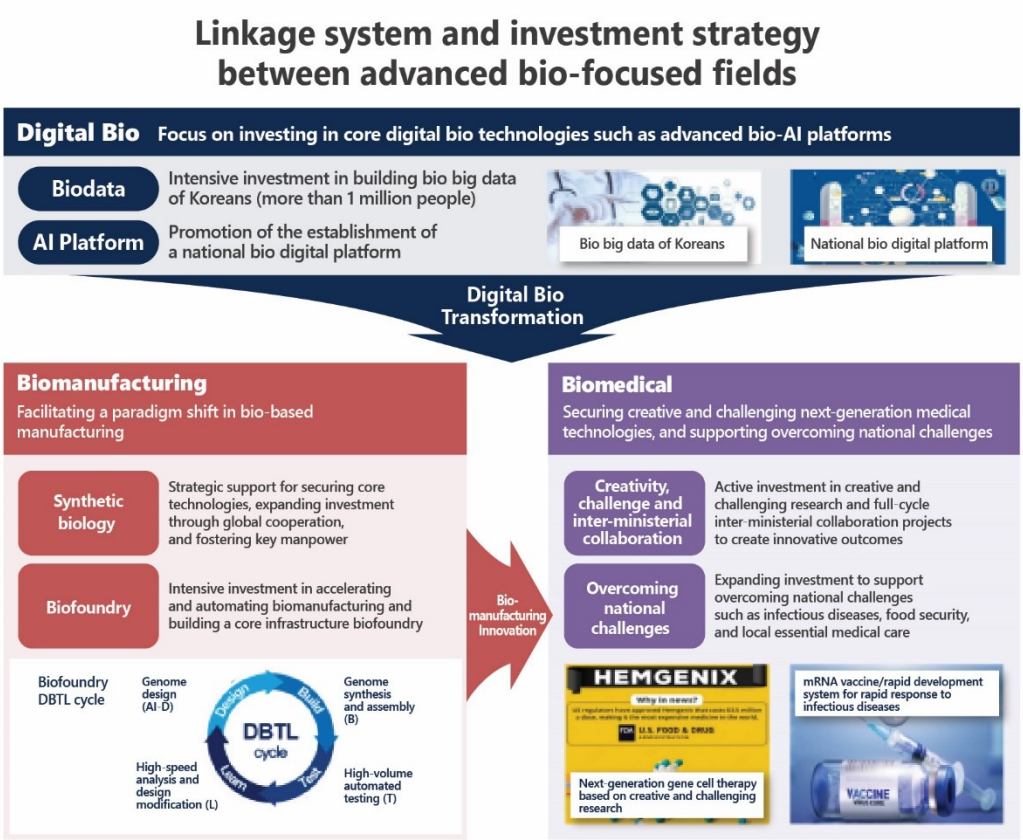
[5] Health Korea News, November 18, 2024, "Government to Develop Alternative Test Method for 'Animal Testing' from Next Year"

III. Trends in Domestic Industrial Support Policies for 2025

1. Healthcare R&D Policy – Focused Investment in Advanced Bio Industry

1) (Proposed) National R&D Project Budget Allocation and Adjustment for 2025

The government announced that it would invest KRW 3.4 trillion out of the KRW 24.8 trillion major R&D budget for 2025 in the development of "AI-semiconductor", "advanced bio", and "quantum" technologies through the (proposed) National R&D Project Budget Allocation and Adjustment, and announced that it would foster the "advanced bio" field as a major future industry. The government plans to build a national bio digital platform by securing a large database of Koreans (more than 1 million people), which is a national strategic asset for the development of new drugs, medical devices, and personalized medicine. In addition, the government plans to strategically support the synthetic biology field to secure core technologies such as DNA/RNA design and bio-component synthesis, strengthen global cooperation, cultivate key personnel, and to invest heavily in building a national biofoundry that combines AI technology with core synthetic biology technologies. Furthermore, the government will actively invest in innovative and challenging technologies that have a large ripple effect and can lead the global market if successful, such as early diagnosis of incurable cancers, genome editing, and control technologies. It will also strengthen R&D investment to secure excellent new drug pipelines, validate and commercialize organoid-based gene and cell therapies, and strengthen cooperation among relevant ministries.



(Source: Ministry of Science and ICT, "(Proposed) National R&D Project Budget Allocation and Adjustment for 2025")

2) Implications

In 2025, intensive R&D investment in the advanced bio sector is expected to begin, and this trend is expected to continue for the long term. It is expected to be accompanied by a revision of related laws and regulations and improvement of the current system. In fact, the Act on Safety and Support for Advanced Regenerative Medicine and Advanced Biological Products has been amended to abolish restrictions on the scope of clinical research on advanced regenerative medicine and to allow advanced regenerative medicine treatment depending on the subjects and risk level, which is scheduled to take effect on February 21, 2025. Therefore, it is expected that companies that are engaged in or plan to advance into the cutting-edge bio field, such as bio big data collection, establishment of a national bio digital platform, securing core synthetic biology technologies, establishment of a national biofoundry, early diagnosis of incurable cancers, genome editing and control technology, organoids, and gene/cell therapies, will be able to benefit from this policy direction.

2. Promotion of Korean ARPA-H Project

1) Key details

The government has begun to fully pursue the Korean ARPA-H (Advanced Research Projects Agency for Health) project starting in the second half of 2024. The Korean ARPA-H project is a mission-oriented R&D project that benchmarks ARPA-H, a challenging and innovative R&D system for healthcare in the United States. Further, it is a people-oriented R&D project that solves national challenges and brings about innovative changes in medical and health services through bold challenges. Unlike previous R&D projects, the Korean ARPA-H project is characterized by clearly setting challenging goals, flexibly adjusting the research plan, and supporting field application, demonstration, and commercialization of research results. In other words, it is different from previous support cases in that it is a system that tolerates failures regardless of whether R&D produces successful results. The government plans to support a total project cost of KRW 1.1628 trillion over nine years from 2024 to 2032 and has selected five major missions: establishing health security, overcoming incurable diseases, securing advanced bio technology, improving welfare and care, and innovating essential medical care. Two rounds of announcements were made for the following research projects:[6]

< Announcement of Research Project under Korean ARPA-H Project>

Mission	Research Project
Health Security	• Ultra-long-term vaccine storage technology • Establishing a decentralized vaccine production system
Overcoming Incurable Diseases	• Development of early screening technology for 10 types of cancers for people in their 20s and 30s • Overcoming challenges: Ultra-fast validation and rapid development of novel targeted drugs for cold tumors

[6] Ministry of Health and Welfare, October 18, 2024, Announcement

Securing advanced bio technology	• Development of innovative medical technologies in space medicine to overcome medical challenges • Development of innovative technology for simulating immune functions based on advanced microphysiological systems
Improving welfare and care	• Development of an integrated digital care solution (to ensure basic living conditions for the elderly and improve the quality of care)
Innovating essential medical care	• Development of a multimodal AI-based regionally-comprehensive smart emergency patient classification and optimal transport system • AI-based multi-institutional critical care real-time management platform and transport system

The Korean ARPA-H will be established as a specialized support organization within the Korea Health Industry Development Institute, but the independence of the promotion team is planned to be guaranteed. It will guarantee the autonomy and independence of the PM (Project Manager), but it will also improve project performance by establishing a structure that allows for checks and balances between the promotion team leader and PM, and between PMs. In addition, various experts and consumers, such as special committee advisory groups, challenge discovery support groups, and mission-specific expert advisory groups, can participate in the discussion. ARPA-H will establish an open platform to discover and confirm challenging issues in healthcare, plan and receive projects, select and evaluate projects, manage projects, manage project results, manage performance and provide feedback, and conduct global cooperation.[7]

2) Implications

The Korean ARPA-H project is being promoted in line with the current government's policy direction, such as focused investment in advanced bio fields and innovation in essential medical care. It is expected that additional research projects will be announced in 2025. The Korean ARPA-H project is expected to attract continued interest from the industry as it allows companies in the healthcare industry, which incur enormous R&D investment costs, to set challenging goals and conduct research by receiving large-scale R&D investments without the fear of failure, and provides support up until the commercialization of research results.

[7] Ministry of Health and Welfare, July 26, 2024, Press Release

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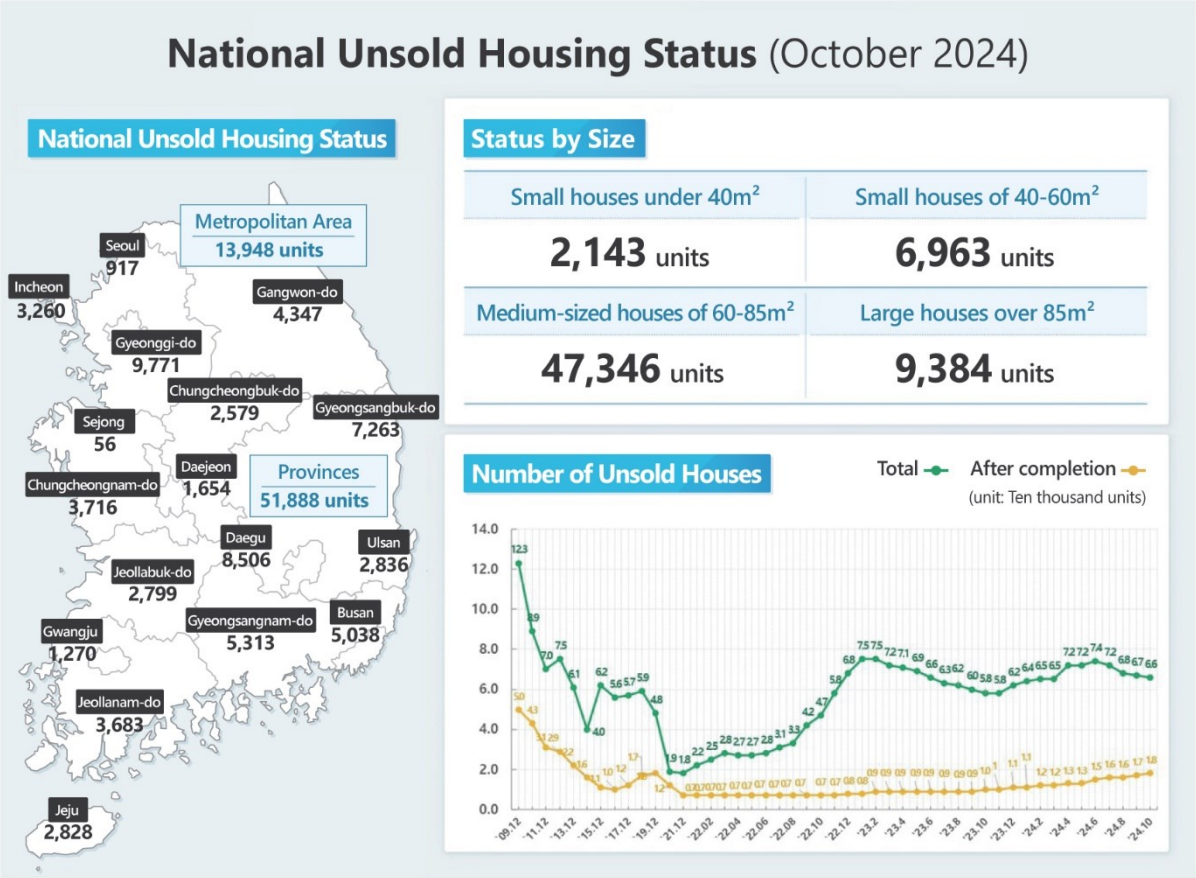
Part 7 | Construction & Real Estate

I. Increasing Number of Lawsuits Related to Cancellation and Termination of Sales Contracts due to Recession in the Real Estate Market

1. Background and Outlook



(Source: Ministry of Land, Infrastructure and Transport)

As housing prices rose and regulations applicable to households owning one home and housing loan regulations were strengthened, sales of and investment in residential lodging facilities, knowledge industry centers, and commercial buildings that could best find ways to lessen the impact of these types of housing regulations became a trend. At the time of sales, sales transactions were successful due to rising housing prices and low interest rates. However, as the price of the target property fell below the sale price at the subsequent the move-in date, disputes arose between the purchasers and the seller, in which the purchasers refused to move in, and filed or are likely to file a large-scale class action lawsuit against the seller, construction company, etc., seeking cancellation and termination of the sales contract.

These lawsuits may be partly due to factors such as false advertising, but fundamentally they have arisen because the prices of the subject real estate have fallen below their original sale prices. As long as property

prices do not rise, lawsuits related to the cancellation and termination of sales contracts are expected to continue in 2025. In the case of residential lodging facilities, although the government has relaxed regulations to allow their conversion into residential officetels, it is unlikely that all such facilities will undergo this change. Moreover, even if they are converted into residential officetels, if market prices do not rise above the original sale prices, disputes related to residential lodging facilities are likely to continue.

2. Issues in Lawsuits Related to Cancellation and Termination of Sales Contracts

In lawsuits related to cancellation and termination of sales contracts, the following are expected to be the key issues in 2025:

1) Violation of Sales Advertisement

In a typical contract, advertisements are generally not included in the contract. However, in the case of large-scale real estate sales, the sales contract often does not include specific details of the target property, while the sales advertisement provides detailed descriptions. Accordingly, purchasers rely on the sales advertisement, rather than the sales contract, to identify and specify the target company. As a result, a sales contract that fails to adequately specify the appearance or materials of the target company cannot be considered fully complete on its own. The content of the sales advertisement, the conditions of the model house, or the explanations provided by the sales company to purchasers at that time regarding the appearance and materials of the target property are considered to form part of the contractual terms. Therefore, if the seller violates the representations made in the sales

advertisement regarding the appearance and materials of the target property, such violation may constitute a breach of contract. Purchasers may terminate the sales contract on the grounds of this breach.

With respect to this issue, disputes are expected to arise over the interpretation of the content of the sales advertisement and whether discrepancies between the sales advertisement and the explicit terms of the sales contract should allow the advertisement to be recognized as part of the sales contract.

This issue is likely to play a significant role in disputes involving residential lodging facilities and high-end officetels, particularly where ancillary facilities differ from those originally advertised.

2) Breach of Duty to Notify

If it is empirically clear that the purchaser would not have entered into the transaction had they been notified of certain circumstances, the seller has a duty to notify the purchaser of such circumstances in advance. The matters subject to such duty of notification may be recognized not only by explicit legal provisions but also under general principles of contract law, customary practices, or common sense. Based on these legal principles, purchasers may argue that the seller has breached their duty of notification by failing to disclose critical information affecting their decision to enter into the sales contract. They may further claim that such failure constitutes a fraudulent misrepresentation by omission, enabling them to seek cancellation of the sales contract and demand a refund of the purchase price.

With respect to this issue, it is likely that the dispute will arise over whether it is empirically evident that the counterparty would not have entered into the transaction if it had been notified of certain circumstances, and whether the extent of notice provided by the seller can be regarded as fulfilling the duty of notification.

This is expected to be a major issue in disputes involving commercial buildings with pillars and buildings located near undesirable facilities.

3) Defects and Timing of Move-in

Even if there are some defects in the target property, these defects may justify repairs or compensation in lieu of repairs, but they are generally not recognized as grounds for being unable to move in or for terminating the sales contract. However, in exceptional cases where the defect in the completed property prevents the achievement of the contract's purpose, the purchaser may terminate the contract on this basis. Furthermore, even if there is a (temporary) use approval, if the defect renders the achievement of the contract's purpose impossible, it may be determined that moving in is not feasible. In such cases, the purchaser may terminate the sales contract on the grounds of move-in delays or defects.

With respect to this issue, the main points of contention are likely to be whether a defect has occurred and whether the defect prevents the achievement of the sales contract's purpose.

This issue is expected to be particularly significant in disputes involving non-residential buildings, which do not require pre-occupancy inspections, unlike residential properties.

4) Violation of the Act on Sale of Building Units

Article 9(1)11 of the Enforcement Decree of the Act on Sale of Building Units stipulates that the sales contract must include "a provision stating that if the seller of buildings in units falls under any of the following items related to the building to be sold, the purchaser may terminate the sales contract." The specified items include cases where the seller has been subject to a corrective order, a fine or heavier punishment, or an administrative fine under the Act on Sale of Building Units. As a result, most sales contracts governed by the Act on Sale of Building Units contain provisions stating that the purchaser may terminate the contract if the seller has been subject to a corrective order, a fine or heavier punishment, or an administrative fine under the Act on Sale of Building Units.

Purchasers will file complaints with administrative agencies alleging that the seller has violated the Act on Sale of Building Units, or they may accuse the seller of such violations. This could lead to corrective orders, fines or other penalties being imposed on the seller, after which purchasers are likely to demand termination of the sales contract based on these reasons.

In this case, the key issues are expected to include whether a violation of the Act on Sale of Building Units occurred, whether the sales contract will be automatically terminated if a corrective order, a fine or a heavier punishment, or an administrative fine is imposed, and whether termination grounds still apply if the termination provision is omitted from the sales contract, in violation of the Act on Sale of Building Units.

This issue is anticipated to play a significant role in disputes involving non-residential buildings governed by the Act on Sale of Building Units.

5) Act on Door-To-Door Sales

Recently, some purchasers have claimed their right of withdrawal under the Act on Door-To-Door Sales, assuming such act applies to sales contracts.

Regarding this issue, the key issues will be whether the Act on Door-To-Door Sales applies to real estate sales contracts, whether such act applies to businesses that purchase non-residential buildings for the purpose of engagement in rental business, and whether the conditions for exercising the right of withdrawal under the Act on Door-To-Door Sales have been satisfied.

This issue is expected to arise frequently in disputes involving properties sold through active marketing efforts following unsuccessful initial sales.

II. Diversification of Construction Cost Disputes due to Continued High-Interest Rates

With the inauguration of the Trump administration, plans for massive fiscal spending have raised expectations that market interest rates will remain high and will not decrease as previously anticipated. Despite the Federal Reserve's rate cuts, the U.S. 10-year Treasury yield has continued to hold steady in the 4% range, maintaining a strong trend.

If the high-interest rate environment persists, the number of insolvencies and bankruptcies among small and medium-sized subcontractors with limited operating profit margins is expected to rise significantly. According to the Korea Research Institute for Construction Policy, marginal companies[8] in non-metropolitan areas have already increased by 2.2% compared to the previous year, a rate that has more than tripled. If the Financial Supervisory Service proceeds with auctions or public sales of insolvent real estate project finance businesses, this trend could potentially be prolonged considerably.

The bankruptcy of subcontractors will inevitably impact construction projects as a whole, leading to significant inefficiencies, especially in process management. A wave of subcontractor bankruptcies will cause notable delays in the construction process, which, in turn, will delay entire projects. These subcontractor issues will ultimately escalate into disputes between the general contractors and the owners. Additionally, the process of replacing subcontractors will unavoidably increase construction costs, further burdening general contractors who are already operating with limited profit margins due to the sharp rise in material costs caused by supply chain disruptions.

In this context, disputes between owners and the general contractors are likely to become increasingly complex and diverse by 2025. Owners will aim to secure implementation profits by blaming general contractors for delays caused by the subcontractor bankruptcies. Conversely, general contractors, finding it practically impossible to recover costs from subcontractors, are expected to seek compensation from owners for increased expenses. General contractors are likely to adopt a variety of strategies to recover costs, including claims related to price fluctuations, design changes, and extensions of construction

[8] A company that has had an 'interest coverage ratio of less than 1' for three consecutive years, meaning that it cannot cover interest expenses with its operating profit

periods. Since the root cause lies in the overall decline in profit margins due to high interest rates, these disputes are expected to intensify considerably.

III. Improvement of the System to Revitalize REITs such as Project REITs

Until 2024, the overall real estate market remained sluggish, impacted by continued high interest rates since 2022, PF loan defaults, and a downturn in the sales market. However, in 2025, the stagnant real estate market is anticipated to see some revitalization, driven by expected interest rate cuts and the potential for economic recovery. In this context, the government is expected to implement the following measures aimed at improving the system in relation to the real estate market:

The Ministry of Land, Infrastructure, and Transport ("**MOLIT**") has identified the long-term and stable growth of the REITs industry as a key measure for revitalizing the real estate market. On June 17, 2024, it announced the "REITs Revitalization Plan for Increasing National Income and Advancing the Real Estate Industry" (the "**REITs Revitalization Plan**") and is currently working to amend the "Real Estate Investment Company Act" (the "**REIT Act**") along with its related enforcement decrees and rules.

1. Project REITs

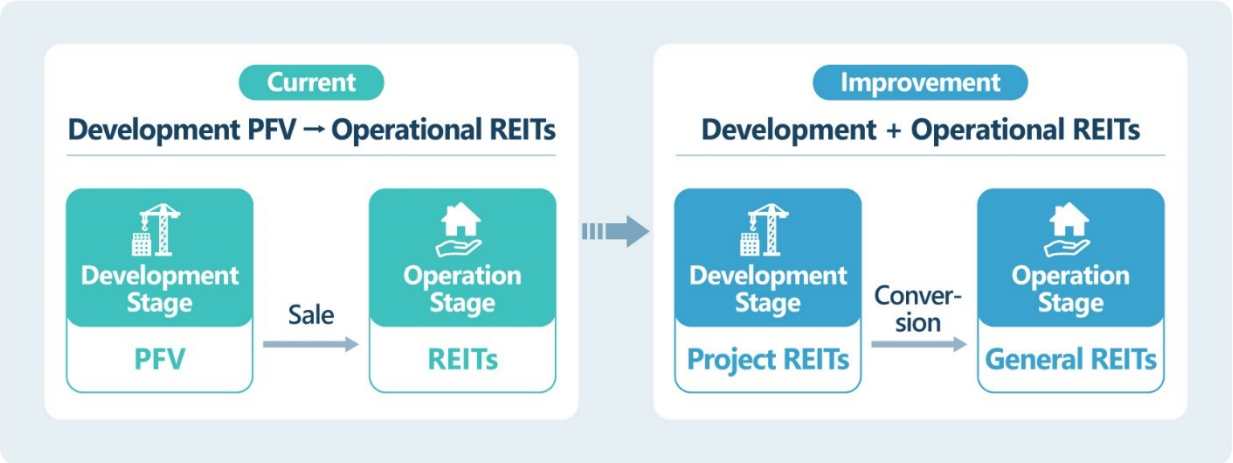
Even under the current REIT Act, real estate investment companies ("**REIT(s)**") are allowed to engage in real estate development projects. However, practical limitations often arise due to various regulations, such as REIT business (change) authorization, stock diversification (public offering obligations), and disclosure reporting requirements, which significantly hinder the use of REITs in real estate development.

To address these challenges, MOLIT plans to introduce the so called 'Project real estate investment company' ("**Project REITs**"). This initiative aims to ease regulations during the development stage by adopting a two-pronged approach: regulations intended to protect general investors will be substantially relaxed during the development phase, while investor protection mechanisms will be applied during the operation phase.

Currently, a bill to partially amend the REIT Act (proposed by 10 lawmakers, including Rep. Kim Jung-jae, and hereinafter referred to as the "**Amendment**") has been introduced and is under review by the National Assembly. The key provisions of the Amendment are as follows:

- During the development stage, the establishment report system will replace the authorization system (with a transition to the authorization system during the operation stage)
  ☞ Under the current REIT Act, REITs can invest in assets, manage assets, make in-kind investments, borrow funds, issue bonds, and issue new shares to non-shareholders only after obtaining business authorization or completing business registration. However, the Amendment introduces an establishment report system, allowing Project REITs that have completed the establishment report to carry out these activities without the need for business authorization or registration.
- When a Project REIT transitions to the operation stage after completing a real estate development project, business authorization or registration will be required.
  ☞ According to the Amendment, Project REITs must obtain business authorization or complete registration within a specified period after finishing the real estate development project and transition to operating like general REITs.
- Extension of the deadline for public offering to a maximum of five years after completion of development
  ☞ Under the current REIT Act, a REIT must make a public offering of at least 30% of the total number of issued shares within two years from the date it obtains business authorization or completes business registration, whereas for REITs with more than 30% investment in a real estate development project, the deadline is within two years from the date on which approval for use or its equivalent is granted (the "**Public Offering Obligation**"). However, according to the Amendment, the deadline for fulfilling the Public Offering Obligation has been extended to a maximum of five years from the date of business authorization or registration. In other words, Project REITs must obtain business authorization or complete business registration within a certain period after completing the real estate development project and fulfill the Public Offering Obligation within five years thereafter.
  On the other hand, although the Amendment does not specifically provide for this, its statement of purpose indicates that the public offering of Project REITs will be restricted during the development stage to prevent the investment risks of real estate development projects from being passed on to general investors. It is anticipated that this restriction will be reflected in the enforcement decree in the future.
- During the development stage, disclosure and reporting obligations are minimized by replacing such with the obligation to submit an investment report, limited to the scope of managing and inspecting the development project.
  ☞ Under the current REIT Act, REITs that have obtained business authorization or completed business registration are generally required to submit investment reports and fulfill various reporting and disclosure obligations. However, according to the Amendment, Project REITs will only be required to submit an investment report, which is expected to be simplified and tailored for the management and inspection of development projects, unlike the standard investment reports of REITs. They will not bear other reporting and disclosure obligations, significantly reducing the related burden.

In the past, development projects were often conducted through Project Finance Vehicles (PFVs), with the developed assets subsequently purchased by REITs. However, with the introduction of Project REITs, the utilization of REITs in real estate development projects is expected to increase. This includes scenarios where REITs directly undertake development projects or where a single REIT continuously manages projects from the development stage through to the operation stage, as illustrated below.



On the other hand, under the current REIT Act, a limit on stock ownership ratio per person (50% of the total number of issued shares) is applied to REITs six months after the date of business authorization or business registration. Since Project REITs are not required to obtain business authorization or complete business registration during the development stage, the stock ownership ratio limit per person is expected to apply from the operation stage. The REITs Revitalization Plan also includes provisions to exclude the application of the stock ownership ratio limit during the development stage of Project REITs. However, the REIT Act already contains a provision that applies the stock ownership ratio limit to REITs whose investment in real estate development projects exceeds 30%, beginning six months after the date authorization, permission, or similar approvals for the implementation of a real estate development project were granted. Therefore, it is necessary to enact a special exception to exclude Project REITs from the application of this provision in order to avoid conflicts between these regulations.

2. Diversification of REIT Investments

Under the current REIT Act, REITs are limited to investing in assets specifically listed in the REIT Act. However, according to the proposed amendment to the Enforcement Decree of the REIT Act, announced on October 14, 2024, the scope of assets recognized as "real estate" for REITs will be expanded to include new asset types with high demand and stable income potential. This amendment will allow REITs to invest in a broader range of assets when approved by MOLIT. Furthermore, according to the REITs Revitalization Plan, investment conditions are expected to improve significantly, particularly in sectors such as healthcare, tech assets, and industrial complexes.

< Key Details of REITs Investment Expansion Plan >

Healthcare	• A REIT must ensure that at least 70% of the value of its total assets consists of real estate (including assets deemed real estate under the Enforcement Decree of the REIT Act) in accordance with Article 25(1) of the REIT Act. However, it is currently challenging to use REITs for healthcare assets because fulfilling the 70% requirement becomes difficult when the deposit for admission to senior housing (welfare housing for senior citizens under the Welfare of Senior Citizens Act) is substantial. Therefore, the deposit for admission to senior housing will be excluded from total assets when calculating the 70% requirement.
Mortgage Investment	• Large-scale investments in asset-backed securities related to real estate, such as mortgage-backed securities (MBS) and mortgage bonds, are permitted by including the amounts invested in asset-backed securities related to real estate, mortgage-backed bonds, and mortgage-backed securities as "real estate".
Tech Assets	• Investments in data centers and clean energy assets (e.g., solar and wind power plants), which are essential for new growth future industries such as AI and carbon neutrality, are permitted. However, even under the amendment to the Enforcement Decree, not all of these assets are explicitly listed as assets considered "real estate". As a result, individual approval from MOLIT appears to be required for investments in certain assets.
Industrial Complex	• Previously, asset securitization for corporate assets, such as factories within industrial complexes, was restricted due to disposal limitations on industrial land (5-year restriction) and restrictions on leasing business under the Industrial Cluster Development and Factory Establishment Act (the "**Industrial Cluster Act**"). • Under the REITs Revitalization Plan and the revised Industrial Cluster Act and its enforcement decree, effective July 10, 2024, occupant enterprises can now secure funds through asset securitization in the form of a 'Sale and Leaseback'. This involves disposing of their industrial land or factories to REITs and leasing them back.
Allowing Loan Investment	• Regulations will be amended to allow REITs to expand loan investments, diversifying their revenue structure. • The REIT Act was amended on August 20, 2019, to permit REITs to manage their assets by providing loans to corporations engaged in real estate development projects. However, the absence of detailed regulations has made it challenging in practice to obtain authorization for loan-type REITs. • To address this issue, the Ministry of Land, Infrastructure, and Transport plans to revise the Enforcement Rule of the REIT Act and improve related laws and regulations to establish a framework that enables REITs to secure stability and profitability through loan investments.

3. Expansion of REITs Investment Capacity

1) Merger of REITs

The current REIT Act requires that if either a REIT surviving a merger or a REIT ceasing to exist as a result of the merger is a publicly offered REIT, the other REIT must also have completed a public offering of shares. As a result, publicly offered REITs can only merge with other publicly offered REITs. To address this limitation, an amendment to the REIT Act will be proposed to allow mergers between publicly offered REITs and private REITs that are exempt from the public offering requirement (e.g., private REITs in which pension funds or similar entities hold more than 50% ownership, or which allocate more than 70% of their assets to rental housing).

In such cases, it is expected that specific procedures and requirements will be established to ensure a thorough valuation of the REIT's assets, aimed at preventing corruption during mergers. Accordingly, careful review and preparation will be necessary to comply with these requirements.

The industry has long advocated for allowing mergers involving private REITs to facilitate the large-scale expansion of publicly offered and enlisted REITs. However, the REITs Revitalization Plan appears to limit such mergers to private REITs that meet the exemption requirements for public offerings. Additionally, beyond mergers, it is urgent to prepare comprehensive measures for scaling up REITs, including corporate-law-based methods of consolidation, such as comprehensive share exchanges.

2) Reservation of funds

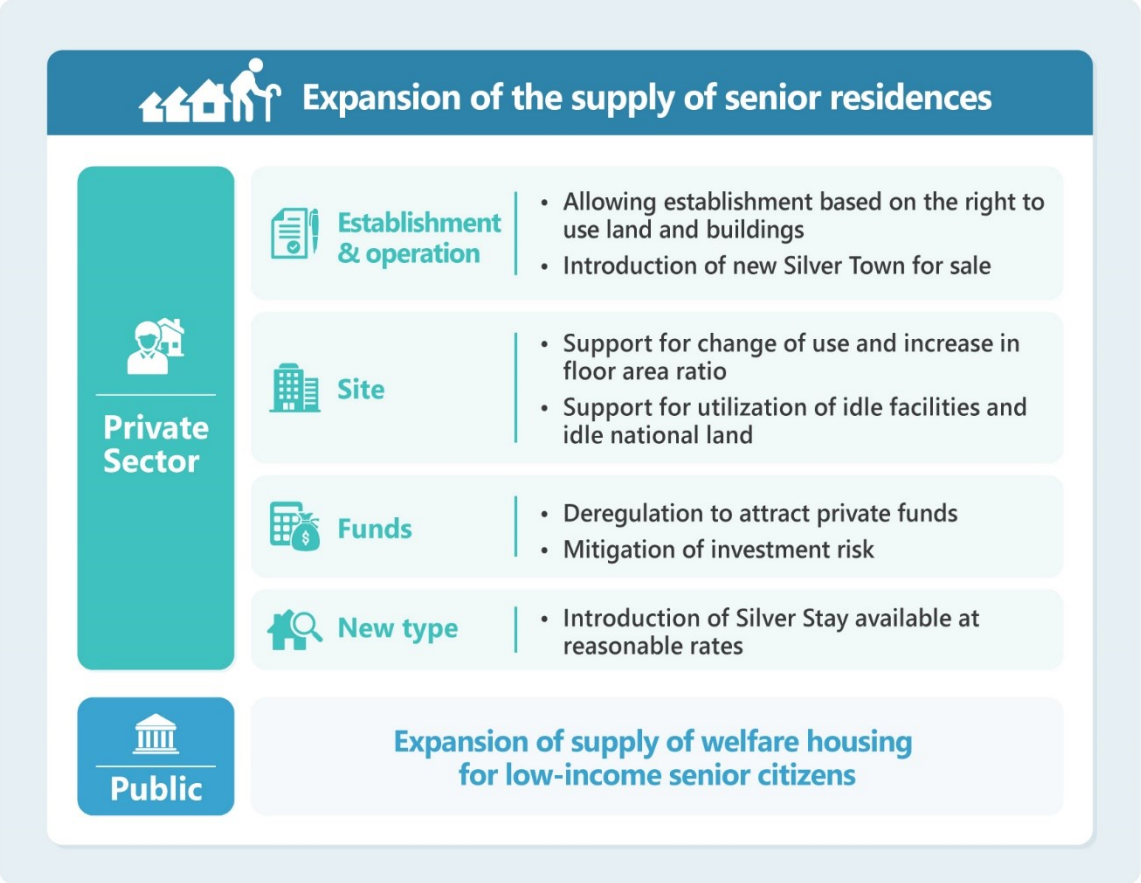
Currently, REITs are required to distribute at least 90% of their profits to shareholders as dividends, which prevents the use of dividends for purchasing additional assets. To address this, an amendment to the REIT Act will be proposed to allow REITs to retain funds for financing new investments, but only with the consent of shareholders obtained through a special resolution at a general shareholders' meeting.

3) Revaluation of assets

A plan will be prepared to activate asset revaluation, enabling REITs to accurately assess the value of their real estate holdings and secure collateral capacity for additional loans.

IV. Improvement of the System Related to Welfare Housing for Senior Citizens

The government announced the "Senior Residence Revitalization Plan" (the "**Senior Residence Revitalization Plan**") at the Economic Ministers' Meeting on July 23, 2024.



The government has announced that through the Senior Residence Revitalization Plan, it will significantly relax regulations on the establishment and operation of senior residences, as well as regulations covering the entire supply process, including land acquisition and funding. This initiative aims to promote the expansion of senior residence supply and develop policies to enhance customized support for elderly consumers. Specifically, the government intends to enact a special law to promote senior residences and amend related laws during the first half of 2025. Accordingly, it will be important to monitor the progress of the enactment and amendment of these laws and regulations.

1. Establishment of Silver Towns and Fostering of Specialized Service Providers through the "Right to Use" Land and Buildings

The current Welfare of Senior Citizens Act requires the submission of "documents proving the ownership of the land and building" when reporting the establishment of a residential welfare facility for senior citizens. However, according to the Senior Residence Revitalization Plan, the Act will be amended to allow the establishment and operation of welfare housing for senior citizens based on the "right to use" land and buildings, rather than requiring ownership.

In addition, the government announced plans to establish a legal basis for supporting and regulating businesses that provide services solely based on the right to use land and buildings. This includes setting

requirements for welfare housing operating businesses, such as requiring operators to be corporations and meeting minimum capital thresholds. These measures are expected to be introduced in the second half of 2025.

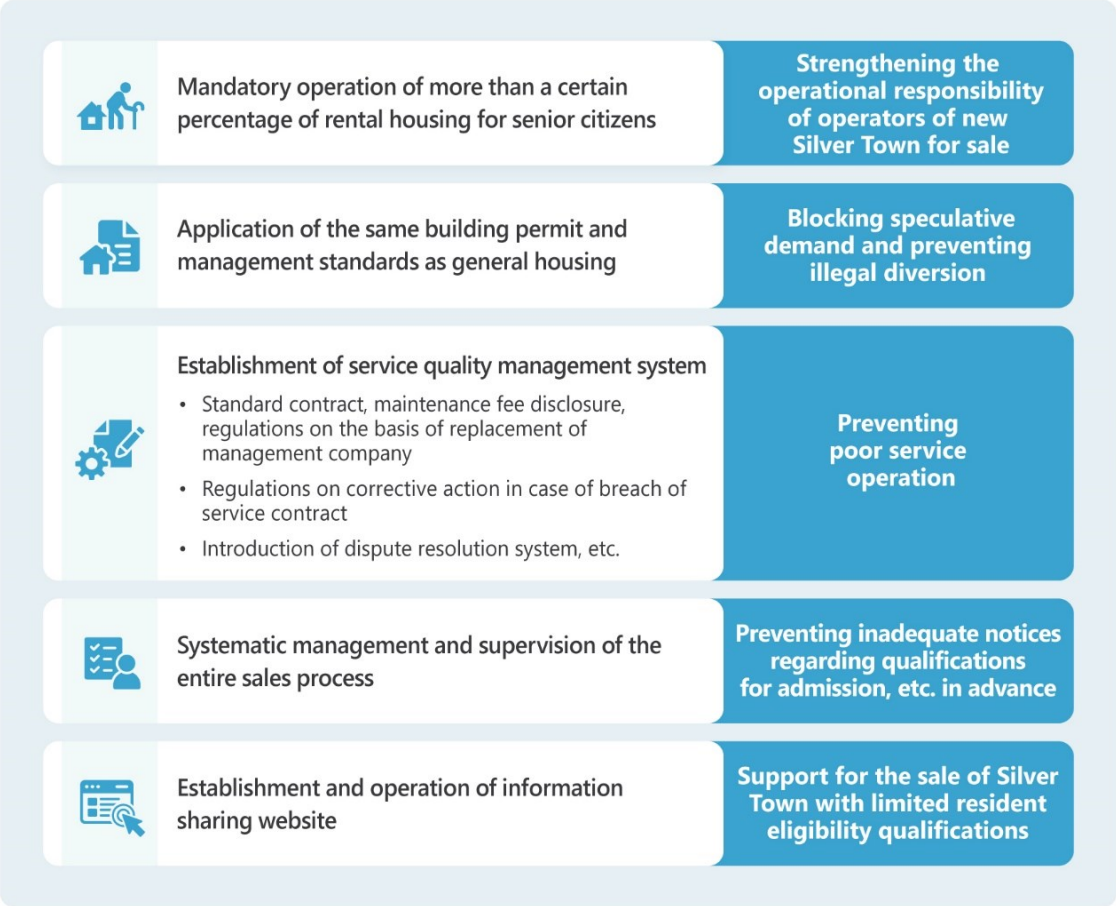
2. Introduction of New Silver Town for Sale

In the past, welfare housing for senior citizens could be supplied through sales. However, due to issues such as poor service quality and the residence of unqualified persons (those under 60 years old), the sale of welfare housing for senior citizens was abolished through the 2015 revision of the Welfare of Senior Citizens Act. Under the current Act, welfare housing for senior citizens can only be supplied through rental (rental-type welfare housing for senior citizens).

However, the abolition of welfare housing for senior citizens for sale negatively impacted the profitability of such projects. In the case of rental-type welfare housing, business operators require a significantly longer time to recover their investment, resulting in a supply shortage of welfare housing that fails to meet the demand of the growing elderly population.

To address this issue, the government plans to amend the Welfare of Senior Citizens Act to once again allow the supply of welfare housing for senior citizens through sale (referred to as "new silver towns for sale") and to concentrate the introduction of these new silver towns in 89 population-declining areas nationwide.

Meanwhile, taking into account the problems previously associated with welfare housing for senior citizens for sale, the government is reviewing the following measures to ensure the stable operation of the new silver towns for sale:



3. Support for Securing Senior Residence Sites through Relaxation of Floor Area Ratio and Utilization of Idle Facilities and National Land

The government is promoting the following measures to facilitate the supply of senior residence sites in the city center:

① Establishing a basis for relaxing use and density regulations to enable local governments to utilize idle infrastructure sites:
On August 7, 2024, the National Land Planning and Utilization Act was amended to introduce multi-level complex zones within urban or county planning facilities. Through this, the floor area ratio and building coverage ratio were relaxed up to two times for the combined use of infrastructure, and restrictions on building use were also eased.

② The government plans to induce changes in use and relax floor area ratio restrictions to facilitate the conversion of idle facilities such as university facilities, closed schools, accommodations, and officetels into senior residences.

③ The government plans to identify and develop idle national and public land, such as former military base sites and outdated public buildings, to provide these resources to private businesses for the development of senior residences.

In relation to ③ above, the government is proposing a plan to long-term lease land developed by the Korea Land and Housing Corporation ("LH") and others under Article 29 of the State Property Act to private

businesses in the following stages. This plan is particularly noteworthy for businesses planning to establish and operate senior residences in the future:

4. Deregulation and Mitigation of Investment Risk for REIT Entry

1) Promoting housing land support and regulatory improvement to activate REIT entry

The government intends to pursue regulatory reforms to facilitate the smooth entry of REITs into the senior residence development business.

① **Introduction of "Project REITs"**: According to the Senior Residence Revitalization Plan, the government plans to introduce "Project REITs" by easing entry regulations, such as the limit on stock ownership per person under the REIT Act, through amendments to the REIT Act. These Project REITs will be utilized to promote the development of senior residences. For details, please refer to I. Improvement of the System to Activate REITs such as Project REITs above.

② **Housing land support:** To promote the development of senior residences, the government plans to support REITs in utilizing Hwaseong Dongtan District 2 and at least three new town housing sites by 2025.

③ **Replacing personnel requirements through outsourced operators**: Under the current Welfare of Senior Citizens Act, welfare housing for senior citizens must have one head of the facility and one individual with a social worker certificate under the Social Welfare Services Act. Additionally, all employees must have signed an employment contract with the head of the facility (Article 17 of the

Enforcement Rule of the Welfare of Senior Citizens Act, Subparagraph 6 of attached Table 2, Subparagraph 3(d) of attached Table 3). However, under the current REIT Act, entrusted management REITs are prohibited from employing full-time executives or staff, making it impossible for them to independently meet these personnel standards.

According to the Senior Residence Revitalization Plan, the government plans to revise the system to allow entrusted management REITs to meet the personnel standards through their outsourced operators.

④ **Improvement of requirements for outsourced operators of welfare housing for senior citizens:** Under the current Welfare of Senior Citizens Act, those entrusted with the operation of welfare housing for senior citizens must have experience in implementing welfare housing projects for senior citizens (Article 33-2(6) of the Welfare of Senior Citizens Act, Article 20-3 of the Enforcement Decree). These restrictions have made it practically impossible for asset management companies of entrusted management REITs, which lack full-time executives or staff, to be entrusted with the operation of welfare housing.

According to the Senior Residence Revitalization Plan, the government plans to abolish the requirement that outsourced operators must have experience in implementing welfare housing projects for senior citizens, removing a major obstacle to REIT participation in the development and operation of welfare housing.

⑤ **Improvement of establishment requirements**: Under the REIT Act, REITs must entrust the custody of real estate to an asset custody organization immediately after acquisition (Article 35(1) of the REIT Act, Article 37(1)1 of the Enforcement Decree). This prevents REITs from meeting the facility requirements under the current Welfare of Senior Citizens Act, which mandates that the establishing entity secure ownership of the land and buildings.

Through the Senior Residence Revitalization Plan, the government has announced plans to amend Article 16 of the Enforcement Rule of the Welfare of Senior Citizens Act to allow the establishment and operation of welfare housing based on the "right to use" land and buildings. The government also intends to revise the system to account for REITs' asset custody obligations.

Consequently, REITs can be actively considered as primary entities for establishing and operating welfare housing for senior citizens in the future.

2) Mitigation of investment risk

The government is considering various forms of financial support to promote the development of senior residences. While the specific requirements for financial support—such as the target beneficiaries, scale, and timing—have not yet been finalized, the government has outlined the following key measures:

- Considering support for publicly funded private rental housing loans from the Housing and Urban Fund to provide construction financing for senior residences.
- Considering loan guarantee support from the Korea Housing Finance Corporation for construction funds for senior residence projects.
- Allowing investment in silver towns for sale, utilizing the local revitalization investment fund. However, purely for-profit sale projects will be excluded from eligible investment targets.
- Supporting local governments in creating senior residences by enabling the use of local extinction response funds and similar resources

5. Introduction of Silver Stay

The government plans to promote the Silver Stay (private rental housing) pilot project, which allows even senior citizens who are homeowners to move in. Following the pilot phase, the government intends to facilitate its implementation and expansion. The key details are as follows:

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Part 8 | Finance

I. Virtual Asset Market Trends in 2024

The year 2024 marked a revitalization of the virtual asset market, driven by key developments such as the US Securities and Exchange Commission (SEC) approving Bitcoin spot ETFs for the first-time in January 2024, and Donald J. Trump, purported to be a pro-virtual asset advocate, being elected as the President of the United States in November 2024. The Korean virtual asset market also experienced a boom in line with such a global trend, although in a relatively more stabilized degree compared to the past, influenced by, among other things, the Act on the Protection of Virtual Asset Users that recently came into effect, self-regulatory measures such as the Best Practices for Listing of Virtual Assets released by the Digital Asset Exchange Alliance (DAXA) and the majority of Korean virtual asset exchanges, and other regulatory initiatives.

II. Virtual Asset Market Outlook for 2025

1. Permitting real-name accounts for corporations, allowing institutional investors to enter the market

On November 6, 2024, the first meeting of the Virtual Asset Committee, chaired by the Financial Services Commission (FSC) of Korea, was held, during which the committee members discussed the issue of allowing real-name verified accounts ("real-name accounts") to be created in the name of legal entities, such as corporations.[9] They **expressed a positive stance** on the matter, stating that there is a need to consider the evolving domestic and global policy environment, such as the following: (1) recently, the use of blockchain and virtual asset technologies has been expanding across various industries, driven by increasing business demand for NFTs, mainnet development, and virtual wallets; (2) in major foreign jurisdictions, such as the United States, the EU, and Japan, the virtual asset ecosystem is increasingly being driven by institutional investors; and (3) the domestic market has become more stabilized following the enforcement of the *Act on the Protection of Virtual Asset Users*. (*Source: Financial Services Commission press release dated November 6, 2024*).

Accordingly, discussions are underway to expand the scope of legal entities that can open real-name accounts, which is currently limited to public institutions, to virtual asset service providers and eventually to legal entities, such as corporations, in general. It is anticipated that by 2025, **general corporations will also be permitted to conduct virtual asset transactions under their corporate names**. If this is realized, businesses using virtual asset – previously hindered by the lack of means to acquire or liquidate virtual assets necessary for their operations – are expected to thrive. **Corporations will emerge as key players in the virtual asset market**, engaging in activities such as investing proprietary assets into virtual assets through corporate accounts and utilizing virtual assets in various business models. Furthermore, as regulatory restrictions continue to ease, corporations are **likely to find practical applications of utilizing virtual assets in real day-to-day life** in various aspects, such as using them as payment methods in commerce, and integrating them into everyday business operations. These developments are expected to significantly expand the scope of the virtual asset market, fostering substantial growth and advancement even from a qualitative perspective. Notably, if corporations will hold virtual assets, **there will be an increase in the possibility of them acting as nodes in major public blockchains**, which is expected to have a positive impact on the promotion of the blockchain industry in Korea, contributing to the sector's overall advancement and innovation.

However, in the case of financial institutions, if they would be allowed to make investments in virtual assets with their proprietary assets and they suffer substantial losses, the impact on the national economy could be severe. Similarly, listed companies could serve as a link that reinforces the coupling of the capital markets with the virtual asset market. As a result, the financial supervisory authorities are likely to apply relatively stringent standards in regard to the virtual asset investments and related activities by such entities from a risk management perspective. Consequently, **financial institutions may take a cautious approach to opening corporate accounts for virtual asset transactions**. **In the case of listed companies, measures to strengthen risk management would likely be required even if corporate accounts would be permitted for them**.

[9] In Korea, investment and trading in virtual assets are required to be conducted by using a real-name verified account, but the Korean financial regulators have not been supportive of allowing such real-name accounts to be created in the name of legal entities out of concern for anti-money laundering (AML) risks.

2. Increase in use of stablecoins

The new Trump administration is expected to take a pro-virtual asset stance and pursue regulatory easing for virtual assets. This will likely bring more vitality to the virtual asset market which, in turn, is anticipated to drive a **concurrent increase in both the usage and issuance of stablecoins** that serve as the key currency in the virtual asset ecosystem.

In this context, stablecoins refer to "US Dollar-based stablecoins" pegged 1:1 to the global reserve currency, the US Dollar (USD). Their reserve assets must consist solely of secure short-term assets denominated in USD, such as US Treasury Bonds. As traditional major holders of US Treasury Bonds, such as Japan and China, are reducing their holdings due to economic or geopolitical reasons, **USD-backed stablecoins could create an alternative demand for US Treasury Bonds**, **thereby supporting the USD in maintaining its position as the global reserve currency**. As a result, the United States is likely to **actively discuss and endeavor to pass legislation to regulate stablecoins at the federal level** to provide legal clarity on their issuance and use. Enactment of such legislation will likely further promote the issuance and use of dollar-based stablecoins.

However, wide-spread use of dollar-based stablecoins may weaken the legal tender of money in the lawful currencies ("**Legal Tender Money**") of countries other than the United States (including Korea). Unlike Legal Tender Money, stablecoins enable USD-based transactions anywhere in the world without the cumbersome processes relating to foreign currency remittance and exchange. As many countries have already recognized stablecoins as a legally valid means of payment, Koreans engaged in trade with these countries are expected to **increasingly acquire and use USD-based stablecoins for transactions**. While this trend enhances the convenience of commercial transactions and accelerates the digital transformation of offline payments, it may diminish the demand for the Korean Won and weaken Korea's monetary sovereignty.

Accordingly, discussions on government regulation of stablecoins are expected to gain momentum in 2025. Notably, the Ministry of Economy and Finance is projected to propose an **amendment to the *Foreign Exchange Transactions Act* in the first half of 2025.** This amendment would require virtual asset service providers to pre-register under the *Foreign Exchange Transactions Act* and include cross-border virtual asset transactions in the reporting requirements. **It is highly likely that this amendment will pass** and it is currently targeted to be implemented in the second half of 2025. While specific details will need to be confirmed after the proposed amendment to the *Foreign Exchange Transactions Act* is publicly released, current expectations are that there will be no significant restrictions on the use of virtual assets for payments via personal wallets by retail users.

Meanwhile, there is a need to establish a legal framework for **stablecoins circulating in Korea** under the current law. The Virtual Asset Committee, established in 2024 under the FSC, is expected to lead the discussions on this issue. Key topics are likely to include whether stablecoins based on a single legal tender currency, like USD-based stablecoins, should be subject to legal regulations similar to those applicable to electronic currency under the *Electronic Financial Transactions Act*. In particular, the government is likely to carefully deliberate on measures to defend the value of the Korean Won and safeguard the monetary sovereignty of Korea. This could involve setting the **qualifications and conditions for stablecoins that are permitted to be circulate in Korea**. Such considerations are expected to result in the introduction of regulatory frameworks to address these concerns.

Meanwhile, the **demand for issuance of Korean Won-based stablecoins is expected to grow.** However, allowing this would require the establishment of regulations for initial coin offerings (ICOs), which could be challenging from a practical perspective. In addition, according to global standards, eligible issuers of

stablecoins include credit institutions, including banks, which diverges from the current Korean policy to separate the financial market from the virtual asset market. Given the foregoing, it is more **likely that regulations on the trading (secondary market) of stablecoins will be established before regulations on their issuance (primary market)**.

3. Security token offering (STO) related legislation

The FSC proposed **amendments to the *Financial Investment Services and Capital Markets Act* and the *Act on Electronic Registration of Stocks and Bonds***, similar to the bills proposed by Rep. Chang-hyun Yoon in the 21st National Assembly, through Rep. Jae-seop Kim and Rep. Byung-deok Min in the 22nd National Assembly. **The foregoing bills are highly likely to be passed** in 2025. If security tokens can be circulated in the Korea Exchange's exchange markets and the over-the-counter market by over-the-counter brokers, as currently permitted under the regulatory sandbox, intense competition to secure the leading issuance platform position can be expected.

The issuance of security tokens using blockchain offers several advantages, such as reducing issuance costs and enabling security holders to directly hold rights through blockchain network records without relying on intermediary's securities accounts. However, its most significant impact is expected to be in diversifying financial products. Traditionally, financial institutions have competed on fees and user interfaces while offering financial products that are not highly differentiated, such as stocks and funds. However, in the future, **competition is likely to shift towards securing highly demanded asset pools for issuance and developing unique financial products**. In addition, security tokens allow for securitizing specific rights tied to particular projects, rather than limiting investment to an entire company's equity. This enables companies to raise capital without diluting their equity and facilitates the monetization of future cash flows from illiquid assets. As a result, not only publicly listed companies but also startups and individuals are expected to find it significantly easier to secure funding compared to traditional methods.

The full-scale adoption of STOs is likely to drive **demand for real world assets (RWAs)**. While legal characterization of RWAs is not straightforward, in Korea, RWAs are likely to be issued and traded under the STO regulatory framework. Additionally, **various forms of RWAs are likely to be issued and distributed globally through DeFi protocols**, enabling their issuance and trading on a broader scale. This trend is expected to create new business opportunities related to real assets. Moreover, as previously mentioned, the use of stablecoins is also anticipated to increase.

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Part 9 | Financial Litigation

I. Status and Prospects of Securities-Related Class Actions

1. Status of Securities-Related Class Actions

Disputes arising from various illegal acts such as corporate accounting fraud, inadequate audits, false disclosures, stock price manipulation, and insider trading have always been a part of capital market disputes. In recent years, there has been a notable increase in the number of cases where a large number of minority investors have filed joint lawsuits, claiming to have suffered financial losses due to such illegal acts, as discussions on shareholder activism and protection of minority shareholders' rights have gained more momentum.

The Securities-Related Class Action Act, which came into effect on January 1, 2005 and is nearing its 20th anniversary, aims to effectively redress the collective losses of minority investors in these types of disputes and thereby promote corporate management transparency; however, to date, the number of securities-related class actions filed under the Act remain relatively low, with only about 12 cases. The following are analyzed as the reasons for this phenomenon: (i) securities-related class actions tend to take a long time to resolve, as adjudication of the merits requires the court's approval for lawsuit to proceed—a process that may take up to three levels of judgment—and in effect, obtaining a final decision entails six-instances of court proceedings; and (ii) the right to claim damages through class actions under the Securities-Related Class Action Act is limited to certain rights set forth in the Financial Investment Services and Capital Markets Act (the "FSCMA").

As of January 2025, the status of pending securities-related class actions is as follows:

No.	Case	Applicable Provisions	Status
1	Regarding STX Offshore & Shipbuilding Co., Ltd.(f/k/a) Business Report, etc.	FSCMA, Articles 162 and 170	Proceeding on the merits is pending (appeal)
2	Regarding Osstem Implant Co., Ltd. Business Report, etc.	FSCMA, Article 162	Proceeding for permission of lawsuit is pending (first instance)
3	Regarding registration statement for the IPO of FADU	FSCMA, Article 125	Proceeding for permission of lawsuit is pending (first instance)

2. Key Issues in Securities-Related Class Actions

A person who intends to file a securities-related class action must file a complaint and an application for permission to file a lawsuit, specifying the scope of the class (Articles 8 and 9 of the Securities-Related Class Action Act). First, through the procedure of deciding whether to permit a lawsuit, the court first decides whether to grant permission for a securities-related class action. Then, when the court decides to permit the filing of a class action, it proceeds to the merits proceedings to hear the claims. During the procedure of deciding whether to permit a lawsuit, the court will examine whether the requirements for permission of a lawsuit under the Securities-Related Class Action Act are met, and in the merits

proceedings, the court will consider whether there exists a specific cause of action asserted by the plaintiffs.

1) Major Issues in the Procedure for Permission of a Lawsuit

In order for a securities-related class action to be permitted, the following requirements must be met: ① there must be at least 50 members and they must hold at least 1/10,000 of the total number of securities at issue (numerosity); ② there must be a claim for damages of a certain type under Article 125 of the FSCMA, and the important issues of law or fact are common to all members (commonality of issues); and, ③ the securities-related class action is a suitable and efficient means of exercising the rights or protecting the interests of the class members (suitability and efficiency).

In principle, the question of whether the liability for damages has been established or not is not subject to review in the procedure of deciding whether to permit a lawsuit, but the court may examine a conduct that causes a claim for damages to the extent necessary to determine whether the "commonality of issues" requirement described above is satisfied. However, this requirement is satisfied if the material facts are consistent across the causes of claims of all class members. The presence of minor factual differences in the claims of each class member or the objections against specific class members does not invalidate this requirement (Supreme Court Judgment 2015Ma4027 dated November 4, 2016).

2) Major Issues in the Proceedings on the Merits

Once the decision to permit filing of a securities-related class action becomes final, the court must notify each class member of the decision (Article 18 of the Securities-Related Class Action Act). This notice must be sent by ordinary mail, but if the address or other information of a class member cannot be ascertained through reasonable efforts, the notification may be published in a daily newspaper (Article 15 of the Securities-Related Class Action Rules). As the number of class members of a securities-related class action is often in the thousands, or even tens of thousands, it takes several months to notify the class members of the decision to permit filing of a class action in practice before the merits proceedings.

The issues raised in a securities-related class action are basically the same as those at issue in a general joint action. However, the Securities-Related Class Action Act provides for special exceptions to the Civil Procedure Law concerning the method of investigating evidence, calculation of damages, termination of litigation, and notification of judgment, among others.

A final and conclusive judgment of a securities-related class action is binding on all members of the class, but a member may choose not to be bound by the judgment by filing an exclusion report with the court within a certain period of time (Articles 37 and 28 of the Securities-Related Class Action Act; opt-out method).

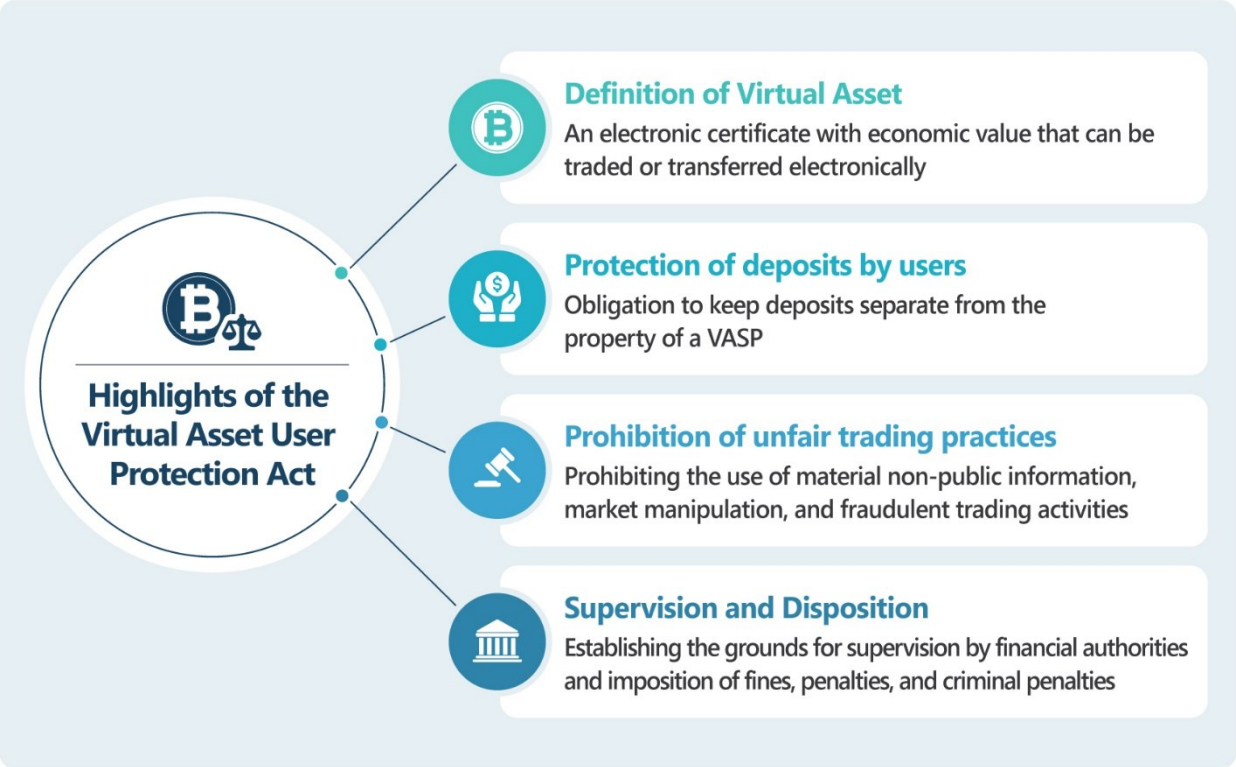
3. Future Prospects

Although there have been not many cases to date, securities-related class actions are expected to be filed continuously. This is because the Korean stock investment population is rapidly increasing, and in line with this trend, there is an active social debate on expanding the fiduciary duties of companies to their general shareholders through amendments to the Commercial Code or the FSCMA. On the other hand, there is a

steady trend to improve the system to facilitate securities-related class actions. Accordingly, it is necessary to keep an eye on this trend in the context of the overall debate on the protection of minority shareholders' rights.

II. Implementation of the Act on the Protection of Virtual Asset Users from a Dispute Perspective

1. Implementation of the Act on the Protection of Virtual Asset Users



On July 19, 2024, the Act on the Protection of Virtual Asset Users (the "Virtual Asset User Protection Act") came into force, which Act had been enacted with the legislative purpose of protecting the rights and interests of virtual asset users and establishing a transparent and sound trading order in the virtual asset market. The Virtual Asset User Protection Act marks the first phase in a series of legislations relating to virtual assets, and its main contents include the basic definition of virtual assets, the obligations of the service providers in relation to the protection of users' assets, and the regulation and supervision of, and measures against, unfair trade practices.

The regulatory framework for the issuance, distribution, and required disclosure of virtual assets, as well as details of the white paper, are expected to be included in the second phase in a series of legislations relating to virtual assets. The Virtual Asset User Protection Act is not very long, consisting of five chapters and 22 articles, but it is the first Korean statutory law providing for financial regulation of virtual assets. The Virtual Asset User Protection Act is expected to serve as the basis for the fundamental law on virtual assets to be enacted in the future.

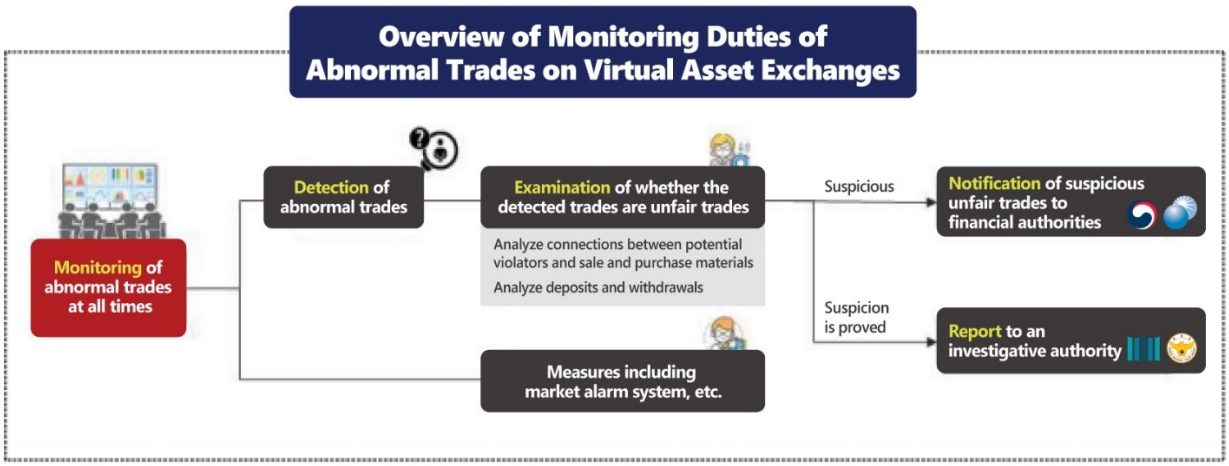
Article 4 of the Virtual Asset User Protection Act stipulates that this Act applies to virtual assets, etc. in priority as a special law on this subject matter. Thus, although the FSCMA will be applied in priority with respect to token securities, the Virtual Asset User Protection Act will be applied with respect to virtual assets as defined under the Virtual Asset User Protection Act. On the other hand, blockchain technology is expected to be regulated separately when the Framework Act for the Promotion of Blockchain Industry is enacted.

The section of the Virtual Asset User Protection Act that is currently receiving the most attention is Chapter 3 which relates to unfair trade practices vis-à-vis virtual assets. Unfair trade has also been the topic of highest legislative focus in this first phase of virtual assets related legislations.

2. Regulation of Unfair Trade under the Virtual Asset User Protection Act

Similar to the FSCMA, the Virtual Asset User Protection Act provides that the use of material non-public information, manipulation of market price, and fraudulent trading are unfair trade practices, and that the Financial Services Commission ("FSC") may impose a penalty surcharge of "two times the amount of profit gained or loss avoided through such unfair trade practices, but not more than KRW 4 billion" (Articles 10 and 17 of the Virtual Asset User Protection Act). However, "market order disruption", which is prohibited by the FSCMA, is not included as one of the types of unfair trade practices regulated under the Virtual Asset User Protection Act.

In addition, a virtual asset service provider ("VASP") is prohibited from engaging in the sale, purchase, or other transaction relating to the virtual assets issued by itself or its related party (Article 10(5) of the Virtual Asset User Protection Act), and is prohibited from blocking users' deposits and withdrawals of virtual assets unless there is a justifiable ground (Article 11(1) of the Virtual Asset User Protection Act). Justifiable grounds for blocking deposits and withdrawals are listed in Article 17 of the Enforcement Decree of the Virtual Asset User Protection Act, which list includes occurrence of an IT system error in the virtual asset information system and inability to use the virtual asset information system due to maintenance or inspection.

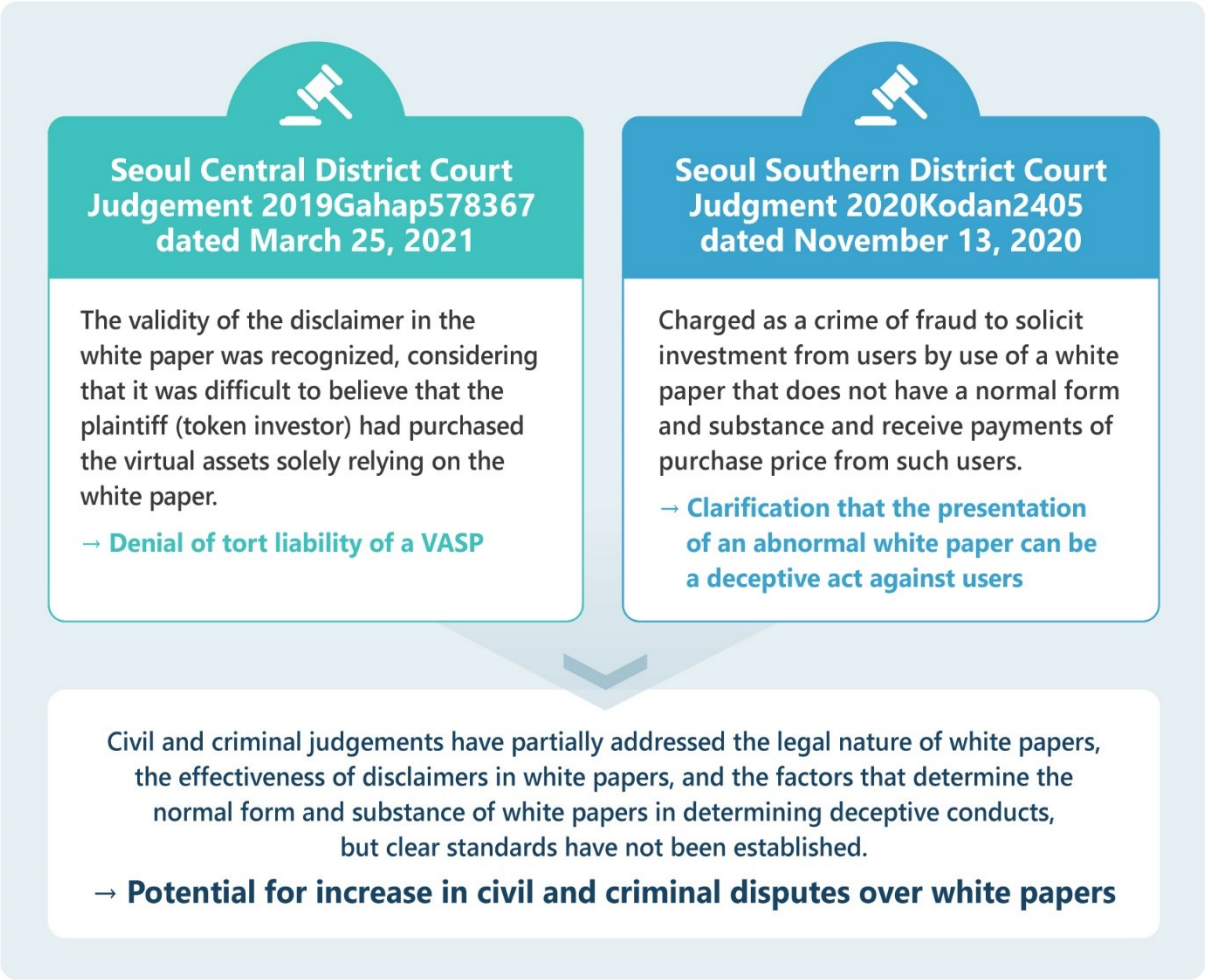


(Source – Financial Supervisory Service ("FSS") press release (July 5, 2024) "With the enforcement of the Virtual Asset User Protection Act (July 19, 2024), the constant monitoring system for unfair trading of virtual assets is fully activated").

In addition, a VASP is required to monitor abnormal transactions in which the price or trading volume of virtual assets fluctuates abnormally and take appropriate measures (Article 12(1) of the Virtual Asset User Protection Act), and is required to notify the FSC and the FSS without delay of any suspected unfair trade, provided, however, that if the suspicion of unfair trade is sufficiently proven, the case must be reported to the investigation agency without delay with the facts being reported to the Chairman of the FSC and the Governor of the FSS (Article 12(2) of the Virtual Asset User Protection Act).

The most notable section of the Virtual Asset User Protection Act is Article 10(4), which regulates fraudulent unfair trade. It is modeled after Article 178 of the FSCMA and is expected to function as a general and comprehensive regulatory basis, similar to Article 178(1) of the FSCMA. This provision is likely to be applied and utilized in a number of civil and criminal disputes involving white papers.

3. Potential for Increased Civil and Criminal Disputes over the White Paper



In a relatively recent civil judgment concerning a white paper, i.e., Seoul Central District Court Judgment 2019Gahap578367 dated March 25, 2021, the court rendered a judgment that appears to recognize the validity of a provision in the white paper that broadly disclaimed the liability of a VASP. However, in this case, the validity of the disclaimer (under the white paper) itself was not the subject of dispute, and circumstances that make it difficult to conclude that the plaintiff purchased the virtual assets solely relying on what was contained in the white paper were taken into account, so it is difficult to consider this case

as having established the standard for the validity of such disclaimers. In Seoul Central District Court Judgment 2019Gahap530075 dated May 13, 2021, the courts referred to the contents of the white paper as a basis for interpreting the obligations owed by a VASP to the token investor. However, it is not clear whether this judgment also considered the white paper as a contract (or standard terms and conditions) between the VASP and the user.

In the criminal judgment Seoul Southern District Court Judgment 2020Kodan2405 dated November 13, 2020, the court held that it is a crime of fraud to solicit investment from users by way of a white paper that fails to have the form and substance ordinary for a white paper, and receive payments of purchase price from such users therefrom. In other words, this case can be seen as having clarified that providing an abnormal white paper may constitute an act of deception on the users.

Even under the current regulations, there already exist guidelines on white papers. For example, the 'Guidelines for Supervision of Accounting for Virtual Assets' and the 'Best Practices for Virtual Asset Disclosure and Annotations' stipulate that performance obligations stated in the white paper must be fully complied with in order to recognize revenue when selling virtual assets, and the "Best Practices for Virtual Asset Transaction Support" stipulates that the white paper must be confirmed when reviewing transaction support for virtual assets. In particular, Article 15 of the Enforcement Decree of the Virtual Asset User Protection Act contains a general description of the elements that should be included in a white paper, describing it as a "material in which the virtual asset issuer, or its authorized disclosure agent, provides explanations of matters of material importance that may have a material effect on the reasonable investment decision of the users or the value of the relevant virtual asset, such as the total issue size, planned distribution volume, and business plan."

Those who claim to have suffered damages in relation to their investment in virtual assets are likely to actively utilize the fraudulent unfair trade provision under Article 10(4) of the Virtual Asset User Protection Act to assert "misrepresentation of material matters and or false statement." On the other hand, it seems possible for the virtual asset issuing foundation or the virtual asset investment recipient to raise counter-arguments that it would be excessive to punish for omission of material information when the scope of material information is unclear under the Virtual Asset User Protection Act, and that the scope of information disclosure to provide transparent information to users should ultimately be supplemented by establishing clearer regulations relating to issuance and disclosure, such that it would be inappropriate to try to resolve these issues with unfair trade practice regulations.

As there is room for controversy in many respects, it seems quite likely that we may see an increase in civil and criminal disputes relating to white papers in the future.

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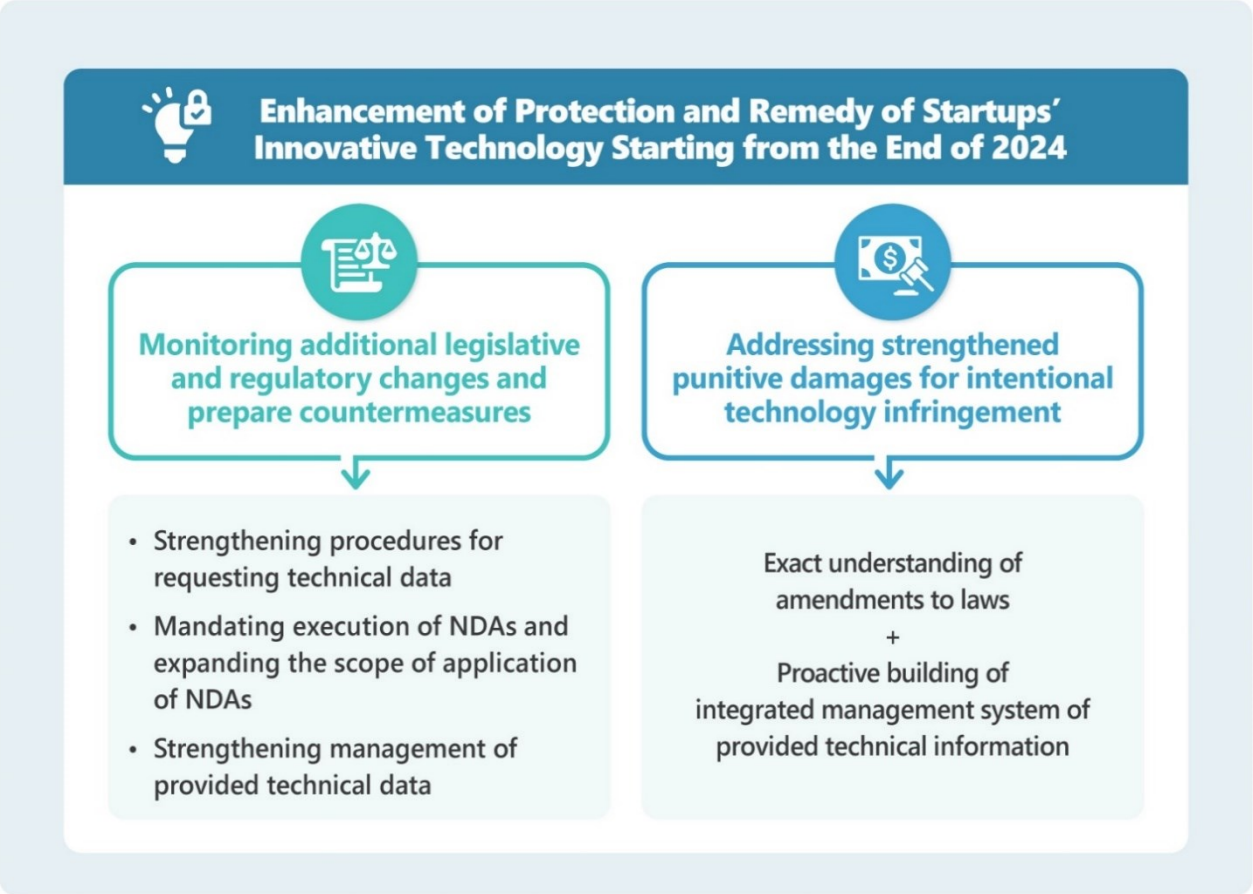
Part 10 | IP



I. Policy Trends Relating to the Protection and Remedy of Startups' Technologies

1. Announcement of the "Plan to Enhance Protection and Remedy of Startups' Innovative Technologies'

In October 2024, the Ministry of SMEs and Startups announced the "Plan to Enhance Protection and Remedy of Startups' Innovative Technologies" to protect startups' innovative technologies and prevent technology theft. The key points of the Plan are Ⅰ. Minimizing Blind Spots of Technology Protection, Ⅱ. Strengthening Punishment Levels, Ⅲ. Strengthening Customized Support, and Ⅳ. Establishing Systems to Prevent the Spread of Damage, and in particular, companies should pay attention to Ⅰ. Minimizing Technology Protection Blind Spots, and Ⅱ. Strengthening Punishment Levels. The key points are summarized in the table below.

Minimizing Blind Spots of Technology Protection			
Classification		Existing	Upcoming Changes
No.	Item		
1	Expanding scope of protection	Mostly unprotected due to failure to meet the confidentiality management which is one of the requirements for being recognized as trade secrets	To prepare institutional support measures even in the event that confidentiality management as one of the requirements for establishing trade secrets is insufficient
2	Expanding the scope of application of legal obligations	Imposing legal obligations such as signing NDAs and prohibiting demands for technology only on entrusted and outsourcing relationships	To impose legal obligations on all bilateral relationships with startups, including contractors, large and medium-sized enterprises, and public institutions in contracting and outsourcing transactions
3	Demands for technology at a negotiation phase	Core internal technologies are often requested verbally without clear guidelines, leveraging superior transactional positions	Must be in writing, specifying the purpose of the request, the name and scope of the technology, confidentiality, method of payment, and attribution of rights
4	Provision of technology at negotiation phase	Refusal or avoidance to provide written proof of technology provision and to execute NDAs	Making it obligation to enter into NDAs specifying the purpose and scope of technology provision, obligation of confidentiality, and liability in case of breach of contracts
5	Negotiation closing phase Return/destruction of technology	No obligation to return or destroy technical information after negotiations end, leaving a risk of technology theft	To return or destroy the technical information provided in the manner and date specified in the NDAs.
6	Insertion of new types of infringement	Only punishing infringement committed for self-use	Infringement also includes improper provision of technology to third parties and use and disclosure of technical information in violation of confidentiality obligations under NDAs

Strengthening Punishment Levels			
Classification		Existing	Upcoming Changes
No.	Item		
1	Increased sanctions:	Exclusion of corrective orders and fines on the grounds of not being a business relationship such as contracting, outsourcing or subcontracting	Failure to comply with a corrective order may result in imprisonment for up to 1 year or a fine of up to KRW 50 million

		Only public announcement is possible in case of non-compliance with corrective recommendations	
2	Imposing monetary sanctions	No separate monetary sanctions	Review of measures to impose monetary sanctions in addition to corrective orders for serious technology theft by entrusted or outsourcing companies or by large companies
3	Adequate damages	Difficulty in compensating adequate damages in the case of new technology or prior to market entry because only actual damage caused by transfer or sale of products is recognized	Improved criteria for calculating damages so that the cost of technology development is recognized as well as actual damages caused by the transfer or sale of products
4	Increased punitive damages	Up to five times liability for technology theft	Up to five times liability for technology theft occurring in the pre-contractual stage, including negotiations and bargaining In review whether to include breach of confidentiality in the calculation of punitive damages
5	Strengthening integrated remedy through ministerial coordination	Each ministry has a different means of remedy from damage.	Establishing a technology protection gateway and seeking prompt remedy of damages through cooperation between ministries such as MSS, KIPO, National Police Agency, and Prosecutors' Office

2. Announcement of the 'Countermeasures against Technology Drain to Strengthen Global Industrial Competitiveness'

In October 2024, the Korean Intellectual Property Office (KIPO) announced the "Countermeasures against Technology Leakage to Strengthen Global Industrial Competitiveness." The main objectives of the measures of preventing and addressing technology theft from SMEs are as follows:

Classification		**Existing**	**Upcoming Changes**
No.	**Item**		
1	Proof of original idea	Existing only for trade secrets	Although the materials provided during business-related transactions and negotiations are the main evidence to prove the theft of ideas, there was no system to prove such theft. Thus, the original idea proof system will be introduced to make it easier to prove the details of ideas and the materials exchanged during transactions and negotiations.

2	Strengthening administrative investigations into idea theft	N/A	Establishment of the operating guidelines and the grounds for inspection and copying of investigation data of parties, etc. following the introduction of corrective orders for unfair competition acts (effective August 2024)

3. Implications

The above proposed changes require amendment of the relevant laws, enforcement decrees, etc. and the establishment of new systems. According to the implementation timeline, these measures are scheduled for implementation starting from towards the end of 2024. In addition to the regulation on the request for technical data and misuse of technical data prescribed by the existing Subcontracting Act, the Act on the Promotion of Mutually Beneficial Cooperation or related laws and regulations, and the unfair competition issues of misuse of other's ideas and achievements under the Unfair Competition Act, companies should monitor and be aware of any additional legislative or regulatory changes regarding the request process, the content of NDAs, and the management of technical data provided when collaborating with startups.

In particular, the process for requesting technical data in the course of collaboration with startups is expected to become more stringent, and companies should follow a clear process for requesting technical data in order to prevent technology theft and protect startups' innovative technologies. In addition, the scope of application of NDAs is expected to be expanded and the penalties for breach of NDAs are expected to be newly established, and companies that receive technical data will be required to protect the data and prevent unauthorized disclosure.

These regulatory developments could have a significant impact on companies working with startups. It's important to continue to monitor and prepare for these changes in advance.

II. Legislative Trends and Outlook for Technology Protection and Remedy for Startups and SMEs

1. Recent Amendments to Major Laws

Law	Amendments
Act on the Promotion of Mutually Beneficial Cooperation between Large Enterprises and Small and Medium Enterprises	• Increased the maximum amount of damages for unjustified misappropriation of technical data by outsourcing companies from three times to five times the amount of damages, and expanded the scope of application of the current three times limit (Article 40-2 (2) amended with effect from July 10, 2024) • Strengthened protection and remedy for entrusted enterprise technology by enabling entrusted enterprises to request the court to prohibit or prevent an act of misappropriation of technical data if they suffered or are likely to suffer damage due to the act of misappropriation (Article 28-11 inserted with effect from December 21, 2024)

The Unfair Competition Prevention and Trade Secret Protection Act	• Increased the cap on punitive damages for trade secret infringement and idea theft from three to five times (Article 14-2 (6) amended with effect from August 21, 2024) • Increased fines to be imposed on legal entities for unfair competition or infringement of trade secrets to a maximum of three times the fine imposed on the offending individual (Article 19 amended with effect from August 21, 2024) • New provisions for confiscation of goods that facilitate unfair competition or trade secret infringement, or goods generated from such acts (Article 18-5 newly inserted with effect from August 21, 2024) • Introduced a system for imposing corrective orders and fines for unfair competition practices (Article 9(1) and Article 20(1)1-2, effective from August 21, 2024) • A new provision for sending records of administrative investigations so that courts can use the records of such investigations in proceedings for prohibition of unfair competition (Article 14-7, effective from August 21, 2024)
Act on Support for Protection of Technologies of Small and Medium Enterprises	• Enables the court to require the Minister of SMEs and Startups to transmit the case records of the Ministry of SMEs and Startups when a claim for damages is filed under the Act on Prevention of Unfair Competition and Protection of Trade Secrets in relation to a case of technology infringement of SMEs for which the Ministry of SMEs and Startups has conducted an administrative investigation (Article 8-5 newly inserted, effective from July 10, 2024)
Patent Act	• Increased the cap on punitive damages for patent infringement from three to five times (Article 128 (8) amended, effective from August 21, 2024)

2. Recent Proposals for Major Legislative Amendments

Law	Summary of the proposal
The Monopoly Regulation and Fair Trade Act	• Proposed an amendment that allows the court to order the counterparty to submit materials to prove the infringement of technology, and excludes confidentiality obligations if materials are provided in accordance with the court's order to submit them

The Fair Transactions in Subcontracting Act	• Proposed an amendment to strengthen the obligation of the KFTC, which has obtained a wide range of evidence on the theft of technology from SMEs, to submit documents when ordered to do so by a court • Proposed amendments to shift the burden of proof in damages claims, such as requiring the prime contractor to present its specific behavior in cases where the prime contractor denies the improper use or provision of technical data claimed by the subcontractor, and allowing the court to recognize the subcontractor's claim as true if the prime contractor fails to do so without justifiable reasons
Act on the Promotion of Mutually Beneficial Cooperation between Large Enterprises and Small and Medium Enterprises	• Proposed amendments to stipulate that if an outsourcing company entrusts an entrusted company to manufacture goods, etc., and the outsourcing company improperly uses the technical data of the entrusted company (limited to technical data managed as secret), the outsourcing company shall be liable for five times the damages to any person who suffers damage
Patent Act	• Proposed amendments to set the amount of damages to be five times the amount of damages awarded in the case of intentional infringement of patent rights, and to reduce the amount of damages by taking into account the superior position of the infringer, the degree of intent, or the degree to which the infringer was aware of the possibility of causing damage
The Unfair Competition Prevention and Trade Secret Protection Act	• Proposed amendments to set the amount of damages to be five times the amount of damages awarded in cases of intentional unfair competition and trade secret infringement

3. Implications

Legislatively, there has been a strong push to increase technology protections and remedy for startups and SMEs, particularly in recent amendments and amendment bills that seek to increase punitive damages for intentional technology infringement. This legislative trend is expected to continue in 2025.

Therefore, companies working with or planning to collaborate with startups and SMEs need to accurately understand the relevant legislative amendments and their implications, have an organization, department or person in charge of managing technical information provided to them in an integrated manner for compliance purposes, and establish a management system in line with the relevant contractual and legal framework.

Under such a system, companies should have procedures in place to systematically respond to legal risks occurring afterwards, with objective evidence of compliance with contracts and laws. This will help companies avoid legal issues related to technology protection and facilitate collaboration with startups and SMEs.

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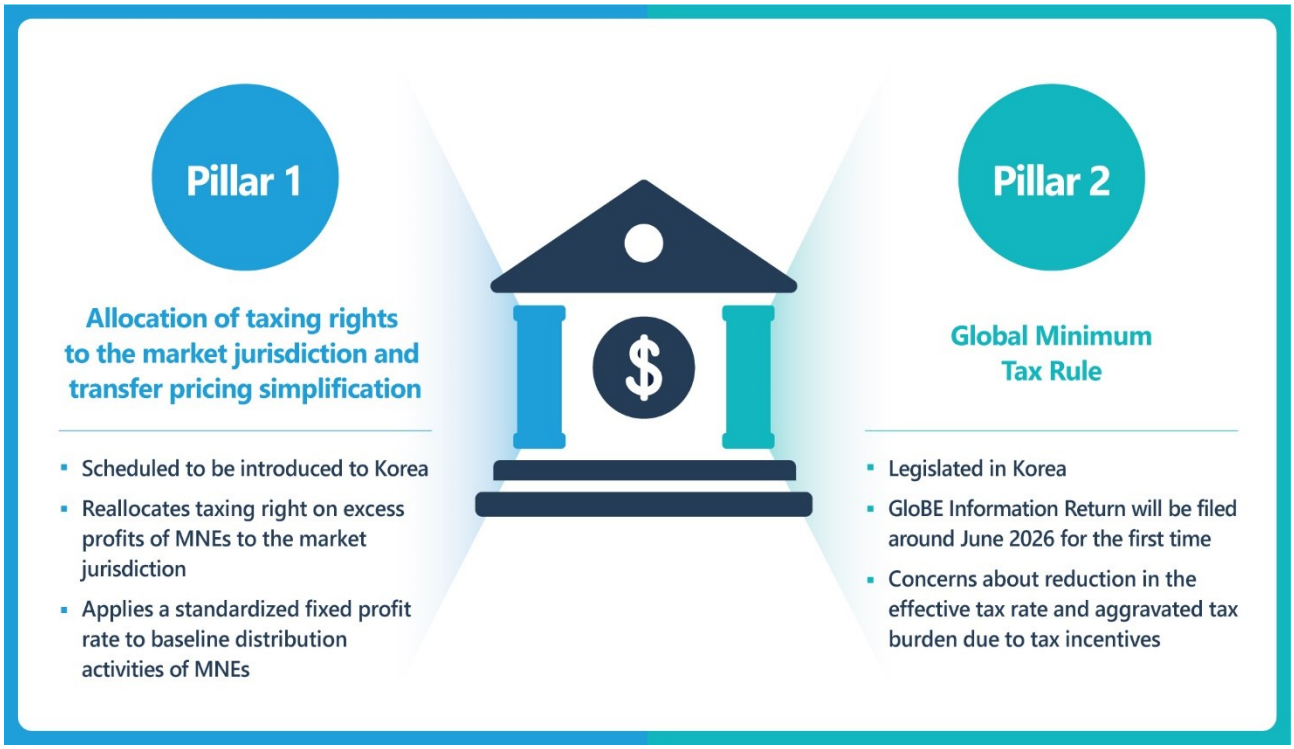
Part 11 | Tax



I. Status and Prospects of Pillar 1 and Pillar 2

The OECD and the G20 Inclusive Framework proposed Two Pillar Approaches to prevent tax base erosion and income shifting in the digital economy. The Two Pillar Approaches consist of Pillar 1, which allocates taxing power to a country where the relevant market is located, and Pillar 2 (global minimum tax rule), which grants additional taxation rights to other countries when a particular country applies a tax rate lower than the minimum tax rate (15%). On December 20, 2021, the Inclusive Framework unveiled the Global Anti-Base Erosion (GloBE) Model Rules Pillar 2, which Korea reflected in its legislation on December 31, 2022. Meanwhile, Pillar 1 has not yet been implemented in the Korean legislation.

1. Pillar 2 (GloBE rules)

Among the GloBE rules, the Income Inclusion Rule came into effect on January 1, 2024, and the Under-Taxed Profits Rule took effect on January 1, 2025. The GloBE Information Return must be filed with the head of the competent tax office within 15 months from the end of the relevant tax year, but for the first applicable year, a longer deadline of 18 months applies, so the relevant companies will be filing their first GloBE Information Return around June 2026.

Profits and losses for GloBE rule purposes are calculated by adjusting net profit or loss for accounting purposes. However, detailed calculation standards have not yet been clearly established, causing inconvenience to taxpayers. In consideration of this, the National Tax Service and the Ministry of Economy and Finance held a public hearing in early 2024, and the OECD has announced administrative guidelines. But as the GloBE rules are being implemented for the first time, confusion is expected to be inevitable for

the time being.

Low-tax jurisdictions with effective tax rates of less than 15% may introduce the Qualifying Domestic Minimum Top-up Tax (QDMTT) in order to secure taxing rights within their jurisdictions. To qualify as a QDMTT, however, its tax implications should be consistent with the internationally agreed upon GloBE rules and refrain from providing any related benefits, such as tax incentives and subsidies, to the taxpayer. In countries applying low tax rates for the purpose of attracting foreign capital, introducing a QDMTT without meeting these requirements may result in application of the Income Inclusion Rule.

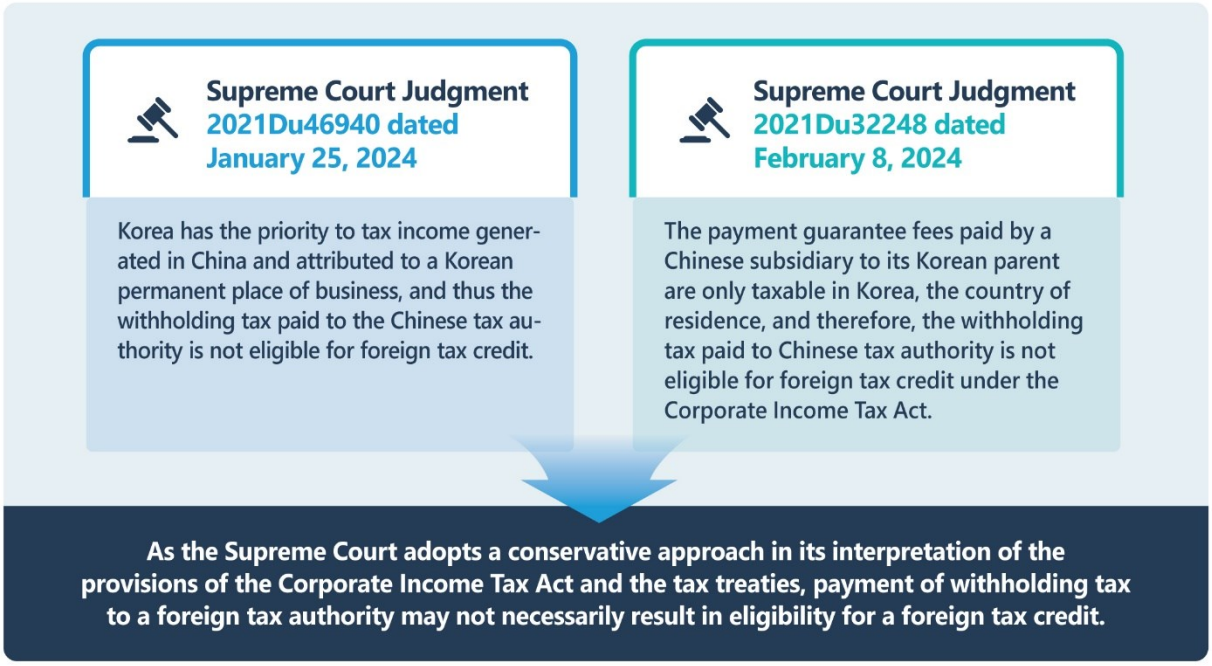
In the case of certain tax incentives, such as the Advanced Manufacturing Production Credit (AMPC) provided by the United States under the Inflation Reduction Act, these incentives may be treated as income (and reflected in the denominator) and not as a covered tax, lowering the jurisdictional effective tax rate, which may aggravate the tax burden for those companies benefiting from such tax incentives. With solar and secondary battery companies seek to fend off intense competition from Chinese products through large-scale government support and low manufacturing costs, there is great concern that the global minimum tax burden arising from IRA tax incentives could erode their competitiveness. Moreover, the incoming Trump administration may introduce significant changes the IRA subsidies. Therefore, companies should carefully monitor changes in domestic and foreign policies to avoid undue tax burdens.

2. Pillar 1 (Allocation of taxation rights to the market jurisdiction and simplification of transfer pricing)

Pillar 1, which allocates taxation rights to a country where the market is located, can be divided into "Amount A," which reallocates some of the taxation rights on excess profit of a multinational enterprise (MNE) to countries where the market is located, and "Amount B," which applies a standardized fixed profit rate by simplifying and streamlining the complex transfer pricing regime for baseline distribution activities of an MNE. The Inclusive Framework will divide the implementation of Amount B into two phases: Phase 1, where countries can choose to adopt Amount B for tax years beginning on or after 1 January 2025, and Phase 2, where Amount B will be mandatory for all countries when Amount A comes into effect. Korea plans to decide whether and when to introduce Amount B, considering the legislative trends in other countries.

Korean companies operating in jurisdictions where Amount B has already been implemented may be affected, even if it has not been implemented in Korea. Therefore, it is crucial to closely monitor the status and details of Amount B implementation in each relevant jurisdiction.

II. Trends and Prospects of International Tax Cases in Korea



1. Whether a foreign tax credit is available for withholding taxes on income generated in the country of residence of a foreign corporation and attributed to its Korean permanent establishment (Supreme Court Judgment 2021Du46940 dated January 25, 2024)

Supreme Court Judgment 2021Du46940 concerns a case involving a Korean place of business of the plaintiff, a Chinese corporation engaged in financial services. The Korean place of business lent funds raised in Korea to Chinese residents and earned interest, withholding 10% of the interest for tax payment to the Chinese tax authority. Under the circumstances, the issue was whether the amount of withholding tax paid by the plaintiff's Korean place of business to the Chinese tax authority constituted "foreign corporate income tax paid or payable on foreign source income" eligible for foreign tax credit under Article 57(1) of the Corporate Income Tax Act.

The Supreme Court held that, in light of the provisions of the Corporate Income Tax Act and the Korea-China Tax Treaty, Korea retains the right to tax first on income generated in China and attributed to a permanent establishment located in Korea, and then the adjustment for double taxation would be made by way of tax credit on the amount of tax paid in Korea when China, the country of residence, imposes tax on the plaintiff being a Chinese corporation, and in such case, even if there is tax paid in China, the country of residence, on the income, such tax is not eligible for foreign tax credit under the Corporate Income Tax Act.

2. Whether a Korean corporation is entitled to a foreign tax credit for withholding tax on payment guarantee fees received from a Chinese corporation (Supreme Court Judgment 2021Du32248 dated February 8, 2024)

In Supreme Court Judgment 2021Du32248, the plaintiff, a Korean corporation, provided payment guarantees and received fees in return from its Chinese subsidiary for its borrowing of loans from Korean or Chinese financial institutions, and the Chinese subsidiary paid the withholding tax on the above payment guarantee fees to the Chinese tax authority based on the rationale that the fees constituted

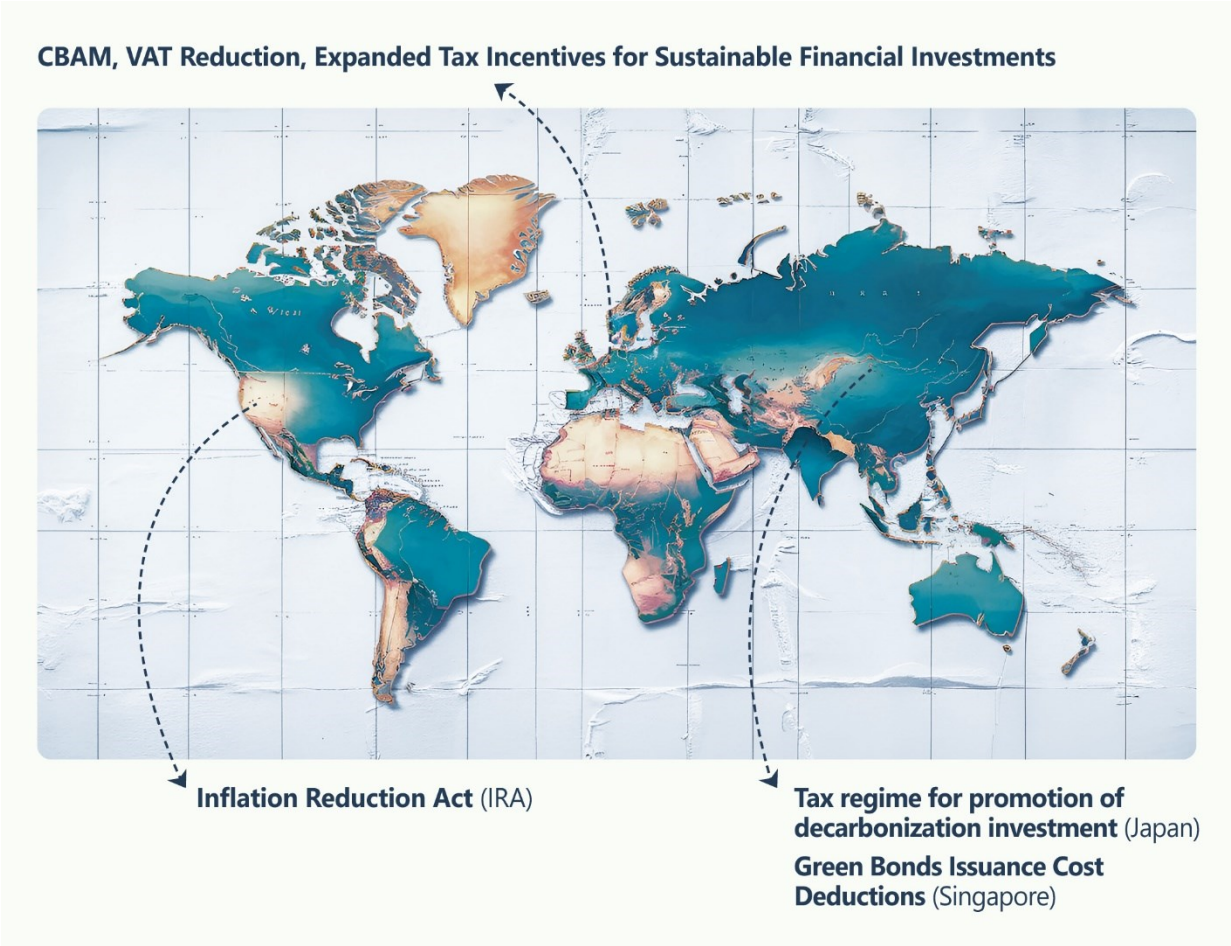
"interest income" under the Korea-China Tax Treaty. Under the circumstances, the issue was whether the withholding tax paid by the Chinese subsidiary to the Chinese tax authority constitutes "foreign corporate tax paid or payable on foreign source income" eligible for the foreign tax credit under Article 57(1) of the Corporate Income Tax Act.

The Supreme Court held that if the tax paid to China exceeds the extent to which China, as the source country, retains taxing rights under the Korea-China tax treaty, such taxes are not eligible for a foreign tax credit under Article 57(1) of the Corporate Income Tax Act. Furthermore, as payment guarantee fees do not constitute "interest income" under the Korea-China Tax Treaty, the withholding tax paid by the Chinese subsidiary to the Chinese tax authority is not eligible for foreign tax credit under the Corporate Income Tax Act because the payment guarantee fees paid by the Chinese subsidiary to the plaintiff, a Korean corporation, are subject to taxation only in Korea, the country of residence.

3. Trends in the Case Law

The Supreme Court seems to have adopted a conservative approach in interpreting the provisions of the Corporate Income Tax Act and the tax treaties. In light of this judicial trend, foreign tax credits may not be available in Korea based solely on the fact that withholding taxes have been actually paid to a foreign tax authority when a foreign corporation pays the relevant income to a Korean corporation or Korean place of business. A foreign corporation making such payments to a Korean corporation or a Korean place of business should carefully consider the scope of withholding tax payable to the foreign tax authority with respect to such income.

III. Key International Tax Issues and Prospects



As ESG (Environment, Social & Governance) has emerged as a key evaluation factor in global financial markets, the OECD and the UN are actively encouraging member countries to adopt ESG-related tax policies. In particular, the OECD has provided specific guidelines for environment-related tax policies through its "Tax and the Environment" report, which has become an important reference for countries in formulating their policies.

In May 2023, the EU finally approved the legislative proposal for the Carbon Border Adjustment Mechanism (CBAM) to be fully implemented from 2026, introduced a VAT reduction scheme to promote the circular economy, and expanded tax benefits for sustainable financial investments.

The US is also expanding its ESG tax policy by introducing a green investment tax credits through the Inflation Reduction Act (IRA), accelerated depreciation for clean energy production facilities, and penalties for ESG disclosure violations.

In Asia, ESG tax policies such as Japan's decarbonization investment promotion tax regime and Singapore's deduction of green bond issuance costs are on the rise, and Korea's ESG tax policies such as tax credits for investments in environmental mitigation facilities, R&D tax credits and employment expansion tax credits for new growth engine industries and source technologies under the current Act on Restriction of Special Taxation are expected to continue to expand with the establishment of K-Taxonomy (Korea Green Classification System).

As ESG evaluation has become a key criterion internationally, ESG-related tax policies are expected to be further strengthened and elaborated in the future. In particular, as the green classification system centered on K-Taxonomy becomes more concrete, relevant tax support is expected to expand systematically. Companies will need to proactively respond to these changes to establish an ESG management system and strategically utilize related tax benefits. In addition, as ESG tax policies may act as a new trade barrier in the context of global supply chain reorganization, companies should closely monitor international trends and develop a response strategy from a mid-to-long term perspective.

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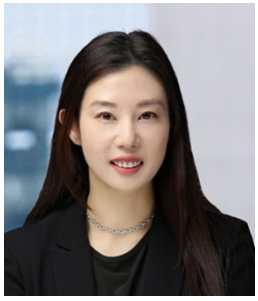

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Part 12 | National Assembly and Prosecution

I. Outlook for the National Assembly's Legislation and the Parliamentary Audit

1. Outlook for Legislations

1) Changes in the legislative environment due to the Martial Law incident

As the political situation has been in turmoil due to the December 3 Martial Law incident, numerous political changes are inevitable in 2025. The People Power Party's defeat in the 22nd general election in 2024 began the lame duck stage of the Yoon administration, and the Martial Law incident essentially disabled the executive branch.

Thus, it will be more difficult for the administration to obtain cooperation from the opposition parties in the planned legislative process. If the Constitutional Court rejects the impeachment, political turmoil will likely continue and extreme conflicts between the ruling party and the opposition parties will likely continue. If the Constitutional Court decides to dismiss the president by accepting the impeachment, a special election for the president will be held, and a different party may become the ruling party. If a special presidential election is held, the National Assembly may become a legislative forum to carry out the election pledges or policies presented by the newly elected President. This will become even more so if the leading opposition party, which currently holds the vast majority, takes power. However, if the ruling party takes power again in the special presidential election, it may be difficult to enact legislation related to government policies as it currently is, but the rift with the

National Assembly will be somewhat mitigated because the legitimacy of the government is recognized through the special election. In sum, the legislative outlook for 2025 will largely depend on the existence and outcome of the special presidential election.

2) Matters of common interest for the parties may become law

It is expected that the ruling and opposition parties will cooperate with each other on matters that both sides have proposed or promised to implement, or on matters considered necessary in preparation for the local elections in 2026. In addition, it is highly likely that the ruling and opposition parties will cooperate in the recovery of national credibility in the wake of the Martial Law incident, the launch of the Trump administration in U.S., and the international challenges, such as the wars in Ukraine and Palestine. In particular, the measures to boost the semiconductor industry and the artificial intelligence (AI) industry, the measures to expand the national power grid infrastructure to support high-tech industries, the measures to support small and medium enterprises and micro enterprises, and the measures to address the low birth rate and the aging population are among the common interests of both parties, and the legislation is expected to take place in these areas.

3) The matters on which the ruling and opposition parties are opposed are likely to depend on changes in the political conditions

The current government's policy-related bills, which are currently submitted to the National Assembly, are unlikely to be accepted due to the political turmoil. Those bills, currently pending before the National Assembly, will be discussed at various speeds, depending on the changes in the political situation and the results of the special presidential election. In particular, if an opposition party takes power, the bills that vetoed by the president are expected to become law. These include the bill on the appointment of a special prosecutor for the investigation of the death of Marine Chae and the bill to amend the Grain Management Act.

Other main issues will be discussed at the National Assembly in 2025, with the related bills being proposed by the standing committees as follows:

Standing Committee	Main issues and related bills
Legislation and Judiciary Committee	• A bill to amend the Commercial Act to expand the liability of directors to shareholders
National Policy Committee	• A bill for the creation of an environment for fair competition among online platforms • 2-stage bills related to virtual assets, including the Framework Act on Virtual Assets
Strategy and Finance Committee	• A bill to amend the Inheritance and Gift Tax Act to ease the burden of inheritance tax • A financial soundness act bill related to the introduction of financial rules

Education Committee	• A bill to support the operational improvement of private universities and colleges • A bill to establish regional medical schools
National Defense Committee	• A bill to require the consent of the National Assembly when loaning combat equipment and weapons internationally
Science, Technology, Information, Broadcasting and Telecommunications Committee	• A bill to introduce the requirement for a warrant when providing information on telecommunication users • A bill to prevent global companies from freeriding the domestic telecommunication networks
Culture, Sports and Tourism Committee	• A bill to introduce punitive damages as a remedy for damage from media • A bill to prevent a blacklist in the cultural and artistic industries.
Agriculture, Food, Rural Affairs, Oceans and Fisheries Committee	• A bill to amend the Grain Management Act in relation to the grain supply and demand adjustment policy • A bill to introduce a price stabilization system for agricultural and fishery products
Trade, Industry, Energy, SMEs and Startups Committee	• A bill on strengthening the competitiveness of the semiconductor industry • A bill to expand the national power grid infrastructure • A bill to manage high-level radioactive wastes • A bill to supply and vitalize offshore wind power generation
Health and Welfare Committee	• A bill to support essential regional medical services • A bill to reform the National Pension
Environment and Labor Committee	• A bill to amend the Labor Standards Act to reorganize "working hours" system, including the introduction of four-day work week • A framework act bill for workers in relation to the protection of workers, including the basic conditions on which they provide labor
Land, Infrastructure and Transport Committee	• A bill to abolish the fees on rebuilding • A bill to introduce the safety fare system and the standard fare system

2. Parliamentary Audit

1) The parliamentary audit is highly likely to become a 'corporate audit.'

The audit of the state administration in 2024 was viewed as not properly conducted due to the rift between the parties. However, a number of standing committees, including the Science, Technology, Information, Broadcasting and Telecommunications Committee and the National Policy Committee, conducted an audit of the state administration by having representatives or executives of companies appear as ordinary witnesses, inviting the criticism that the audit is a "corporate audit."

As the National Assembly has transitioned to a "year-round" National Assembly system, which means that it is in session throughout the year, it is always monitoring and checking national policies, and there is a trend that the parliamentary audit targets companies. This trend is expected to continue next year. Moreover, if the administration changes hands as a result of the special presidential election, it is practically difficult to audit policies because the policies pursued by the new government and the former government will be mixed with the same public officials handling both the old and the new policies. Therefore, because of the political situation, it is more likely that the audit will target companies rather than policies.

2) The potential impact of the outcome of the special presidential election on the number of ordinary witnesses

A parliamentary audit tends to call more representatives or executives of companies as witnesses if a progressive political party, such as the Democratic Party of Korea, holds a majority of seats as an opposition party. The tendency decreases if a progressive political party is the ruling party. This is probably because even a progressive party tends to be more lenient on companies when it becomes a ruling party. Therefore, if there is a special presidential election, the number of ordinary witnesses is expected to be affected by the outcome.

3) Ordinary witnesses include those from companies with controversy, such as workplace harassment or serious accidents

In most cases, corporate representatives or executives are summoned to a parliamentary audit as witnesses when the company is involved in a case of workplace harassment, serious accident, personal information infringement, or other issues that arouse social and public indignation. This trend is expected to repeat in parliamentary audits in 2025. However, as the local election is scheduled for 2026, it is also likely that companies related to civil petitions from local constituencies will be summoned as witnesses at a parliamentary audit as well.

4) Summary

At this point, it is very difficult to predict whether a particular company will be summoned to a parliamentary audit in 2025. While there may be the variable of the special presidential election, it is still highly likely that the National Assembly's audit of the state administration will be conducted like a corporate audit again in 2025. The safest way to prepare for such an audit is for a company to exercise thorough care and prevent any event that may incite public outrage.

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II. Prosecution Investigation - Trends and Prospects

Prosecution investigation is an issue that must be considered in corporate management. In particular, its impact on overall management is greater than any other area, as it is directly related to the risk of management. The direction of the prosecution's investigation is gaining more attention amid recent political upheavals. Although it is not easy to predict with absolute certainty, we did our best to analyze and review it as best we could so that clients can refer to it in making management decisions. First, we will summarize the trends in 2024 by focusing on investigation procedures such as seizure and search and offer the 2025 outlook by reviewing major fields and discussing the possibility of changes in the investigation environment.

1. Trends in the Prosecution Investigation in 2024

1) Issues related to corporate search and seizure

Recently, corporate search and seizure warrants have been issued against more companies in a greater scope and executed for an extended period than before. This is probably because the execution now requires extensive searches of various relevant departments within a company and on-site screening of digital evidence.

In particular, the prosecution and the special judicial police investigating financial crimes under the prosecution's direction have frequently included the legal department in the scope of a search and seizure warrant to be issued, or confiscated the mobile phones of even legal team members in executing a search and seizure warrant. The investigation agencies have offered, as the reason for the search and seizure of the legal team, that they should examine various risk review materials related to the criminal charge or the management of the case and that they should detect involvement by some legal team members, if any, in the destruction of evidence during the course of responding to the case after its occurrence.

Furthermore, the investigation agencies have insisted to confiscate even memorandums and communications exchanged between the legal counsel at the law firm and the legal team, on the grounds that they are related to the case, which has continuously raised controversy over the infringement of the right to assistance of counsel.

As the attorney-client privilege system has not yet been enacted in Korea, similar issues are expected to continue to arise in the course of large-scale search and seizure of companies for the time being. Accordingly, in order for a company to minimize the damage, it is necessary to promptly secure the professional assistance of counsel and minimize the scope of the seizure during the execution of the seizure and search, and to actively take remedial measures through a quasi-appeal system against the unlawful seizure, if necessary. In addition, it is important to note that any department, including the legal team, may be subject to seizure in the event of a major criminal issue of the company, and to be more careful not to cause unnecessary misunderstandings from the investigative authorities or increase any risk.

2) Issues related to the adjustment of investigative authority between prosecution and police

The most significant change resulting from the adjustment of investigative authority between the prosecutor and the police is that the police now have the authority to decide not to transfer a case to

the prosecutor if they determine it to be free of suspicion, without requiring prosecutorial direction. However, even in this case, if the complainant or other person involved raises an objection, the case must be transferred to prosecution. In addition, there is no restriction on the period for filing an objection, which often undermines the legal stability, maintains an unstable position, of the parties including the accused.

Additionally, even if the case is transferred from the police, prosecutors often refer the case to the police by requesting a supplementary investigation rather than directly engaging in an investigation. As a result, it became very difficult to correct the misdirected police investigation.

In short, in the case where the prosecution does not have the right to directly investigate, the adjustment of investigative authority between the prosecution and the police has rendered it too late or ineffective for the company to respond to the case at the prosecution stage. It is thus necessary for the company to actively seek the assistance of counsel starting the police stage to effectively plead and respond.

2. Prospects for Prosecution Investigation in 2025

1) Major Investigation Areas

(A) Corporate and Fair-Trade Investigations

• Trends in corporate investigation using regulatory authorities' preliminary examination

A notable change in corporate investigations is a clear trend that the regulatory authority conducts a preliminary examination before a full-scale investigation is carried out by the prosecution. At the request of the Financial Supervisory Service (FSS) or after the investigation by the special judicial police, the prosecution has recently investigated into the manipulation of market price through tender offer and the suspicion of illegal lending by commercial banks. An investigation into the violation of the Fair Trade Act by major platform companies, which included a large-scale search and seizure, was also initiated following the Fair Trade Commission's complaint.

In addition, the Ministry of SMEs and Startups, which now has the right to request for filing a complaint, exercised the right with respect to certain six cases in which the Fair Trade Commission had not filed complaints according to the resolution of its plenary session. While the Securities and Futures Commission found negligence, rather than willful misconduct, in the accounting supervision of certain platform companies, it still handed over the relevant materials to the prosecution.

As above, a complaint, request for investigation, or transfer of relevant materials by a regulatory agency based on its preliminary examination triggers the prosecution's investigation, and the prosecution actively uses such preliminary examination to expand the scope of the investigation through compulsory investigation means, such as seizure and search. In particular, in cases where the prosecution and related organizations collaborate together to focus their investigative power, the search and seizure is often conducted for a prolonged period and in a large scale, and the investigation in an extended scope and at a high speed.

• Concentration of investigative power on market-dominant platform companies

In the past, an alleged abuse of market-dominant position hardly led to a large-scale corporate investigation due to the perception that it was difficult to prosecute or sustain the prosecution. However, there have been increasing instances where prosecutors have conducted intensive investigations, such as large-scale seizure and search, against major platform companies with a dominant market position.

Regulators recognize that market-dominant platform companies exert more social influence than traditional large corporations. This group of companies needs to be responsive as they may be particularly vulnerable to the bullying frames caused by conflict with small business owners or consumers.

• Active deployment of anti-corruption investigation capabilities in economic crimes and corporate investigations

In the second half of 2024, Anti-Corruption Investigation Division 1 of the Seoul Central District Prosecutors' Office intensively investigated companies involved in the Timon-WeMakePrice scandal, and Anti-Corruption Investigation Division 3 began an investigation into the use of undisclosed information on real estate PF, by seizing and searching securities companies and construction companies involved. In his inaugural speech on September 19, 2024, the newly-appointed Prosecutor General, Woo-Jung Shim, stated that the prosecution would focus its direct investigative capacity on economic crimes. In fact, even in light of the ongoing investigation of economic crimes by the Anti-Corruption Investigation Divisions of the Seoul Central District Prosecutors' Office above, the keynote of the prosecution's investigation appears to have shifted to economic crimes and corporate investigations starting from the second half of 2024.

Given that the scope of investigations is increasing due to the economic recession such as the so-called PF insolvency, the occurrence of many cases of damage to investors and consumers, and the strengthened oversight by financial authorities, it is expected that the policy of focusing on investigating economic cases will be maintained unless there are special circumstances.

(B) Financial Investigations, Virtual Asset Investigations

• Active investigation of unfair trading practices in virtual assets

On July 17, 2024, the Act on the Protection of Virtual Asset Users came into effect, and teams dedicated to examining unfair transactions in virtual assets have been established and operated within the Financial Services Commission and the FSS, respectively. Accordingly, it is expected that the investigation of unfair trade in virtual assets will be expanded through the establishment of a cooperative system between these institutions under the leadership of the Seoul Southern District Prosecutors' Office, where a joint investigation team to tackle with virtual asset crimes is established.

Recently, the FSS and the Financial Services Commission conducted a basic examination on an unfair trade case involving virtual assets and notified the prosecution of the case as Fast Track Case No. 1. The prosecution immediately conducted a search and seizure and requested for an arrest warrant. In addition, unfair trade cases such as market price manipulation of virtual assets are currently under

intensive investigation by the FSS and the prosecution.

As the price of major virtual assets, including bitcoins, has surged, the public has growing interest in virtual assets and their awareness has changed to view virtual assets as investment. As the investigations into a scam coin fraud or a market price manipulation, which have caused damage to the common people, may contribute to enhancing trust in the prosecution, the virtual assets will continue to be the subject of intensive prosecutorial investigations.

• The Financial Supervisory Service's examination frequently leading to the prosecution's investigation

Financial investigations have strengthened as the FSS has more managing and supervisory functions with its own special judicial police organizations specialized in capital market, which have drastically expanded (from two to three effective from December 10, 2024), and has cooperated with the prosecution with the sense of unity.

In 2024, cases such as the naked short selling incidents involving global investment banks represent prominent examples of investigations, marking the first application of criminal penalties since the introduction of relevant legal provisions. The prosecution successfully secured indictments in these cases. It has now become increasingly difficult to evade investigations under the pretext of established practices within the financial or securities sectors.

Moreover, cases that were previously resolved through administrative sanctions following investigations by the FSS are now expected to be escalated to full-fledged investigations or lead to comprehensive probes involving search and seizure operations. This shift underscores the need for a meticulous and cautious approach to prepare for potential criminal investigations from the FSS inquiry stage. The prosecution has strong investigative infrastructure and capabilities in the financial sector, including the Joint Investigation Division on Financial and Securities Crimes within the Seoul Southern District Prosecutors' Office, Financial Investigation Divisions 1 and 2, and Joint Investigation Team on Virtual Asset Crimes. In addition, the prosecution is expected to collaborate with the Capital Market Examination Division of the Financial Services Commission and the Special Judicial Police on Capital Markets of the FSS and establish a command system together to conduct intensive investigations into various illegal transactions.

(C) Serious Accident Investigation

• Tendency to judge based on fulfillment of duties by managerial executive officers

When the Serious Accidents Punishment Act first came into effect, the prosecution tended to deal with cases mainly involving small and medium enterprises that failed to establish a safety and health management system and indicted their managerial executive officers for the violation of the Serious Accidents Punishment Act. However, in recent the cases involving large corporations with established safety and health management systems, a trend has emerged where on-site workplace managers are indicted for violations of the Occupational Safety and Health Act and charges of occupational negligence resulting in death or injury, while managerial personnel deemed to have diligently fulfilled their safety and health obligations are not prosecuted for violations of the Serious Accidents Punishment Act.

Nonetheless, in cases of serious industrial accidents that draw significant public attention, it is highly likely that the prosecution will maintain a strict stance regardless of the size of the company involved. In incidents such as the recent Aricell fire, where the scale of damage was substantial or where multiple serious accidents occurred repeatedly at the same workplace, there has been a growing trend of actively considering the detention of managerial personnel. In such cases, arrest warrants for violations of the Serious Accidents Punishment Act are increasingly being sought against responsible executives. Notably, the Aricell fire case marked the first instance where a managerial executive was detained.

In sum, the determination of liability under the Serious Accidents Punishment Act hinges on whether the responsible managing officer has fulfilled their obligation to secure safety and health. To effectively manage the risk associated with serious accidents, it is essential to reassess the current implementation of the safety and health obligations against the standards employed in investigation and court proceedings, with the assistance of relevant experts. Furthermore, any identified deficiencies in the establishment and implementation of the safety and health management system should be promptly addressed and remedied.

• It is more important to respond to an investigation from the outset by accumulating precedents related to the Serious Accidents Punishment Act and establishing key concepts

As serious accident cases have been accumulated at the prosecution stage and the trial courts over the nearly three years since the Serious Accidents Punishment Act came into effect on January 27, 2022, standards for the prosecution's handling of such cases and labor inspector's directions are being established.

That said, there are no Supreme Court precedents on this issue and there are certain questions that remain unanswered at this juncture regarding the legal principles applicable to the Serious Accidents Punishment Act, including how to specifically interpret the "duty to secure safety and health", the criteria for determining causation, and the criteria for recognizing willful conduct and foreseeability. However, practical standards have been established to an extent regarding whether the "duty to secure safety and health" has been fulfilled, and the necessity of establishing two-level causation, among others based on the trial court decisions. Recently, the Supreme Court has rendered a judgment on whether a person can be considered a "construction project owner" (Judgment 2023Do14674 delivered on November 14, 2024). This decision provides considerable clarity to the issues surrounding project owners, which directly relates to the issue of attributing the responsibility for a serious accident.

In this context, the prosecution has been more actively supervising labor inspectors of the Ministry of Employment and Labor, who are special judicial police forces, from the outset of a serious accident case to determine the direction of the case, including the scope of investigation and persons to be indicted. Accordingly, it appears that a party's initial response to an investigation will continue to have a greater impact on the outcome. For a company responding to an investigation, it is therefore necessary to promptly review whether the company meets the requirements for the application of the Serious Accidents Punishment Act, such as those regarding construction project owner, responsibility for substantial control, operation and management, and workers, from the beginning of the case, and actively respond to and defend to minimize the risks.

(D) Trade Secret Investigation

• Launch of a government-wide joint response team and reorganization of the investigation organization to tackle with technology leakage

On November 8, 2023, the government launched a "government-wide joint response team" as an organization to respond to technology and human resource leakages to overseas from domestic companies in the face of fierce competition to secure high-tech technologies. On December 26 of the same year, the Supreme Prosecutors' Office reorganized the Cyber Investigation Division into the Cyber & Technology Crime Investigation Division and announced its active investigation direction policies. In addition, the Supreme Prosecutors' assigned the Information & Technology Crime Investigation Division of the Seoul Central District Prosecutors' Office, the Defense Industry & Industrial Technology Crime Investigation Division of the Suwon District Prosecutors' Office, and the Patent Crime Investigation Division of the Daejeon District Prosecutors' Office to lead the investigations of crimes involving leakage of industrial technology in the relevant areas.

On December 4 of the same year, the National Police Agency newly established the Counter-espionage & Economic Security Investigation Team under the Security Investigation Bureau of the National Investigation Headquarters and converted the Technology Leakage Investigation Team into a regular organization. In addition, each local police agency elevated the existing Industrial Technology Protection Investigation Team to the Security Investigation Unit. On February 27, 2024, the Korean Intellectual Property Office (KIPO) also reorganized the Technology Design Special Judicial Police Division, which had previously been performing judicial police duties in relation to patent, trade secret, and design infringement crimes, as a regular organization through the amendment of the relevant laws and regulations.

• Reorganization of the system to better respond to sophisticated technology leakage methods

The most common trade secret infringement is "leakage by retirees." According to the statistics of the National Police Agency, 80.9% of overseas technology leakage cases for 2023 and the first half of 2024 were by "internal persons (officers and employees)," and a significant number of those cases involve solicitation or other participation by competitors. Recently, the methods of trade secret infringement have become more sophisticated, advanced and diversified, including offering proposals through brokers, establishment and employment of a domestic company, and transfer after M&A.

In this situation, the government is seeking to amend the Unfair Competition Prevention and Trade Secret Protection Act in 2025 to relieve the burden on the investigative agencies to identify and prove allegations. In particular, the government implemented the "presumption of trade secret uses" in connection with proving the use of trade secrets, which is the most culpable trade secret infringement. Accordingly, the burden is on the infringer to prove that he or she did not use trade secrets. In addition, the government is seeking to expand the scope of acts that are considered as trade secret infringements.

On the other hand, considering that "whistle blowing" is effective in the investigation, the government is also pursuing inserting provisions regarding "monetary awards for reporting the leakage of trade secrets" in the Unfair Competition Prevention and Trade Secret Protection Act. The Supreme Court's Sentencing Committee has already revised its sentencing standards to include whistleblowing as a

mitigation factor.

• Enhanced sentencing for 'trade secret infringement crime'

The Supreme Prosecutors' Office and the Intellectual Property Office have engaged in activities to strengthen the level of punishment for trade secret infringement, including the submission of proposals to the Supreme Court's Sentencing Committee. Accordingly, the Supreme Court's Sentencing Committee significantly raised the overall recommended sentences in the sentencing standards for infringement of intellectual property and technology, effective from July 1, 2024, including the recommended basic sentence for overseas leakage from one (1) to three and a half (3½) years to one and a half (1½) to five (5) years, and for domestic leakage from eight (8) months to two (2) years to ten (10) months to three (3) years.

As the level of punishment has been significantly enhanced as above, there will be an increase in trade secret investigations and trials leading to arrests and imprisonments in the future.

2) Focus on 'changes in investigation environment'

(A) the impact of the impeachment trial and other sudden shifts in the political landscape

The investigations related to the "December 3 Emergency Martial Law" incident are currently being conducted simultaneously by all relevant agencies, including the prosecution, the police, the Corruption Investigation Office for High-ranking Officials, and the Ministry of National Defense. The National Assembly passed the bill demanding a permanent special prosecutor investigation as well as special prosecutor act relating to the treason. It is expected that a considerable number of personnel from the main investigation divisions of the prosecution will be mobilized to investigate the case and maintain the indictment.

The prosecution initially focused on investigations of the opposition party's representative in the early stages of the current government until it shifted to economic crimes. When the new Prosecutor General Woo-Jung Shim took office, the prosecution emphasized the investigation of economic crimes during second half of 2024. The Seoul Central District Prosecutors' Office and the Southern District Prosecutors' Office have actively led various economic and financial investigations. However, in 2025, due to the operation of the special investigation team in relation to the "December 3 Emergency Martial Law" incident, the absence of the command line following the impeachment of the key officials of the Central District Prosecutors' Office, and various political upheavals, it seems difficult for the prosecution to maintain its focus on economic crimes at this juncture.

If the impeachment motion against the president, passed by the National Assembly on December 14, 2024, is upheld by the Constitutional Court, the presidential election will be held within 60 days, and the operation of the prosecutors' office is expected to be impacted by the election of the next president. These series of political events will not only undermine the prosecutorial power in the ongoing investigations, but also make it difficult for the prosecution to launch a new investigation on a large scale for the time being.

However, if the state affairs are normalized after an impeachment trial, it is expected that each investigative agency will resume various investigations, which have been delayed since the mid-to-latter half of the year. In particular, as the prosecution may intensify investigations into various

economic cases to restore public trust and gain consensus on the exercise of prosecutorial authority, it is crucial to take advantage of the current lull to undertake risk management activities in advance, such as establishing and strengthening compliance systems.

(B) Variables considering the efforts to reform the prosecution

Since the start of the 22nd National Assembly, the opposition party has been actively drafting bills to reform the prosecution. If these bills are passed, there will be significant change in the overall investigation and prosecution system of the state, including the prosecution.

In addition, the Democratic Party of Korea is seeking to form a "Prosecution Reform Task Force (TF)" to pursue legislation to establish the indictment office to separate investigation from indictment, establishment of the serious crime investigation office (to investigate corruptive, economic, electoral, defense industry, large-scale disaster, organized, and drug crimes), establishment of the national investigation committee to supervise the serious crime investigation office. The Rebuilding Korea Party is also pursuing the complete separation of investigations from indictment, the conversion of the prosecutors' offices into the indictment office, the establishment of specialized investigation offices dedicated to specific investigations (i.e. the serious crime investigation office, the drug investigation office, the financial crime investigation office, the economic crime investigation office), and the election of directors of prosecutor's office.

Given the ongoing possibility that prosecutorial reform bills may be enacted in connection with the impeachment-driven state affairs and the political situation afterwards, it is necessary to continue monitoring the potential impact of such changes.

(C) It is necessary to prepare for various possibilities such as 'competing investigations'

Due to the December 3 Emergency Martial Law incident and the consequent impeachment and the other rapidly changing political situations, there are expected to be various changes in the operation of the investigative authority of the prosecution. These changes in political situation are expected to have a considerable impact not only on the prosecution and the police, but also on various institutions responsible for preliminary examination and accusations of major cases under investigation, including the Financial Supervisory Service, the Fair Trade Commission, the Anti-Corruption and Civil Rights Commission, and the Board of Audit and Inspection.

However, despite political variables, it is likely that routine operations at individual institutions will continue as usual. Various laws and regulations governing criminal penalties are comprehensive, and investigation procedures such as the provision of materials and filing of complaints among related institutions and agencies are systematically established under the laws and regulations. Unlike large-scale, planned, or intelligence-driven special investigations, such as corporate or financial investigations that require significant manpower, cases involving public sectors like serious accidents, labor, or trade secrets—which arise regularly and demand swift remedies for damages—are expected to proceed according to standard operational procedures.

Furthermore, as seen in the current competition among the institutions and agencies over the investigative authority to investigate the treason allegations, the possibility of competitive investigations may increase if discussions on restructuring the investigative system become more formalized. In 2025, it will be crucial to remain vigilant and consider the various possibilities stemming from these complex and rapid changes.

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