December 16, 2025

KEY AMENDMENTS AND IMPLICATIONS OF THE AMENDMENT BILL TO THE ACT ON REPORTING AND USE OF CERTAIN FINANCIAL TRANSACTION INFORMATION

I. BACKGROUND

On December 3, 2025, the Korean National Assembly's Legislation and Judiciary Committee passed a partial amendment bill to the Act on Reporting and Use of Certain Financial Transaction Information (the "**Financial Transaction Reports Act**") (the "**Amendment**"), which requires registrations submitted by virtual asset service providers ("**VASPs**") to include information relating to their major shareholders, and authorizes the regulatory authorities to deny accepting a VASP registration by assessing the criminal history, social credibility, and adequacy of corporate governance and internal control of the VASP applicants and their major shareholders, representative directors and executive officers, as well as the credibility of the submitted materials.

The Amendment is introduced to supplement certain deficiencies in the current Financial Transaction Reports Act. More specifically, the current Financial Transaction Reports Act (i) lacks a clear legal basis to assess the criminal history and social credibility of major shareholders that may have a real impact on a VASP's business, and also lacks clear legal basis to assess the adequacy of a VASP's organizational structure, personnel, IT systems, and internal control system; (ii) does not provide explicit statutory grounds to deny acceptance of a VASP registration based on false or misleading submission materials, nor does it provide a legal basis for conditional acceptance of VASP registrations; (iii) does not adequately restrict individuals who have committed financial crimes from participating in the virtual asset business; and (iv) had been criticized for the legislative vacuum of not applying the restriction on appointment as officers of financial companies under the Act on the Governance of Financial Companies (the "**Corporate Governance Act**") to the VASPs' former employees with past record of sanctions, which is unlike other financial-related legislature.

Below, we will discuss the key amendments under the Amendment and notable implications of the Amendment.

II. KEY CONTENTS OF THE AMENDMENT BILL

※ The Amendment will become effective six months after promulgation

1. New Requirement Obligating Provision of Major Shareholder Information in VASP Application

Under the Amendment, a VASP's largest shareholder and its significant shareholders are defined as "major shareholders," (Article 2(7) of the Amendment) and information relating to major shareholders must be included when filing a VASP registration (Article 7(1)(1)-2 of the Amendment).

Even before this Amendment, this requirement existed in the Regulations on Reporting and Supervision of Certain Financial Transaction Information which incorporated by reference the provisions of the Corporate Governance Act relating to major shareholders, but this requirement is being elevated to the statutory level pursuant to this Amendment. Moreover, the Financial Services Commission viewed that the meaning of "major shareholder" for the purpose of VASP registration should include not only shareholders that exercise *de facto* influence over the applicant's key management matters, but also individuals who have effective control over the applicant even if they do not formally hold equity. Accordingly, the Amendment defines major shareholders to include anyone who exercises *de facto* influence over the VASP applicant.

The Amendment is scheduled to come into force six months after its promulgation (i.e., expected to become effective from June 2026). VASPs that are currently registered will be required to resubmit their registrations in accordance with the amended provisions within three months from the effective date of the Amendment.

2. Expanding Grounds to Deny Acceptance of VASP Registrations

The Amendment provides the financial authorities with statutory grounds to refuse accepting an application for VASP registration by taking into consideration and assessing matters that may have a material impact on the VASP's business. These matters include, among others, history of financial crimes or other criminal records, social credibility, and appropriateness of the organizational structure of the VASP and its major shareholders, representative director(s) and executives.

(1) Criminal Record Review Requirement Expanded to Also Include Major Shareholders

Under the current Financial Transaction Reports Act, where a VASP is a corporation, the regulatory authorities may assess the criminal records of its representative director and executive officers, and use it as a basis to deny acceptance of registration applications. Under the Amendment, the scope of review of criminal records to be conducted by the regulatory authorities is being expanded to include the major shareholders of the applicant (Article 7(3)(3) of the Amendment).

(2) Subject Scope of Criminal Background Check

Under the current Financial Transaction Reports Act, a VASP's registration may be denied acceptance only where (i) the relevant person has a criminal record for which a sentence of a fine or more severe punishment was imposed under "financial-related laws" prescribed by Presidential Decree, namely, the Financial Transaction Reports Act, the Act on Regulation and Punishment of Criminal Proceeds Concealment, the Act on the Prohibition of Financing for the Purpose of Public Intimidation and the Proliferation of Weapons of Mass Destruction, the Foreign Exchange Transactions Act, and the Financial Investment Services and Capital Markets Act, and (ii) five years have not lapsed since the completion or exemption of execution of such sentence.

The Amendment significantly expands the scope of applicable laws and the sentencing threshold for criminal background screening by (i) expressly adding the Monopoly Regulation and Fair Trade Act, the Punishment of Tax Offenses Act, the Act on the Aggravated Punishment of Specific Economic Crimes, the Act on Special Cases Concerning the Prevention of Illegal Trafficking in Narcotics, and the Act on the Protection of Virtual Asset Users; (ii) replacing the term "financial-related laws" with "relevant laws (including corresponding foreign laws)"; and (iii) revising the wording from "having been sentenced" to "having been sentenced, or otherwise having received an unsuspended term of imprisonment under other laws (including foreign laws)."

In connection with this expansion of major shareholder eligibility requirements, industry participants expressed concerns that, unlike financial companies, which are generally subject only to remedial measures such as restrictions on voting rights when a major shareholder fails to meet eligibility requirements, VASPs may effectively be barred from conducting their business. Industry participants further pointed out that the Corporate Governance Act does not include the Act on the Aggravated Punishment of Specific Economic Crimes among the statutes applicable to major shareholder eligibility reviews. Notwithstanding these industry comments, the legislature declined to reflect such views, emphasizing the policy objectives of strengthening anti-money laundering controls, preventing the market entry of individuals involved in virtual asset-related crimes, and enhancing user protection.

In sum, with the enforcement of the Amendment, the assessment standard of virtual asset service providers will be strengthened comprehensively, both in terms of its scope of application, now extending to major shareholders, and the substantive review standards, through the significant expansion of the laws subject to criminal background screening.

(3) Other Grounds for Denying Acceptance of Registration

In addition, the Amendment newly introduces several other grounds for denying acceptance of registration, including where the applicant fails to maintain a sound financial condition or adequate social credibility, lacks an appropriate organizational structure, personnel, IT systems, or internal control framework necessary to comply with virtual asset–related laws and regulations, or has made false statements or omitted required information in its application or supporting documents (Articles 7(3)5, 6, and 8 of the Amendment).

Notably, the scope of persons required to maintain adequate social credibility has been expanded to include major shareholders, in addition to executive officers. As a result, issues relating to a major shareholder’s social credibility—for example, where a major shareholder has received criminal sanctions equivalent to a fine or more severe punishment for violations of financial-related laws within the past three years—may constitute grounds to deny acceptance of a VASP’s registration, potentially resulting in significant adverse consequences for its business operations.

In order to reasonably mitigate such impact, close attention should be paid to whether the subordinate regulations to be enacted will incorporate appropriate exception provisions, similar to those set forth in Article 16 of the Financial Investment Services and Capital Markets Act, which exclude cases involving punishment under joint penal provisions or violations deemed minor in nature or degree, thereby supporting the stable and orderly operation of the VASP market.

Furthermore, where a major shareholder is a foreign national or entity, attention should be paid to the fact that disqualification may likewise arise if such major shareholder violates foreign laws equivalent to the disqualifying criminal statutes discussed above. Although the bill as originally passed by the National Policy Committee broadly treated violations of "other foreign laws" as disqualifying grounds, this scope was narrowed during the review process by the Legislation and Judiciary Committee.

During that review, it was noted that an overly broad reference to "other foreign laws" could result in the refusal of registration based on conduct unrelated to financial crimes or the nature of the virtual asset business. Moreover, because such violations could lead directly to denying acceptance of VASP registration, without any intermediate measures such as restrictions on voting rights or orders to dispose of shares, they could impose disproportionately severe consequences on affected businesses. Accordingly, the Amendment adopts narrower wording, limiting its application to violations of "other foreign laws relating to financial crimes and money laundering."

<u>Existing registered VASPs should note that the Amendment includes transitional provisions under which, where a VASP that has filed a registration pursuant to the former Article 7(1), or its representative director, executive officers, or major shareholders, becomes subject to Articles 7(3)3 and 7(3)5 of the Amendment due to circumstances arising prior to the Amendment's effective date, such registration shall continue to be governed by the former provisions until there is a change in the relevant representative director, executive officers, or major shareholders. Accordingly, even if a VASP, or its representative director, executive officers, or major shareholders, falls within the grounds for refusal set forth in Articles 7(3)3 and 7(3)5 of the Amendment solely due to circumstances occurring prior to the Amendment's effective date, acceptance of registration is unlikely to be denied on that basis alone.</u>

However, please note further that if there is a change in the representative director, executive officers, or major shareholders, consideration should be given to any circumstances arising prior to the Amendment's effective date with respect to the applicable disqualification criteria.

3. Creating Statutory Basis for Conditional Acceptance of Registration (Article 7(10))

Under the existing framework, there was no clear statutory basis for imposing conditions upon the acceptance of a registration. Under the Amendment, however, the regulatory authorities are expressly authorized to impose conditions deemed necessary for the prevention of money laundering and the countering of the financing of terrorism, the protection of virtual asset users, and the establishment of a sound financial transaction order, thereby strengthening the supervisory authorities' enforcement powers.

4. Applying Restrictions on Appointment of Executives under the Corporate Governance Act

The regulatory gap in connection with the current Financial Transaction Reports Act is that, unlike other financial-related regulations, the sanctions imposed for Financial Transaction Reports Act violations committed by former employees of financial companies are not notified and as a result, there is no restriction on the appointment of such persons as officers of financial companies defined under the Corporate Governance Act.

To address this issue, the Amendment introduces a new provision requiring that sanctions be notified even with respect to former employees with respect to the imposition of sanctions for violations of the Financial Transaction Reports Act (Article 15-3 of the Amendment), which effectively enhances the effectiveness of the sanctions thereunder. For instance, the Amendment provides that where the head of the Financial Intelligence Unit determines that a former employee of a financial company or similar entity would have been subject to the measures set forth in Article 15(3) of the Financial Transaction Reports Act had such person remained in employment, the head of the Financial Intelligence Unit may notify the head of the relevant financial company or entity of the details of such measures. This provision also applies to individuals who committed violations prior to the Amendment's effective date but who resign or retire after the Amendment enters into force.

III. IMPLICATIONS

As a result of the Amendment, the requirements for acceptance of VASP registrations are expected to be substantially strengthened, both in terms of the scope of persons and the matters subject to review. While these changes are desirable from the perspective of enhancing investor protection, their potential impact on business continuity and market stability for VASPs should be closely monitored.

In this regard, it would be advisable for VASPs to mitigate risks relating to their officers and employees by further strengthening internal controls. In addition, they should closely monitor developments in forthcoming subordinate legislation and prepare to adopt appropriate measures in response.

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