August 4, 2026

AMENDMENTS TO KOREA'S FRANCHISE DISCLOSURE REQUIREMENTS: KEY CHANGES AND PRACTICAL IMPLICATIONS

On July 28, 2026, the Korea Fair Trade Commission ("**KFTC**") announced that the State Council had approved amendments to the Enforcement Decree of the Fair Transactions in Franchise Business Act ("**Franchise Act**"). The amendments relating to the revision of the Franchise Disclosure Document ("**FDD**") framework, together with the accompanying amendments to the Notice on the Standard Form of the Franchise Disclosure Document ("**Notice**"), will take effect on January 1, 2028.

The key changes and their practical implications for franchisors are summarized below.

I. BACKGROUND AND EFFECTIVE DATES

The amendments implement the KFTC's "Comprehensive Measures to Strengthen the Rights of Franchisees" announced in September 2025. They finalize the draft amendments to the Enforcement Decree of the Franchise Act and the Notice that were released for public comment in January 2026, while also revising the procedures governing FDD registration, notification, and cancellation. The key objective is to comprehensively redesign the structure and required disclosure items of the FDD so that prospective franchisees can more easily compare the stability of a franchise brand, expected costs, and potential obligations upon termination.

The amendments will take effect in two phases, as summarized below. While the procedural amendments will become effective immediately upon promulgation, the revised FDD framework will not take effect until January 1, 2028. Accordingly, franchisors should familiarize themselves with the procedural changes taking immediate effect while also preparing for the revised disclosure regime by establishing systems to collect and maintain information on the store operation, closure and early termination penalties that will be required under the new FDD framework.

Effective Date	Key Amendments
Immediately upon promulgation (August 4, 2026)	· Revised forms and procedures for new registrations and amendment registrations · Electronic notification of decisions on registration refusals, intended public disclosure, and registration cancellations · Introduction of procedures and forms for voluntary cancellation of FDD registration · Increase in the maximum surcharge adjustment for repeated violations of the Franchise Act

January 1, 2028	· Introduction of an executive summary to the FDD · Reorganization of the FDD according to the lifecycle of the franchise relationship (entry → operation → termination) · Addition, removal, and refinement of required disclosure items · Revision of the amendment registration schedule

II. KEY AMENDMENTS

1. Comprehensive Restructuring of the FDD

The revised FDD standard form introduces a new executive summary at the beginning of the disclosure document and reorganizes the main body according to the lifecycle of the franchise relationship. Rather than simply adding new disclosure items, the revised framework is intended to change how prospective franchisees make reference to the FDD by allowing them to first identify key information and then assess the risks, costs, and obligations associated with each stage of the franchise relationship—from entry and operation to termination.

(1) Introduction of an Executive Summary

The executive summary consolidates key information regarding the franchisor, the number of franchise stores, sales amount by region, franchise stability, and the principal costs associated with establishing and operating a franchise. The main categories of information to be included in the executive summary are summarized below.

Executive Summary Section	Key Information Disclosed	Purpose
I. Franchisor Overview **II-1. Franchise Business Overview**	The franchisor's general and financial profile, whether a private equity fund ("**PEF**") is the controlling shareholder, the business category of the franchise brand, the commencement date of the franchise business, etc.	Enables prospective franchisees to identify the entity operating the franchise brand and assess the franchisor's business profile at the outset.
II-2. Changes in the Number of Franchise Stores **II-3. Number of Franchise Stores and Average Annual Sales by Region**	Trends in new openings, closures, terminations, and changes in ownership during the preceding year, together with the number of franchise stores and average annual sales by region.	Enables comparison not only of business expansion, but also store closures, contract terminations, and regional performance.

II-4. Franchise Stability Indicators	Average operating period of franchise stores, number of closed franchise stores, proportion of long-standing franchise stores, and 3-, 5-, and 10-year survival rates.	Enables prospective franchisees to assess the long-term sustainability of the franchise business and closure risks through objective indicators.
III. Pre-opening Costs **IV-1. Costs During Operation**	Initial franchise fees, opening costs (including interior fit-out and equipment), operating costs (such as advertising, promotional, and system fees), and applicable payment deadlines.	Enables comparison of initial investment and ongoing operating costs at a glance.
IV-2. Mandatory Supply Items **IV-3. Economic Benefits**	Mandatory supply items, whether the franchisor receives margin-based revenue from mandatory supply items, and the economic benefits obtained by the franchisor or its affiliates through the supply of mandatory supply items.	Enables prospective franchisees to understand the cost structure and potential interest in transactions involving mandatory supply items.

(2) Reorganization of the Main Body According to the Franchise Lifecycle

Under the previous standard form, information relating to the same stage of the franchise relationship was dispersed across multiple chapters because the FDD was organized according to the statutory disclosure items prescribed by law. The revised standard form reorganizes the order of main body of the FDD according to the lifecycle of a franchise relationship—entry, operation, and termination—thereby improving readability and making it easier for prospective franchisees to review information relevant to each stage of the franchise relationship.

Category	Current Standard Form	Revised Standard Form
Organizational Principle	Organized by subject matter based on the statutory disclosure categories set out in the Enforcement Decree	Reorganized according to the lifecycle of a franchise relationship (entry → operation → termination)
Executive Summary	None	New executive summary introduced at the beginning of the FDD

Overall Structure	Nine chapters: I. Franchisor Overview II. Franchise Business Overview III. Legal Violations by the Franchisor and Its Officers IV. Costs and Expenses Borne by Franchisees V. Conditions and Restrictions on Business Operations VI. Franchise Opening Procedures and Timeline VII. Franchisor's Support for Business Management and Operations VIII. Education and Training IX. Franchisor-Operated Stores	Five chapters: I. Franchisor Overview II. Franchise Business Overview III. Franchise Entry Stage IV. Franchise Operation Stage V. Renewal, Termination, and Transfer of the Franchise Agreement
Entry Stage	Information relating to entry, operation, and termination costs is grouped together under the chapter on franchisee's costs and expenses.	Consolidated into **Chapter III – Franchise Entry Stage**, covering franchise opening procedures, pre-opening costs, escrow of franchise fees, store facilities, business territory, and financing provided to support franchise establishment.
Operation Stage	Information relating to business operations is dispersed across chapters addressing conditions and restrictions, management support, and education and training.	Consolidated into **Chapter IV – Franchise Operation Stage**, covering operating costs, franchisee obligations, franchisor support, and operational restrictions.
Termination Stage	Information relating to termination is dispersed across multiple chapters.	Consolidated into **Chapter V – Renewal, Termination, and Transfer of the Franchise Agreement**, covering renewal and termination procedures, contract termination, post-termination obligations, and transfer of franchise rights.
Franchisor / Franchise Business Overview	Information relating to the franchisor, franchise business, franchisor-operated stores,	Consolidated into **Chapters I and II**, covering the franchisor and franchise business,

	and distribution channels is dispersed across multiple sections.	including franchisor-operated stores, distribution channels, and overseas operations.

2. New Disclosure Items to Be Contained in the FDD

The amendments introduce a number of new disclosure items to be contained in the FDD with the intention to support more informed and rational decision-making by prospective franchisees. The principal additions are summarized below.

New Disclosure Item	Required Disclosure	Practical Considerations to Be Taken by Franchisors
1. PEF Ownership of the Franchisor	· Whether a PEF is the controlling shareholder · Name of the PEF (or management company) · Ownership interest held · Date on which the controlling interest was acquired	Review the consistency of ownership information relating to the PEF and related shareholding records.
2. Long-Term Franchise Sustainability	· Duration of the franchise business · Number of franchise stores closed in recent years and their average operating durations · Number and proportion of long-standing franchise stores · Franchise survival rates	Establish and maintain historical records of each franchise store, including the initial contract date, closure date, and current operating status.
3. Overseas Operations	· Countries or regions in which the franchisor operates · Number of overseas franchise and franchisor-operated stores · Year of initial overseas expansion	Maintain country-by-country records of overseas operations and ensure consistency with information disclosed in Korea.
4. Payment Information	· Payment information relating to initial franchise fees payable before commencement of operations · Payment information relating to other fees payable before or during franchise operations	Review whether contractual documents, quotations, and internal payment policies accurately reflect actual payment terms (including payment methods and installment options).
5. Loan or Financing	· Description of the loan or financing provided	Maintain systematic records of any financing or financing

Provided to Franchisees	· Information on the financing provider, including its name, the amount of financing provided, and its money-lending business registration number · Information on the franchisor, including its loan brokerage business registration number and its relationship with the financing provider · Type of loan or financing · Applicable interest rate · Conditions for the provision of the loan or financing · Repayment terms and methods	arrangements provided to or arranged for franchisees, including applicable interest rates and repayment terms, and review the relevant agreements accordingly.
6. Commercial Partnership Agreements	· Nature of the commercial partnership agreement · Name of the counterparty · Key terms of the commercial partnership	Maintain a centralized record of key commercial terms and cost allocation arrangements under each partnership agreement.
7. Average Early Termination Penalties	· Average early termination penalties, categorized by the remaining contract period	Maintain and compile information on the grounds for termination, the remaining contract period, and the actual penalties imposed.

3. Quarterly Amendment Registration for Changes in Key Disclosure Items

The amendments shorten the amendment registration cycle for certain key disclosure items from once annually to **once every quarter**. Franchisors will be required to file amendment registrations **within 30 days after the end of each quarter**, with the aim of ensuring that prospective franchisees have access to more timely and reliable information when making investment decisions.

The quarterly amendment registration requirement applies to the following information:

(i) The total number of franchise stores and franchisor-operated stores in operation as of the end of each quarter during the preceding three years, both nationwide and by metropolitan local government, with franchise stores and franchisor-operated stores reported separately.

(ii) The number of franchise stores that, as of the end of each quarter during the preceding three years, were newly opened, subject to contract expiration, contract termination, or transfer of ownership.

(iii) For franchise businesses operated by the franchisor other than the relevant franchise business, the business category, trade name, commencement date, and the total number of franchise stores and franchisor-operated stores in operation as of the end of each quarter during the preceding year.

(iv) The name, location, and commencement date of operation of each franchisor-operated store as of the end of the preceding quarter.

4. Revisions to Registration Procedures and Administrative Processes

The amended Enforcement Decree revises not only the disclosure requirements for the FDD, but also the registration procedures and administrative processes applicable to franchisors and the registration authorities.

First, with respect to initial FDD registration, franchisors will be required to submit documents demonstrating that they satisfy the statutory requirement to operate at least one franchisor-operated store for a minimum of one year, or documents establishing that an applicable exemption applies. This is intended to enable the registration authority to verify compliance with the statutory eligibility requirements for registration.

Second, the amendments expressly authorize the use of electronic notifications for administrative actions relating to FDD registration, including notices of registration refusal, intended public disclosure, and registration cancellation. This change is intended to expedite administrative procedures by eliminating delays associated with the delivery of registered mail.

Third, the amendments introduce a formal procedure for the voluntary cancellation of FDD registration. Where a franchisor applies to cancel its registration, for example following the discontinuation of its franchise business, it may submit the application electronically through the Franchise Disclosure Information System after submitting the original registration certificate (or a statement explaining its loss).

Finally, the amendments require the registration authority to record and maintain information regarding FDD registration cancellations, including the date of cancellation, through the Franchise Disclosure Information System.

5. Increased Surcharge Adjustment for Repeat Violations

The maximum surcharge adjustment applicable to repeated violations of the Franchise Act will be increased. Under the proposed amendments to the Notice on Surcharge Imposition Standards for Violations of the Fair Transactions in Franchise Business Act (which is also expected to be promulgated on August 4, 2026), the maximum upward adjustment that the KFTC may apply to surcharges for repeated violations will increase from 50% to 100%.

III. PRACTICAL IMPLICATIONS

The amendments represent more than the addition of several new disclosure items. Rather, they comprehensively restructure both the framework and the content of the FDD. Although the revised FDD framework will not take effect until January 1, 2028, franchisors would be well advised to begin reviewing the correspondence between their existing FDDs and the revised standard form, and to reorganize their disclosure documents in advance to reflect the new executive summary and lifecycle-based structure.

In addition, many of the newly required disclosure items will need to be derived from historical data accumulated over several years. In particular, information relating to franchise survival rates, long-term franchise operations, the average operating period of closed franchise stores, and average early termination penalties will require systematic collection and maintenance of historical records. Franchisors should also establish internal processes to ensure that information subject to the new quarterly amendment registration requirements is updated and filed in a timely manner.

Finally, franchisors should review whether the information to be newly disclosed is consistent not only with the FDD, but also with their franchise agreements, marketing materials, and actual business practices. Particular attention should be paid to information relating to commercial partnership arrangements, financing provided to or arranged for franchisees, payment terms, and average early termination penalties, as these disclosures may directly influence the investment decisions of prospective franchisees. Franchisors should therefore establish appropriate internal governance and cross-functional coordination mechanisms to verify the accuracy of such information and ensure its ongoing maintenance.

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For any inquiry or questions regarding the content of this newsletter, please contact us.

Related Professionals

Hongki Kim
Partner
T 82.2.3404.0489
E hongki.kim@bkl.co.kr

Sanghoon Shin
Senior Foreign Attorney (New York)
T 82.2.3404.0230
E sanghoon.shin@bkl.co.kr

Hwijin (HJ) Choi
Partner
T 82.2.3404.6406
E hwijin.choi@bkl.co.kr

Jennifer Yein Kwon contributed to this update.