September 7, 2026

FSC ANNOUNCES POLICY DIRECTION FOR SECURITY TOKENS: KEY ASPECTS AND IMPLICATIONS

On September 4, 2026, the Financial Services Commission (the "**FSC**") held the third meeting of the joint public-private "Security Tokens Consultative Body" (the "**Consultative Body**") and, on the same day, issued a press release entitled "Announcement of the Policy Direction for Security Tokens — Third Meeting of the Public-Private Security Tokens Consultative Body" (the "**Policy Direction**"). The Policy Direction sets out a comprehensive plan to pursue, in phases, the tokenization of traditional securities such as stocks, bonds, and funds, moving beyond the initial discussions centered on fractional investment products, a relatively new form of non-standardized securities.

The Policy Direction is significant because it provides practical guidance for market participants preparing for the legislative pre-announcement, scheduled for the end of September 2026, of draft amendments to the subordinate regulations of the Act on Electronic Registration of Stocks, Bonds, Etc. (the "**Electronic Registration Act**") and the Financial Investment Services and Capital Markets Act (the "**FSCMA**"), as well as for the entry into force of the amended statutes on February 4, 2027.

I. BACKGROUND AND OVERVIEW

The FSC has pursued the development of the regulatory framework for security tokens since announcing the "Plan to Improve the Regulatory Framework for the Issuance and Distribution of Security Tokens" in February 2023. To establish the legal foundation for the security tokens regime, the National Assembly passed bills amending the Electronic Registration Act and the FSCMA, and the resulting amendments were promulgated on February 3, 2026. The Amended Electronic Registration Act (Act No. 21318, partially amended on February 3, 2026; the "**Amended Electronic Registration Act**") will take effect on February 4, 2027, one year after promulgation, pursuant to its Addenda. The Amended FSCMA (Act No. 21324, partially amended on February 3, 2026; the "**Amended FSCMA**") will take effect, depending on the provision, on the date of promulgation, six months after promulgation (the proviso to Article 50(1)), or one year after promulgation (Article 166).[1]

On March 4, 2026, the government, relevant institutions, and private-sector experts launched a joint public-private "Security Tokens Consultative Body" to design the detailed framework. At its first meeting, the Consultative Body set out three policy directions: (i) fostering an innovative digital finance ecosystem; (ii) tailored investor protection; and (iii) developing a future-ready securities settlement system, including on-chain settlement. At its second

1 See the FSC's January 15, 2026 press release, "Amendment Bills to the Electronic Registration Act and the FSCMA for the Introduction of Security Tokens and the Distribution of Investment Contract Securities Pass the Plenary Session of the National Assembly."

meeting (May 15, 2026), the Consultative Body discussed in detail core tasks in the issuance, distribution, and infrastructure areas. At its third meeting, it released the Policy Direction, which consolidates the results of those discussions.

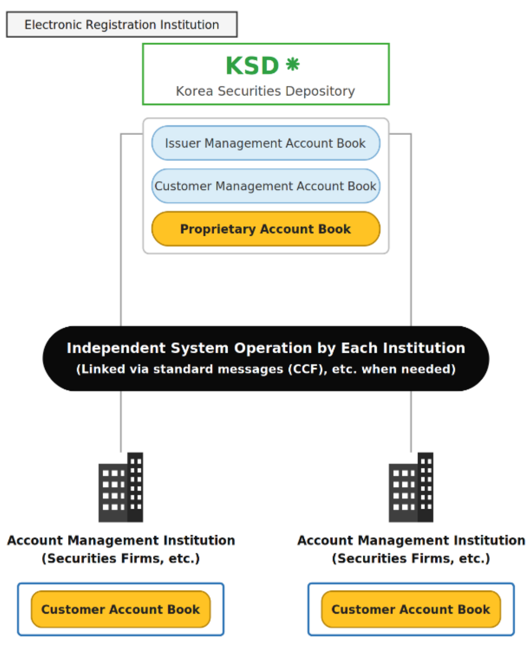
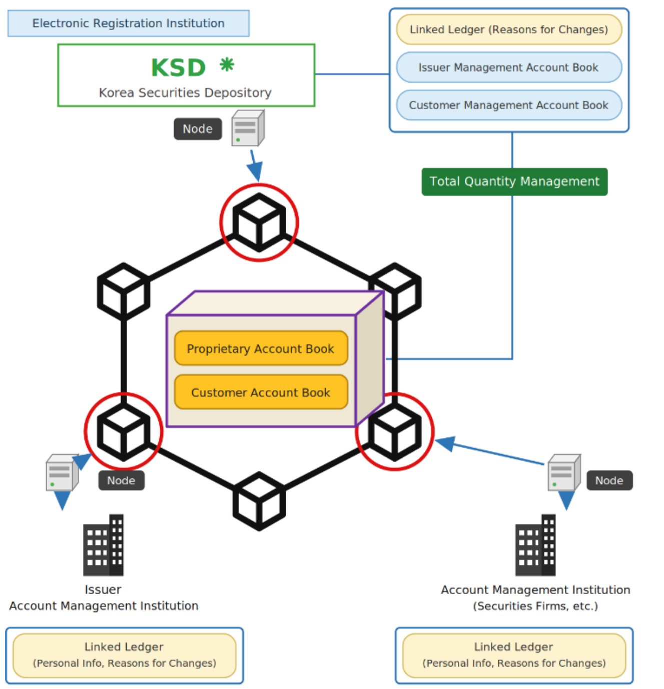
In his opening remarks, Vice Chairman Kwon Dae-young stated that the FSC "would not allow security tokens to remain limited to fractional investment products" and that, through a strategic and phased approach, it would establish the foundation for issuing and trading existing financial products such as stocks, bonds, and funds in tokenized form and integrate the entire capital markets value chain under the concept of "a single digital capital market."

II. CONCEPT AND LEGAL NATURE OF SECURITY TOKENS

Security tokens are securities issued and distributed by means of entries on a distributed ledger (blockchain). The Amended Electronic Registration Act formally introduced this form of security into the statutory framework under the name "distributed ledger-registered stocks, etc." The statutory definition is "stocks, etc. electronically registered in an electronic register that constitutes a distributed ledger, etc."

Security tokens are a classification of securities by form, not by substance. Classification by substance (debt securities, equity securities, beneficiary certificates, investment contract securities, derivative-linked securities, and depositary receipts) is governed by the FSCMA, while classification by form (certificated securities / electronic securities / security tokens) is governed by the Electronic Registration Act. Accordingly, fractional investment securities do not constitute security tokens if they are issued in the form of conventional electronic securities; conversely, traditional securities such as stocks and bonds constitute security tokens if they are issued in tokenized form.

The distinctive feature of security tokens is that issuance and distribution information is recorded and managed on a blockchain-based distributed ledger, which is recognized as an electronic register having legal effect. Under the existing electronic securities system, the electronic registration institution (the Korea Securities Depository, the "**KSD**") prepares and manages the proprietary account books, while individual account management institutions, such as securities companies, each prepare and manage customer account books on their own ledgers. The security token system retains this allocation of responsibility: the electronic registration institution or account management institution with which the relevant account is opened remains responsible for preparing and managing each account book. The difference is that multiple participants (nodes), such as the KSD and securities companies, store and verify those entries on a single distributed ledger. Because network participants share and verify the records, the transparency and accuracy of issuance and distribution information are enhanced.

Electronic Securities	Security Tokens
	

III. KEY CONTENTS OF THE POLICY DIRECTION

1. Phased Plan for the Development of Security Token Issuance Infrastructure

Taking into account the global trend toward tokenization of traditional securities, the Policy Direction focuses on moving beyond the initial discussions centered on fractional investment and developing in parallel the infrastructure for tokenizing traditional securities such as stocks, bonds, and funds. The existing electronic securities system is fully equipped with issuance, distribution, and rights-management systems (e-SAFE, the KSD's existing electronic securities platform). Security tokens, however, require new infrastructure: securities companies and other participants must build a distributed ledger (mainnet) and, following review by the KSD, connect it to the security token system. Bringing traditional securities, which involve more complex rights and operate at greater scale, onto the new infrastructure all at once could create stability risks. The FSC has therefore prepared a phased roadmap.

	[Phase 1] Feb. 2027 — entry into force of the amended statutes	[Phase 2]	[Phase 3]
Traditional Securities	[Funds] **Tokenization of privately placed MMFs exclusively for institutional investors**	**Expansion of infrastructure, including tokenization of publicly offered securities,** while reviewing the stability	Building of **on-chain settlement** infrastructure using **stablecoins**

<table>
<tr><td></td><td>[Bonds]
Tokenization of privately placed bonds exclusively for institutional investors

[Stocks]
Tokenization of unlisted stocks using trust structures</td><td>and efficiency of, and market demand for, Phase 1 tokenization</td><td rowspan="2">**and similar instruments** as means of payment</td></tr>
<tr><td>New Types of Non-Standard Securities</td><td colspan="2">[Fractional investment] **Tokenization of publicly offered fractional investment securities** (their relatively simple rights relationships and modest scale facilitate system build-out)

※ Separate best practice guidelines concerning, among other things, the **eligibility** of **underlying assets** apply to fractional investment from an **investor-protection** perspective</td></tr>
</table>

For funds and bonds, the FSC will first test private issuance and distribution restricted to institutional investors in Phase 1 and then expand in Phase 2 to the tokenization of publicly offered securities. For stocks, Phase 1 adopts a two-track structure: unlisted stocks issued as electronic securities will be entrusted to the KSD and a trust business entity, while beneficiary certificates will be issued in tokenized form. The various rights attached to the stocks will continue to be managed in the existing electronic securities system; only the rights in the beneficiary certificates will be managed on the security token infrastructure. Given the relatively simple rights structures of fractional investment securities, public-offering tokenization will begin in Phase 1. In addition, drawing on the NYSE and Nasdaq pilot programs, the FSC will conduct a model-validation and pilot project for the tokenization of listed stocks centered on the Korea Exchange (the “**KRX**”) in parallel. The timing of the transition to Phases 2 and 3 may vary depending on, among other things, the stability and efficiency of Phase 1, the pace of technological innovation in the market, and the enactment of stablecoin legislation.

2. Best Practice Guidelines for Fractional Investment

Fractional investment may take the form of either non-monetary trust beneficiary certificates or investment contract securities. The Policy Direction sets out the "Best Practice Guidelines for the Issuance of Non-Monetary Trust Beneficiary Certificates" (the "**Best Practice Guidelines**") and presents the direction of future review with respect to investment contract securities.

(a) Non-Monetary Trust Beneficiary Certificates

Whereas the previous "Guidelines on Underlying Asset Requirements, Etc. for the Issuance of Trust Beneficiary Certificates" (December 2023) permitted only single assets and excluded assets linked to uncertain events, the Best Practice Guidelines expand the permitted scope. The key contents of the Best Practice Guidelines are as follows:

- **Conditional permission for the pooling of underlying assets:** Pooling is permitted only for assets of the same kind conferring the same rights, provided that the criteria for and purpose of the pooling are clear; that separate information on each individual asset — including its price, risk, and return structure — is provided pursuant to the same valuation methodology; and that no distressed assets are included.
- **Conditional permission for underlying assets linked to uncertain events (e.g., future receivables):** Such assets are permitted only where an underlying legal relationship exists such that the relevant rights can be specified, they are reasonably expected to arise in the near future, and enhanced investor protection measures, such as credit enhancement, are in place.
- **Benchmark per-investor subscription limit:** For retail investors, the lower of KRW 30 million and 5% of the issuance amount is presented as a standard example (no limit applies to professional investors). To enhance the fairness of offering allocations, it is recommended that minimum ratios for retail investor allocation and equal allocation be set out in internal rules.
- **Mandatory retention by asset holders (trustors):** To prevent the securitization of distressed assets, the asset holder must retain at least 5% of the beneficiary certificates until termination of the trust, consistent with the retention standard under the Asset-Backed Securitization Act.

(b) Investment Contract Securities

The FSC will maintain the current strict, case-by-case review framework and commission research on additional issues. The research will address: (i) measures to facilitate the secondary trading of co-ownership-type investment contract securities (technical and institutional measures linking securities account transfers with changes in co-ownership interests); and (ii) measures to establish investor protection standards at a level that would permit the issuance of business-type investment contract securities, with a view to developing a more standardized framework (so-called “quasi-standardization”).

3. Distribution Framework for OTC Trading Platforms

The FSC will not establish a separate authorization framework exclusively for security tokens. An entity that has obtained financial investment business authorization under the FSCMA may handle security tokens within the business scope of that authorization without any additional authorization. An over-the-counter trading platform (an "**OTC Trading Platform**") authorized for beneficiary certificates may likewise support the trading of fractional investment security tokens. However, an OTC Trading Platform intending to support security token trading must consult with the Financial Supervisory Service (the "**FSS**") in advance.

Category	Exchange	OTC Trading Platform
Legal nature	Exchange: license system [capital requirement: KRW 100–300 billion]	Investment broker (multilateral): authorization system [capital requirement: KRW 6 billion]
Eligible instruments	Financial investment instruments satisfying relatively strict listing requirements	Securities satisfying the OTC Trading Platform's eligibility requirements for trading
Execution method	Multilateral competitive auction (rule-based execution, e.g., price and time priority)	**Multilateral negotiated trading (executed only when bid and ask quotes match)**
Investment limits	None	**Applicable**
Access	Exchange — member firms (securities companies) — investors (investors trade through securities companies)	**OTC Trading Platform — investors (investors must register directly as members)**

The trading limit for retail investors is expected to be set at KRW 100 million per year in net purchases (total purchases minus total sales) per OTC Trading Platform.

In addition, when the subordinate regulations are amended, a new OTC Trading Platform authorization unit for debt securities (including retail investors) is expected to be established, and the establishment of an authorization unit for investment contract securities will be considered following supplementary research on measures to facilitate their secondary trading.

4. Issuer Account Management Institutions

Account management institutions are institutions that open and manage customers' securities accounts and are limited under current law to financial companies such as securities companies, banks, and insurance companies. The issuer account management institution regime additionally permits securities issuers themselves to become account management institutions. The regime was introduced specifically for security tokens in light of the joint recording and management characteristics of distributed ledgers and their resilience against unauthorized deletion or alteration. As a result, issuers that are not financial companies (e.g., business operators issuing investment contract securities) will be able to open and manage customer accounts for the securities they issue by participating as mainnet nodes. This is expected to enable more efficient rights management and administration, including structures that allow issuers to verify their investor registries in real time.

However, because the management of customer securities accounts is critical to the protection of investors' property rights and the stability of securities issuance and distribution, the Amended Electronic Registration Act requires registration upon satisfaction of requirements relating to equity capital, personnel, IT systems, and social credit standing. The subordinate regulations are expected to specify the registration requirements as follows:

Item	Requirement
Equity capital	**KRW 4 billion**
Personnel	**One account management specialist, one internal control specialist, and two IT specialists**
IT systems	**Strict standards for the prevention of, and response to, IT and security incidents**

Meanwhile, an entity that obtains the so-called “small license” for fractional investment (i.e., authorization to conduct investment brokerage in non-monetary trust beneficiary certificates) qualifies, as an investment broker, to act as an account management institution without registering as an issuer account management institution. To perform that function, however, it must have the necessary infrastructure in place, including a system connection with the electronic registration institution.

5. Guidelines on Standard Requirements for Distributed Ledgers

In July 2026, the KSD prepared the "Standard Requirements for Security Token Distributed Ledgers" (the "**Guidelines**”). The Guidelines standardize the review criteria for, among other things, distributed ledger participants, consensus algorithms, security, and account and issue management to support the smooth electronic registration of security tokens. When securities companies and other applicants apply to connect their distributed ledger to the relevant system, the KSD conducts its review and functional testing on the basis of the Guidelines. Applicants must secure a level of stability comparable to that of the existing electronic securities system while reflecting the distinctive technical characteristics of distributed ledgers. The Guidelines also include emergency response protocols to ensure business continuity, including authority controls in the event of security incidents or system failures, scenario-specific handling procedures, and the recovery of consensus nodes.

6. Future Plans

With respect to future plans, the Policy Direction presents the following schedule for each task:

(a) Phased development of security token infrastructure: market participants, such as securities companies, and the KSD will collaborate to develop the infrastructure (Phase 1, through February 2027); a legislative pre-announcement of amendments to the subordinate regulations of the Electronic Registration Act is scheduled for the end of September 2026; and the institutional framework and infrastructure for Phases 2 and 3 will be reviewed in advance (ongoing). The timing of Phase 2 is expected to vary depending on the pace of technological innovation among market participants.

(b) Best Practice Guidelines for fractional investment: acceptance of securities registration statements and support for public offerings based on the Best Practice Guidelines for non-monetary trust beneficiary certificates (effective immediately); and additional review and commissioned research, including on fractional investment in standard-essential patents (SEPs) (through the end of 2026).

(c) Distribution framework for OTC Trading Platforms: authorization procedures for OTC Trading Platforms (ongoing); a legislative pre-announcement at the end of September 2026 of amendments to the subordinate regulations of the FSCMA concerning the new authorization unit (debt securities), retail investor trading limits, and other matters; and review of the need for statutory amendments concerning unfair trading (ongoing).

(d) Issuer account management institutions: a legislative pre-announcement at the end of September 2026 of amendments to the subordinate regulations of the Electronic Registration Act concerning the registration requirements and other matters.

IV. IMPLICATIONS

The Policy Direction gives concrete shape to the detailed operational framework of the security tokens regime. Market participants will need to take the following practical steps.

(a) Securities Companies — Map Existing Authorizations and Prepare Mainnet Infrastructure: Because security tokens may be handled within the scope of existing authorizations without any separate additional authorization, securities companies should map the business scope of their current authorizations (by type of securities) against the classification by substance of the security tokens they intend to handle. They should also prepare in advance by building a mainnet, following the timetable for applying for KSD review of their system connection, satisfying the standard requirements for distributed ledgers (including the emergency response protocols), and designing their account management systems. In Phase 1, the KSD will perform only its statutory obligations, such as issuance review and aggregate quantity management. Other rights-management functions—such as investment management instructions and administration of fund assets for MMFs and principal repayment and interest payments for bonds—will be performed directly by participating financial companies (securities companies, etc.). Securities companies should prepare for these functions and put related arrangements in place, including a single trading unit (i.e., a minimum denomination) to ensure efficient compliance with resale restrictions when tokenizing bonds.

(b) **Fractional Investment OTC Trading Platform Applicants — Consult the FSS and Build Limit-Management Systems:** Applicants must consult with the FSS in advance to support security token trading. They will also need to build systems to manage the KRW 100 million annual net purchase limit for retail investors and overhaul their operational standards for preventing and monitoring unfair trading.

(c) **Fractional Investment Issuers and Fintech Companies — Confirm Underlying Asset Eligibility and Overhaul Internal Rules:** The Best Practice Guidelines for the issuance of non-monetary trust beneficiary certificates are expected to apply immediately to fractional investment in the form of conventional electronic securities as well. These participants should therefore confirm that the underlying asset requirements are satisfied, establish internal control systems, overhaul their internal rules on subscription limits and equal allocation, and build investor-protection frameworks.

(d) **Prospective Issuer Account Management Institutions — Secure Capital and Staffing:** These entities must secure equity capital of KRW 4 billion, employ four specialists (one for account management, one for internal control, and two for IT), and comply with the IT and security standards. They should also consider in parallel the alternative of obtaining the "small license" described above.

With respect to the upcoming schedule, the subordinate regulations are expected to address matters such as the scope of securities permitted to be issued as security tokens, the establishment of new OTC Trading Platform authorization units and trading limits, and the registration requirements for issuer account management institutions. These matters are expected to be included in the draft amendments to the subordinate regulations of the FSCMA and the Electronic Registration Act, which will be pre-announced at the end of September 2026. Interested parties should actively use the opportunity to submit comments during the public comment period. Matters that have not yet been finalized—including the timing of the transition to Phases 2 and 3, the results of the commissioned research on investment contract securities, whether the regulations on the use of material nonpublic information and market manipulation will apply to OTC Trading Platforms, and the method of interoperability for on-chain settlement—require continued monitoring.

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Bae, Kim & Lee LLC continues to monitor the enactment and amendment of subordinate legislation and related discussions in preparation for the implementation of the security tokens regime, and continues to conduct in-depth reviews in connection with the design of offshore tokenization structures and the review of Korean and overseas regulations. Please feel free to contact us at any time if you require assistance in connection with these matters.

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