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FSC PROPOSES SUBORDINATE REGULATIONS ON SECURITY TOKENS: KEY PROVISIONS AND IMPLICATIONS

I. BACKGROUND

The amended Act on Electronic Registration of Stocks, Bonds, Etc. (the "**Electronic Securities Act**") and the amended Financial Investment Services and Capital Markets Act (the "**FSCMA**"), which together establish the legal basis for the issuance and distribution of security tokens (i.e., distributed ledger-registered stocks, etc.), were promulgated on February 3, 2026, and their key security token provisions are scheduled to take effect on February 4, 2027. On September 4, 2026, at the third meeting of the joint public-private Security Tokens Consultative Body, the Financial Services Commission (the "**FSC**") announced its policy direction for security tokens (the "**Policy Direction**"), which contemplates the phased tokenization not only of fractional investment products but also of traditional securities such as stocks, bonds, and funds. (For details, please refer to our newsletter dated September 7, 2026, ["FSC ANNOUNCES POLICY DIRECTION FOR SECURITY TOKENS: KEY ASPECTS AND IMPLICATIONS"](#).)

Building on the Policy Direction, on October 2, 2026, the FSC issued a legislative pre-announcement of draft partial amendments to the Enforcement Decree of the Electronic Securities Act and the Enforcement Decree of the FSCMA, and a pre-announcement of draft partial amendments to the Regulations on Electronic Registration Business, the Regulations on Financial Investment Business, and the Regulations on Securities Issuance and Disclosure (collectively, the "**Draft Amendments**"). The Draft Amendments to the subordinate regulations of the Electronic Securities Act principally address the scope of securities eligible for issuance as security tokens, the requirements for distributed ledgers, and the registration requirements for issuer account management institutions. Those under the FSCMA principally address the distribution framework for security tokens, including a new authorization unit for over-the-counter trading platforms (each, an "**OTC Trading Platform**") for debt securities and trading limits for retail investors. Comments are due by November 11, 2026.

II. KEY CONTENTS OF THE DRAFT AMENDMENTS

1. Scope of securities permitted to be issued as security tokens (Draft Enforcement Decree of the Electronic Securities Act, Articles 2(3) and 17-2)

Article 23-2 of the amended Electronic Securities Act delegates to Presidential Decree the scope of stocks, etc. that may be electronically registered using distributed ledgers, etc. The Draft Amendments define that scope as the rights under items (a) through (e), (g), (h), (k), (m), and (n) of Article 2, subparagraph 1 of the amended Electronic Securities Act, the same rights represented in securities issued in Korea by foreign corporations, etc., and similar rights designated by the FSC by public notice (Article 17-2). As examples,

the FSC cites stocks, corporate bonds, government bonds, municipal bonds, debt securities, trust beneficiary interests, asset-backed securities, and depositary receipts.

The Draft Amendments also define the rights under item (n) of the same subparagraph as rights represented in investment contract securities that are publicly offered or sold (Draft Enforcement Decree of the Electronic Securities Act, Article 2(3)), thereby moving the basis for the electronic registration of investment contract securities from Article 1-3 of the Regulations on Electronic Registration Business to the Enforcement Decree.

As a result, a legal basis has been established for issuing as security tokens not only fractional investment securities, such as non-monetary trust beneficiary certificates and investment contract securities, but also traditional securities such as stocks, bonds, and funds. In practice, however, the tokenization of traditional securities will proceed in phases in accordance with the Policy Direction, beginning with institutional-investor-only privately placed MMFs and privately placed bonds, as well as unlisted stocks using trust structures.

2. Specification of requirements for distributed ledgers (Draft Enforcement Decree of the Electronic Securities Act, Articles 2(5), 17-3, 17-6, and 38; Draft Regulations on Electronic Registration Business, Articles 3-2 and 4-2)

The Draft Amendments provide that information must be recorded on a distributed ledger (i) jointly by multiple participants, (ii) in the chronological order in which it is generated, and (iii) in compliance with any other recording standards prescribed by the FSC by public notice (Draft Enforcement Decree of the Electronic Securities Act, Article 2(5)).

Furthermore, distributed ledgers, etc. used for electronic registration must satisfy the following requirements: (i) the participants in the electronic registration business must consist of the electronic registration institution and two or more account management institutions (including issuer account management institutions); (ii) each participant must be able to perform its statutory functions as an electronic registration institution or an account management institution; (iii) the participating electronic registration institution must satisfy the matters necessary to perform its functions as prescribed in the Electronic Registration Business Rules; (iv) the electronic registration of stocks, etc. must not require any direct payment for the use of the distributed ledger; and (v) any other requirements prescribed in the Electronic Registration Business Rules, including technical matters necessary for the stable electronic registration and management of stocks, etc., must be met (Draft Enforcement Decree of the Electronic Securities Act, Article 17-3).

The participant-composition requirement is intended to enhance the reliability of the information recorded on the distributed ledger and to ensure business continuity in an emergency, while the payment-related requirement reflects the fact that the distributed ledger is being introduced as an official register and the need to prevent delays in the finalization of rights. The electronic registration institution may refuse electronic registration on a distributed ledger, etc. that does not satisfy these requirements (Draft Regulations on Electronic Registration Business, Article 3-2(2)), and, if a distributed ledger already in use for electronic registration ceases to satisfy the requirements, the electronic registration institution may, on its own authority, convert the relevant

distributed ledger-registered stocks, etc. into ordinary electronically registered stocks, etc. (Draft Enforcement Decree of the Electronic Securities Act, Article 17-6(2) and (3)).

In addition, an application for an account transfer that violates the proviso to Article 23-2(1) or Article 23-2(2) of the amended Electronic Securities Act has been added as a ground for restricting the electronic registration of account transfers (Draft Enforcement Decree of the Electronic Securities Act, Article 38(1)(ii); Draft Regulations on Electronic Registration Business, Article 4-2).

3. Registration requirements and procedures for issuer account management institutions (Draft Enforcement Decree of the Electronic Securities Act, Articles 11-2 through 11-5, 35-2, and 45; Draft Regulations on Electronic Registration Business, Articles 2-4-2 through 2-4-4)

The amended Electronic Securities Act introduced the issuer account management institution regime, which allows securities issuers, in addition to existing account management institutions such as financial companies, to directly manage the customer accounts for the security tokens they issue. The Draft Amendments specify the registration requirements, procedures, and ongoing maintenance standards as follows:

CATEGORY	KEY CONTENTS
Registration requirements	Minimum equity capital of KRW 4 billion At least one account management specialist (with four or more years of experience in managing customer accounts at an account management institution or in the electronic registration business at an electronic registration institution), at least one internal control specialist, and at least two IT specialists IT systems and communication facilities, office space, security facilities, and backup facilities for business continuity Satisfaction of the requirements for the distributed ledger, etc. to be used (Draft Enforcement Decree of the Electronic Securities Act, Article 17-3) Requirements relating to major shareholders, social credit standing, and conflict-of-interest prevention systems
Application for registration	The application must state the name, location, officers, financial matters such as equity capital, personnel and physical facilities, suitability of the distributed ledger, major shareholders, and conflict-of-interest prevention systems, and must attach the articles of incorporation, financial statements, documents confirming the suitability of the distributed ledger, business rules and methods for electronic registration and management using distributed ledgers, etc., and the schedule for commencing business
Registration procedures	Appendix 3 of the Regulations on Electronic Registration Business Licenses, Etc. applies mutatis mutandis (excluding the preliminary license stage); applications are filed with the FSC using Form No. 3

	Review of the registration application is entrusted to the Governor of the Financial Supervisory Service (the "FSS"), and review of the suitability of the distributed ledger is entrusted to the electronic registration institution designated by the FSC by public notice Business must commence within six months of the registration date
Requirements for maintaining registration	Equity capital of at least 70% of the minimum equity capital required for registration (measured at the end of each month; if the requirement is not met, it is deemed satisfied for six months from the end of that month) and maintenance of relaxed major shareholder requirements
Excess resolution reserve	The lesser of (i) 1% of the aggregate issue price of the stocks, etc. electronically registered in the customer account books it manages and (ii) KRW 4 billion must be set aside and either entrusted to a trust business entity or deposited with a financial institution, and internal operating standards for its management and payment must be established and implemented

The Draft Amendments entrust to the Governor of the FSS the review of applications for electronic registration business licenses and preliminary licenses and the review of the registration requirements for issuer account management institutions (Draft Enforcement Decree of the Electronic Securities Act, Article 45(1)(vi)), while separately entrusting the review of the requirements for distributed ledgers to the electronic registration institution designated by the FSC (Article 45(2)). Accordingly, the substantive review of the technical requirements for distributed ledgers is likely to be conducted by the Korea Securities Depository (the "KSD"), the electronic registration institution.

4. **Management of security token information and conversion to and from electronic securities (Draft Enforcement Decree of the Electronic Securities Act, Articles 2(6) and (7), 17-4 through 17-7, 25, and 39)**

The Draft Amendments establish standards for the management and preservation of information, and procedures for conversion, that take into account the technical characteristics of distributed ledgers.

- **Recording and management of information (Draft Enforcement Decree of the Electronic Securities Act, Articles 2(6) and (7) and 17-4):** Real-name information of rights holders, such as their names and addresses, must be recorded and managed in linked account books electronically connected to the distributed ledger (customer account books and proprietary account books of account management institutions, etc.), while other electronic registration information and non-real-name information identifying account management institutions must be recorded and managed in the electronic registration account book, which constitutes the distributed ledger.
- **Management of personal credit information (Draft Enforcement Decree of the Electronic Securities Act, Article 17-7):** When grounds for deletion arise, the relevant information recorded in the linked account books must be deleted. For information recorded on the distributed ledger, which is technically difficult to delete,

the statutory standards for the management of personal credit information will be deemed satisfied if the grounds for access and the officers and employees with access authority are restricted and records of access to such information are prepared and retained.

- **Preservation of information (Draft Enforcement Decree of the Electronic Securities Act, Article 39(3)):** Information recorded on the distributed ledger must be preserved in a distributed manner by three or more participants at physically separate locations; a participant that ceases to participate in the joint recording and management of the distributed ledger must extract the relevant information from the distributed ledger and preserve it separately; and information recorded in the linked account books must be preserved by a method satisfying all of the requirements of Article 39(2).
- **Conversion between security tokens and electronic securities (Draft Enforcement Decree of the Electronic Securities Act, Article 17-6(1)):** Once the issuer has publicly announced the planned conversion on its website or by similar means for at least one month and submitted a conversion application and supporting documents to the electronic registration institution, the electronic registration institution must decide whether to approve the conversion and notify the issuer within one month. If the conversion is approved, the electronic registration institution and the account management institutions must each convert their respective account books on the conversion date.

In addition, the Draft Amendments allow the electronic registration institution to inspect, print, and copy the customer account books of account management institutions through information and communications networks, etc. (Draft Enforcement Decree of the Electronic Securities Act, Article 17-5), and revise the methods and procedures for the electronic registration of account transfers of distributed ledger-registered stocks, etc. (Draft Enforcement Decree of the Electronic Securities Act, Article 25(5)).

5. New investment brokerage authorization unit for OTC Trading Platforms for debt securities (Draft Enforcement Decree of the FSCMA, Article 178-2 and Appendix 1; Draft Regulations on Financial Investment Business, Articles 5-1 and 5-2-3 and Appendix 2)

In addition to the existing OTC Trading Platforms for unlisted stocks (equity securities) and for beneficiary certificates, the Draft Amendments establish a new investment brokerage authorization unit (20-11-1) for OTC Trading Platforms for debt securities. These platforms will serve both retail and professional investors, and their minimum equity capital requirement (KRW 6 billion) and specialist personnel requirements (one trade execution specialist, one risk management specialist, one internal control specialist, and eight IT specialists) are identical to those for existing OTC Trading Platforms (Draft Enforcement Decree of the FSCMA, Appendix 1; Draft Regulations on Financial Investment Business, Appendix 2). Although retail demand for bond trading among retail

investors remains limited, the new authorization unit reflects the expectation that tokenization will transform the secondary bond market.

An OTC Trading Platform for debt securities must publish the quotes of multiple parties and execute trades only when bid and ask quotes match, provide investors with information such as the issuer's financial condition, establish, publish, and comply with operational standards on, among other things, the designation and de-designation of debt securities eligible for trading, trading methods, settlement methods, and conflict-of-interest prevention, and report to the FSC whenever such standards are established or amended. In particular, it may not broker debt securities for which its operator or a related party of its operator is the issuer, underwriter, arranger, or issuing trustor (Draft Enforcement Decree of the FSCMA, Article 178-2(3)(vi)).

In addition, for unlisted stocks, the Draft Amendments allow beneficiary certificates issued by entrusting unlisted stocks to the KSD or a trust business entity to be traded in place of the unlisted stocks themselves, and designate such beneficiary certificates as instruments to be traded on OTC Trading Platforms for unlisted stocks (2o-12-1, 2o-12-2) rather than on OTC Trading Platforms for beneficiary certificates (2o-14-1, 2o-14-2) (Draft Enforcement Decree of the FSCMA, Article 178-2(1) and Appendix 1, Note 18). This appears intended to support, at the distribution stage, the tokenization of unlisted stocks using trust structures set out in the Policy Direction. Meanwhile, an authorization unit for OTC Trading Platforms for investment contract securities is not included in the Draft Amendments; according to the Policy Direction, its establishment will be considered following supplementary research on measures to facilitate secondary trading.

6. Scope of multilateral OTC trading and trading limits for retail investors (Draft Enforcement Decree of the FSCMA, Article 177; Draft Regulations on Financial Investment Business, Article 5-1-2)

The Draft Amendments specify the cases in which multilateral OTC trading is permitted as (i) OTC trading through the Korea Financial Investment Association (Draft Enforcement Decree of the FSCMA, Article 178); (ii) the authorization units for securities lending brokerage (2l-1-1, 2l-1-2), OTC Trading Platforms (2o-11-1, 2o-12-1, 2o-12-2, 2o-14-1, 2o-14-2), and specialized bond brokerage companies (2i-11-2i); and (iii) securities lending brokerage by the electronic registration institution and securities finance companies (Draft Enforcement Decree of the FSCMA, Article 177(1) through (3); Draft Regulations on Financial Investment Business, Article 5-1-2).

For investor protection, the trading limit for retail investors is set at KRW 100 million in annual net purchases (total purchases minus total sales) for each of the OTC Trading Platforms for debt securities (2o-11-1), unlisted stocks (2o-12-1), and beneficiary certificates (2o-14-1) (Draft Enforcement Decree of the FSCMA, Article 177(4)). The limit applies per investment broker, and where a single investment broker holds multiple authorizations, the limit is calculated separately for each authorization unit.

7. Special rules on small-scale sales of debt securities (Draft Enforcement Decree of the FSCMA, Articles 120 and 137; Draft Regulations on Financial Investment Business, Article 5-2-3)

In line with the establishment of OTC Trading Platforms for debt securities, the Draft Amendments extend to debt securities the small-investor criterion applicable to small-scale sales exempt from the filing of a securities registration statement, so that a person holding less than 5% (10% for corporations required to file business reports) of the total debt securities issued by the relevant corporation is also treated as a small investor (Draft Enforcement Decree of the FSCMA, Article 120(2)(i)). The matters that an issuer must disclose in a small-scale sale (such as information on the issuer and its financial condition and business performance) also apply to debt securities (Draft Enforcement Decree of the FSCMA, Article 137(3)(iii)(a)), and OTC Trading Platforms are required to ensure that issuers of debt securities comply with this disclosure obligation (Draft Regulations on Financial Investment Business, Article 5-2-3(8)).

III. FUTURE SCHEDULE

Following the public comment period ending on November 11, 2026, the Draft Amendments will go through resolution by the FSC, review by the Ministry of Government Legislation, and deliberation by the Vice-Ministers' Meeting and the Cabinet, and are expected to take effect on February 4, 2027, the effective date of the amended statutes.

The FSC has stated that, during the formal legislative process, it will also fully discuss the comments raised by the industry since the announcement of the Policy Direction, including (i) raising the trading limit for retail investors on OTC Trading Platforms (KRW 100 million in annual net purchases), (ii) lowering the minimum equity capital requirement for issuer account management institutions (KRW 4 billion), and (iii) easing the requirements for distributed ledgers. Comments may be submitted online through the National Participatory Legislation Center (opinion.lawmaking.go.kr) or to the FSC's Capital Markets Division by mail, email, or fax.

IV. IMPLICATIONS

Arriving approximately four months before the security token regime takes effect, the Draft Amendments specify the detailed requirements for issuance and distribution infrastructure underlying issuance and distribution infrastructure. Market participants should consider the following matters in advance.

- (a) Securities companies, etc. seeking to build and operate distributed ledgers:** These entities should confirm whether they can secure at least two account management institutions as participants in addition to the electronic registration institution. Because the KSD may refuse new electronic registrations on a non-compliant distributed ledger, and may on its own authority convert securities on a ledger that subsequently ceases to comply into ordinary electronic securities, efforts to secure participating institutions should be aligned with the timetable for the KSD's system-connection review under the

"Standard Requirements for Security Token Distributed Ledgers." Moreover, because electronic registration may not be conditioned on any direct payment for use of the distributed ledger, the cost-sharing structure for building and operating the ledger, and the related business models, should be revisited.

- (b) Issuers considering registration as issuer account management institutions:** Beyond securing equity capital of KRW 4 billion and four specialists, these issuers should weigh the preparation of business rules and methods, the electronic registration institution's review of the suitability of the distributed ledger, the burden of setting aside the excess resolution reserve (the lesser of 1% of the aggregate issue price and KRW 4 billion), and the obligation to commence business within six months of registration. Since investment brokers may also act as account management institutions, an alternative path is to qualify as an account management institution by obtaining the "small license" for fractional investment, whose equity capital and personnel requirements are less demanding than those for issuer account management institutions (for issuance platforms, the equity capital requirement is KRW 1 billion or KRW 500 million).
- (c) System design for information management:** Because information recorded on distributed ledgers is technically difficult to delete, a linked account book structure separating real-name information from the distributed ledger, access-authority controls, and access-record retention systems should be reflected from the system design stage.
- (d) Entities considering authorization as OTC Trading Platforms for debt securities:** These entities should review in advance the criteria for designating and de-designating debt securities eligible for trading, the prohibition on brokering debt securities in which the operator has an interest, measures to ensure issuers' compliance with disclosure obligations under the special rules on small-scale sales, and systems for managing the KRW 100 million annual net purchase limit for retail investors per investment broker and per authorization unit. OTC Trading Platforms for unlisted stocks may also consider measures to support the trading of unlisted stocks issued as beneficiary certificates through trust structures. Further discussions on an authorization unit for OTC Trading Platforms for investment contract securities should also be continuously monitored.
- (e) Use of the comment period:** Because the trading limits, equity capital requirements, distributed ledger requirements, and other matters may be adjusted during the legislative process in response to industry comments, interested parties should actively use the opportunity to submit comments by November 11, 2026.

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Bae, Kim & Lee LLC will continue to monitor the legislative process for the Draft Amendments and developments in the preparation of further detailed standards, and will provide tailored advice and optimal solutions that take into account the specific circumstances of market participants in connection with the issuance and distribution of security tokens and the development of related infrastructure

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

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