SHIN&KIM
법무법인(유) 세종

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Bad Debt Recognition Rules, Token Securities Regulations, and Other Key Developments

The Shin & Kim Financial Regulation Review, published every two weeks, highlights key regulatory developments affecting the financial and insurance sectors and related industries, along with insights into their background and what they mean for market participants.

This issue covers developments from September 30 to October 13, 2026. We hope you find it informative and useful. If you have any questions, please feel free to reach out to Shin & Kim.

I. Regulatory Developments

▶ **[Financial Services Commission] October 12, 2026: Revised Rules on the Recognition of Bad Debts by Financial Institutions Take Effect** (☞Original Source)

On October 12, 2026, amendments to the *Detailed Rules on Financial Institutions' Recognition of Bad Debts* took effect. The amendments are intended to address the practice of repeatedly extending limitation periods for delinquent loans.

Previously, financial institutions could recognize delinquent loans with little prospect of recovery as losses for corporate income tax purposes, even before the applicable limitation periods expired, if the loans were classified as estimated losses and recognized as bad debts by the Financial Supervisory Service. However, even after obtaining such recognition, financial institutions continued to pursue collection by repeatedly extending the limitation periods through obtaining payment orders from the court and similar measures, keeping long-overdue

loans on their books for extended periods.
To address this practice, the financial authorities will allow unsecured delinquent personal loans to be recognized as bad debts on the condition that the limitation period expires as scheduled or the creditor waives the claim.

However, to prevent moral hazard among borrowers, the amendments also provide for exceptions permitting extensions of limitation periods in certain circumstances, such as where a debtor's concealed assets are discovered.

To balance financial soundness with the protection of borrowers with relatively small outstanding balances, the amendments are expected to apply to delinquent loans of KRW 50 million or less at banks and insurance companies, and KRW 30 million or less at savings banks, specialized credit finance companies, and similar institutions.

- **[Financial Supervisory Service] October 12, 2026: FSS to Review Internal Controls at PEF Management Companies (☞Original Source)**

  The Financial Supervisory Service (the "FSS") announced that it will begin reviewing the internal controls of approximately 30 domestically registered local PEF management companies engaged exclusively in PEF management in October 2026.

  The FSS will primarily conduct desk-based reviews using checklists and supporting documents submitted by the firms under review, including internal policies and records of their implementation. To make the reviews more effective, the FSS will also conduct interviews with relevant personnel and on-site inspections at selected firms, including those acting as general partners of large PEFs.

  The reviews will focus on five key areas: (i) internal control structures and systems; (ii) the appointment and activities of compliance officers; (iii) information barriers; (iv) identification and management of conflicts of interest; and (v) controls over personal trading in financial investment products by officers and employees. The FSS will also assess management's efforts to foster a culture of internal control, including employee training and the operation of internal reporting systems.

  The FSS plans to reflect findings that call for regulatory or procedural improvements in the standard internal control guidelines.

- **[Financial Supervisory Service] October 13, 2026: FSS Advises Companies to Review Preparations for Mandatory Adoption of K-IFRS No. 1118 (☞Original Source)**

  With K-IFRS No. 1118 set to become mandatory on January 1, 2027, the FSS outlined the key changes introduced by the new standard and recommended that companies review their preparations for its implementation.

  The key changes include: (i) classification of all income and expenses in the statement of profit or loss into categories such as operating, investing, and financing; (ii) presentation of operating profit or loss, financial profit or loss and profit before income tax*, and profit or loss for the period; (iii) where management-defined performance measures ("MPMs") are publicly communicated, disclosure of their calculation methods and reconciliations to subtotals specified under the standard, including operating profit or loss; (iv) presentation of operating expenses by nature or function; and (v) disclosure of operating profit or loss under K-IFRS No. 1001, together with a reconciliation between that amount and operating profit or loss under K-IFRS No. 1118 in the notes to the financial statements.

* Operating profit or loss plus all income and expenses classified in the investment category.

As K-IFRS No. 1118 applies retrospectively, companies will also need to restate comparative financial information for prior periods.

Companies are encouraged to review their current financial statement presentation against the requirements of K-IFRS No. 1118 and assess the necessary changes and their impact. They are also advised to establish accounting policies and criteria for key accounting judgments to prepare for the new standard.

II. Regulatory Proposals

- **[Financial Services Commission] September 30, 2026: Proposed Amendments to the Regulations on Supervision of Banking Business (☞Original Source)**

  The Financial Services Commission (the "FSC") issued an administrative notice of proposed amendments to the *Regulations on Supervision of Banking Business* aimed at strengthening banks' risk management of real estate project financing ("PF") loans, enhancing internal control assessments for specialized banks, and adjusting the scope of permissible in-person services for internet-only banks.

  The key proposed amendments include: (i) capping banks' real estate PF-related credit exposure at 20% of their total credit exposure; (ii) adding internal controls as an assessment criterion for specialized banks and increasing their weight in management assessments; (iii) allowing internet-only banks to provide certain in-person services where necessary, including borrower notifications, consultations, and negotiations; and (iv) excluding funds deposited in foreign currency settlement accounts from credit exposure calculations for the first three business days following deposit.

  The amendments are expected to take effect upon promulgation, except for the provisions concerning the real estate PF credit exposure limit, which are scheduled to take effect on January 1, 2027. Banks exceeding the limit as of that date will have a three-year grace period to comply.

- **[Financial Services Commission] October 1, 2026: Revised Administrative Notice of Proposed Amendments to the Regulations on Supervision of Credit Information Business (☞Original Source)**

  The FSC issued a revised administrative notice of proposed amendments to the *Regulations on Supervision of Credit Information Business*. The amendments have two main goals. The first is to make the imposition of administrative surcharges under the *Credit Information Use and Protection Act* (the "Credit Information Act") more transparent and fair. The second is to promote technology finance.

  The key proposed amendments include: (i) introducing standards for calculating administrative surcharges*; (ii) expanding the functions of Korea Credit Information Services, the centralized credit information agency, to include information-sharing services among financial institutions; and (iii) expanding access to technology credit information to financial institutions across the financial sector.

  * The base administrative surcharge is calculated by multiplying the statutory maximum surcharge by a rate determined according to the severity of the violation: (i) 65% to 100% for very serious violations; (ii) 30% to less than 65% for serious violations; and (iii) 1% to

less than 30% for less serious violations. The final surcharge is then determined after considering aggravating and mitigating factors and the violator's ability to pay.

The proposed standards for calculating administrative surcharges reflect discussions held by the Task Force on Improving Standards for Calculating Administrative Surcharges under the Credit Information Act on September 16, 2026. The amendments are expected to take effect upon promulgation.

- **[Financial Services Commission] October 2, 2026: Proposed Amendments to the Enforcement Decree of the Financial Investment Services and Capital Markets Act (☞Original Source); Proposed Amendments to the Regulations on Financial Investment Business (☞Original Source); and Proposed Amendments to the Regulations on Issuance and Disclosure of Securities (☞Original Source)**

  The proposed amendments, announced through legislative and administrative notices, are intended to implement matters delegated to subordinate regulations under the amended Financial Investment Services and Capital Markets Act (the "FSCMA"), which is scheduled to take effect on February 4, 2027. The amended FSCMA permits the distribution of investment contract securities through financial investment firms, as the issuance of such securities is expected to increase with the introduction of token securities.

  The key proposed amendments to the Enforcement Decree of the FSCMA include: (i) criteria for determining which small investors in debt securities are exempt from securities registration statement requirements following the introduction of a new authorization category for OTC trading in debt securities; (ii) in relation to multilateral OTC trading, rules governing OTC trading services provided by Korea Financial Investment Associations and other entities, authorization categories for OTC trading, and an annual net purchase limit of KRW 100 million per investment brokerage firm for general investors engaging in OTC trading; and (iii) a new authorization category for OTC markets for debt securities and related business requirements.

  The key proposed amendments to the Regulations on Financial Investment Business include: (i) limiting the provision of multilateral OTC trading services in connection with securities lending and borrowing brokerage to electronic registration institutions and securities finance companies; and (ii) establishing detailed operating requirements for OTC markets for debt securities, including criteria for designating and removing securities eligible for trading.

  The proposed amendments to the Regulations on Issuance and Disclosure of Securities would extend the special procedures currently applicable to small-scale offerings of equity securities that are exempt from securities registration statement requirements to small-scale offerings of debt securities.

  The proposed amendments are expected to take effect on February 4, 2027, when the amended FSCMA takes effect.

- **[Financial Services Commission] October 2, 2026: Proposed Amendments to the Enforcement Decree of the Act on Electronic Registration of Stocks and Bonds (☞Original Source); and Proposed Amendments to the Regulations on Electronic Registration Business (☞Original Source)**

  The proposed amendments, announced through legislative and administrative notices, set out the detailed rules delegated to subordinate regulations under the amended *Act on Electronic Registration of Stocks and Bonds*, which is scheduled to take effect on February 4, 2027. The amended Act introduces a framework for token securities, under which information relating to the issuance and distribution of securities is recorded and managed using distributed ledger technology.

The key proposed amendments to the Enforcement Decree include:

i. **Distributed ledger requirements:** ledgers must support joint recording by multiple participants and chronological recording of information, as well as additional requirements concerning participation by an electronic registry and at least two account management institutions and the absence of direct payment for the use of the distributed ledger;
ii. **Issuer account management entities:** registration requirements*, registration procedures, and ongoing requirements after registration, including maintaining at least 70% of the minimum equity capital;
iii. **Eligible securities:** securities that may be registered on distributed ledgers include stocks, corporate bonds, government bonds, local government bonds, debt securities, beneficial interests in trusts, asset-backed securities, and depositary receipts;
iv. **Recording and inspection:** methods for recording and managing electronic registration information relating to securities registered on distributed ledgers, and procedures for an electronic registry to inspect, print, and copy customer account books;
v. **Conversion:** procedures for converting between token securities and conventional electronic securities, including a public notice of at least one month by the issuer and submission of a conversion application;
vi. **Personal credit information:** requirements for managing personal credit information recorded on distributed ledgers and related arrangements**; and
vii. **Account transfers:** procedures for applying for electronic registration of transfers between accounts involving securities registered on distributed ledgers.

* These requirements include minimum equity capital of KRW 4 billion and at least one account management professional, one internal control professional, and two information technology professionals.

** If personal credit information must be deleted, the relevant information in linked ledgers must also be deleted. If information recorded on distributed ledgers cannot readily be deleted due to technical limitations, the permissible grounds for access and the personnel authorized to access the information must be restricted, and access records must be maintained.

The key proposed amendments to the Regulations on Electronic Registration Business, as outlined in the administrative notice, include: (i) detailed registration requirements for issuer account management entities; (ii) information and supporting documents required for registration applications by such entities, as well as registration procedures (Appendix 3 of the Regulations on Authorization of Electronic Registration Business applies mutatis mutandis, excluding the preliminary authorization stage); and (iii) grounds for refusing applications for new electronic registration or electronic registration of transfers between accounts, including where the distributed ledger used for registration fails to meet the applicable requirements.

The proposed amendments are expected to take effect on February 4, 2027, the effective date of the amended Act.

III. Legal Interpretations and Court Decisions

▶ **[Statutory Interpretation (260158)] Whether Power Generators and Electricity Purchasers Require Authorization to Conduct Financial Investment Business (Dealing Business) Under the FSCMA When Entering into Contracts for**

Differences on a Continuous or Repeated Basis Under Article 34(1) of the Electric Utility Act (☞Original Source)

Article 6(1) of the FSCMA defines "financial investment business" as a business conducted continuously or repeatedly for profit that falls within any of the categories specified therein, including dealing business. Article 6(2) defines "dealing business" as the business of buying or selling financial investment products for one's own account, regardless of the name under which the transactions are conducted, or issuing or underwriting securities, soliciting subscriptions, subscribing for securities, or accepting subscriptions.

Authorization to conduct financial investment business under the FSCMA is not required where the contract for differences described in the application: (i) is entered into between a power generator and an electricity purchaser under the Electric Utility Act; (ii) provides for settlement of differences only to the extent of electricity actually supplied and consumed; and (iii) is intended solely to fix electricity supply and purchase prices in advance at an agreed reference price to hedge against fluctuations in electricity trading prices, rather than to earn trading profits, fees, or other income.

[Case Law] Supreme Court Decision No. 2025*Do*17317, October 8, 2026: Whether an Unexecuted Naked Short-Sale Quotation Constitutes a "Sale" Under Article 180(1) of the Former FSCMA (☞Original Source)

The Defendant, a foreign bank engaged in the financial investment business, was indicted under Article 443(1)10 and Article 448 (the corporate liability provision) of the former FSCMA (prior to its amendment by Act No. 20531 on October 22, 2024). The indictment alleged that, between approximately August 23 and December 8, 2021, the Defendant submitted naked short-sale orders through domestic securities firms for 318,781 shares in nine companies, valued at approximately KRW 15.8 billion, without holding or borrowing the shares.

The trial court found that most of the orders had been executed but acquitted the Defendant because the alleged violation by an employee had not been established. Following an amendment to the indictment, the appellate court set aside the trial court's judgment on its own motion and again acquitted the Defendant.

The Supreme Court distinguished three stages in the process by which an investor enters into a securities transaction on an exchange through a member securities firm: "order," "quotation," and "execution." The Court held that a "sale" under Article 180(1) of the former FSCMA requires a completed transaction in which matching sell and buy quotations result in execution. The mere submission of a quotation to the exchange by an exchange member does not constitute a sale.

The Supreme Court based its interpretation on the following grounds: (i) the relevant offense contains no separate provision penalizing attempts, and treating an unexecuted quotation as short selling would effectively equate an attempted offense with a completed one; (ii) the ordinary meaning of "sale" involves a disposition pursuant to a contract; (iii) Articles 180-4 and 429-3 of the former FSCMA expressly distinguish between "short selling" and a "short-sale order"; and (iv) although Article 6-30 of the former Regulations on Financial Investment Business defines short selling to include subscriptions or orders, that definition applies only for the purposes of that Article, and the elements of a criminal offense cannot be expanded through subordinate regulations or administrative notices.

The Supreme Court acknowledged that, for the sake of consistency, there may be grounds to penalize exchange members that submit quotations for their own account even where no transaction is executed, given that non-member investors may be penalized for merely placing short-sale orders with exchange members. However, the Court made clear that any such extension of criminal liability would require legislative amendment.

Accordingly, the Supreme Court dismissed the prosecutor's appeal, leaving the appellate court's acquittal in place. The Court found no error in the appellate court's conclusion that the evidence was insufficient to establish a conspiracy among the Defendant's officers and employees, identify the person responsible for the alleged violation, or establish that a violation had occurred.

- **[Case Law] Supreme Court Decision No. 2024*Da*302965, October 8, 2026: Whether a Private Fund Manager Breached Its Investor Protection Obligations by Failing to Investigate or Disclose Repeated Qualified Audit Opinions on an Underlying Offshore Fund (☞Original Source)**

  The Defendant managed a professional private investment fund, and the Plaintiff was the fund's distributor. Redemptions from the fund were delayed after accounting fraud involving the underlying offshore fund came to light. The Plaintiff compensated investors and acquired their beneficiary certificates and claims for damages against the Defendant.

  The Plaintiff alleged that the Defendant had breached its investor protection and disclosure obligations by failing to take appropriate measures despite learning during due diligence that the underlying offshore fund had repeatedly received qualified audit opinions. The Plaintiff therefore sought payment on the assigned claims or indemnification from the Defendant. Both the trial court and the appellate court ruled against the Plaintiff.

  The Supreme Court held that, under the former FSCMA (prior to its amendment by Act No. 16191 on December 31, 2018), a collective investment business entity managing a professional private investment trust is responsible for investing and managing the trust assets and plays a primary role in producing and distributing information about the trust. Accordingly, it owes a duty of care to protect investors by providing accurate information about the trust's return structure and risk factors to the investment brokerage firms distributing its beneficiary certificates or directly to investors, enabling them to make informed investment decisions.

  The appellate court had found that the Defendant's failure to conduct further investigations into the offshore fund or provide relevant information to investors did not, in itself, establish a breach of its investor protection obligations. The Supreme Court, however, held that the Defendant had breached those obligations by failing to investigate the circumstances underlying the repeated qualified audit opinions or provide investors with the necessary information, despite knowing that the offshore fund had repeatedly received such opinions from its auditor. The Supreme Court therefore reversed the appellate court's judgment and remanded the case.

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