



Kobre & Kim's Special Situations Disputes Team



Calvin K. Koo
Hong Kong
calvin.koo@kobrekim.com



Jonathan D. Cogan
New York
jonathan.cogan@kobrekim.com



Kiran Unni
London
kiran.unni@kobrekim.co.uk



Naomi Jeehee Yang
Seoul
naomi.yang@kobrekim.com



Peter Tyers-Smith
Cayman Islands
peter.tyers-smith@kobrekim.ky



Robin J. Baik
Seoul
robin.baik@kobrekim.com

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South Korea's Escalating Crypto Enforcement Raises New Risks for Investors

South Korea is tightening its approach to digital asset oversight, expanding investigations and broadening regulatory reach over exchanges, stablecoin issuers, and cross-border activity. The shift increases the likelihood that routine market behavior may face regulatory scrutiny. To manage rising risk, firms with exposure to Korea's crypto market should stay current on evolving rules, maintain strong records, and engage proactively with authorities.

South Korea is intensifying its enforcement of digital assets, shifting how regulators investigate and pursue market participants. Authorities have expanded probes into unregistered exchanges, offshore trading flows, and alleged market-manipulation schemes, all of which point toward a more assertive enforcement agenda.

The second phase of the regulatory update centers on the Digital Asset Basic Act, which circulated in various draft forms throughout mid-2025. The proposed legislation would create a unified framework to strengthen oversight of stablecoin issuers, foreign virtual asset service providers (VASPs), and cross-border activities. Together with the first phase of reforms under the 2024 Act on licensing and reserve requirements, the draft Act—reportedly slated for legislative introduction in January 2026—would significantly expand the investigative authority of the Financial Services Commission (FSC) and other regulators, including the power to demand reporting, examine foreign operators serving Korean users, and pursue misconduct occurring in part outside Korea.

These developments do not merely tighten compliance expectations – they expand the categories of conduct that may trigger enforcement, investigations, and potential penalties. For investors, exchanges, custodians, and ecosystem participants, significant risk comes from how regulators interpret trading activity, liquidity movements, or governance decisions

in hindsight.

1. **Know the Rules.** To avoid unexpected enforcement or licensing risks, companies with ties to Korea's crypto market should regularly review the evolving regulatory framework—including licensing, reserve and capital thresholds, stablecoin definitions, VASP registration, and cross-border obligations—and assess how these developments affect their business operations.

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2. **Be Prepared.** Maintain robust documentation, including asset reserves, custody arrangements, transaction ledgers, audit reports, and governance protocols. As Korea moves toward strict reserve-backing and bankruptcy-remote custody for stablecoins, comprehensive records will be critical in demonstrating compliance and defending investor or issuer decisions.
3. **Be Proactive.** Potential targets should develop a strategy that addresses authorities' questions and helps regulators gain a deeper understanding of their business and the market context. While the long-term effects of the new laws remain uncertain, early engagement, transparency, and clear communication can help mitigate misunderstandings and foster more constructive regulatory interactions.

As South Korea adopts a more assertive digital asset regime, investors and service providers should expect heightened scrutiny. With the Virtual Asset User Protection Act now joined by the Digital Asset Basic Act, regulatory expectations are rising quickly. Those who understand the rules, maintain strong documentation, and engage proactively with authorities will be best positioned to manage risk and operate confidently in this evolving market.

About Kobre & Kim

Kobre & Kim is a global law firm focusing on cross-border disputes and investigations, often involving fraud and misconduct.

Our team:

- Formulates and executes cross-border strategies across global jurisdictions, including Brazil, BVI, Cayman, Cyprus, Delaware, Dubai, Hong Kong, Israel, Korea, New York, and the PRC.
- Has served as lead counsel in prominent enforcement actions, including those involving cryptocurrency enforcement, securities law, market manipulation, bribery and corruption, antitrust and competition, economic sanctions, asset forfeiture, money laundering, extradition, fraud and other misconduct.
- Includes native Korean-speaking lawyers from Seoul, the U.S., and other locations who assist clients in dealing with regulatory and criminal authorities such as the Financial Supervisory Service and the Public Prosecutors' Office.