

OPINION

Seiwoon Hwang

Introduction of Stablecoins in Korea and User Protection

While various debates regarding the pros and cons of introducing stablecoins are ongoing, efforts to introduce regulatory frameworks domestically are becoming visible, taking into account the situations in the EU, United States, and Japan. In establishing domestic stablecoin regulations, it is essential to thoroughly prepare user protection provisions to ensure that market confidence can be formed on a solid foundation while maximizing efficiency and convenience.

To protect stablecoin users, review is needed regarding the composition of reserve assets, verification of reserve assets, enhancement of redemption convenience, and restrictions on the circulation of foreign-issued stablecoins. Reserve assets should be deposited externally to insulate stablecoin users from the credit risk of issuers, and external depository institutions should be limited to financial companies with high credit ratings. For verification of reserve assets, it is necessary to establish measures that impose obligations on issuers to regularly update and disclose the composition details of reserve assets, while requiring semi-annual external audits of reserve assets and public disclosure of audit reports. To enhance redemption convenience, issuers should be required to disclose redemption conditions in the whitepapers they publish, and regulations should stipulate that no fees would be imposed on holders' redemption requests.

User protection regulations for foreign-issued stablecoins also need to be thoroughly established. Referencing cases from the EU, United States, and Japan, it is necessary to establish user protection regulations for foreign-issued stablecoins at the same level as those for domestic issuers. Considering the limitations in applying domestic financial supervisory regulations to foreign stablecoin issuers, measures such as requiring the deposit of reserve assets domestically or imposing loss compensation obligations on domestic digital asset service providers, similar to Japan's approach, could be considered.

* All opinions expressed in this paper represent the author's personal views and thus should not be interpreted as Korea Capital Market Institute's official position.

* Ph.D., Senior Research Fellow, Fund & Pension Department, Tel: 82-2-3771-0824, E-mail: neptune@kcmi.re.kr

There is growing market interest in the introduction of stablecoins. In the financial sector, the necessity of introducing a stablecoin regulatory framework has long been raised. Since the new administration, launched in June, designated the adoption of stablecoins as a key policy task, market expectations have risen sharply. Furthermore, with the passage in the United States on July 18 of the GENIUS Act (Guiding and Establishing National Innovation for U.S. Stablecoins of 2025), momentum for introducing a related system in Korea has also begun in earnest.

Currently, multiple bills related to stablecoins have been introduced in the National Assembly. These include the Act on the Issuance, etc. of Value-Stabilized Digital Assets (Bill No. 2212298, proposed by Representative Kim Hyun-jung), the Act on the Issuance and Distribution of Value-Stabilized Digital Assets (Bill No. 2211784, proposed by Representative Ahn Do-geol), and the Basic Act on Digital Assets (Bill No. 2210736, proposed by Representative Min Byung-deok).

The proposed bills can largely be divided into two categories: those that address stablecoins as part of the broader Basic Act on Digital Assets, and those drafted as special legislation focusing solely on the stablecoin framework. If comprehensive policy considerations for operating the stablecoin market efficiently are embedded, the particular legislative format may not be of primary importance. However, given the strong market demand for swift legislative implementation to ensure that Korea can assume a leading role in the global stablecoin market, it will be necessary to choose an approach that enables rapid institutional adoption.

With the expansion of the digital economy, the utility of stablecoins as a payment instrument is becoming increasingly evident. Being blockchain-based, they enable 24/7 real-time transfers and are expected to deliver high efficiency in cross-border remittances and overseas direct purchases. Stablecoins are also anticipated to play the role of a stable medium of payment within the virtual asset industry and are highly likely to emerge as a core settlement mechanism in the issuance and distribution of tokenized securities, which are expected to see wider adoption in the future. From the perspective of safeguarding monetary sovereignty as well, their introduction is warranted.

Nevertheless, while expectations for stablecoins are rising, market concerns over their weaknesses persist. Some argue that even if stablecoins are introduced, their actual domestic utilization may remain limited. Others warn of potential misuse for money laundering, tax evasion, or circumvention of foreign exchange controls. Against this backdrop, this paper seeks

to examine the key issues to be considered in the process of introducing a stablecoin regulatory framework and to analyze, in particular, the policy considerations essential for protecting stablecoin users and ensuring stable market growth.

Key Issues in the Introduction of a Stablecoin Regulatory Framework

For a stablecoin regime to operate soundly, it is essential to establish both (i) an operational structure that ensures the stablecoin's value remains reliable and (ii) a robust system of user protection in the event of unforeseen incidents. In addition, mechanisms must be put in place to maintain market transparency and prevent stablecoins from becoming a primary channel for illicit fund transfers.

To ensure the stability of a stablecoin's value, holders must always be guaranteed redemption upon demand to the issuer. Accordingly, issuers should be required to meet basic qualifications as stablecoin operators, and the framework should mandate thorough management of reserve assets to meet redemption obligations. Market trust in issuers is a critical factor for the successful operation of stablecoins. Therefore, issuance should be allowed only to entities that meet defined eligibility requirements, with licensing (approval-based) rather than registration (notification-based) procedures applied. The licensing authority should reasonably lie with the financial supervisory authorities.

In market discussions, particular attention has focused on capital requirements for issuers. Lower capital thresholds would allow smaller fintech firms a greater chance to participate in stablecoin issuance. Legislative proposals to date set capital requirements in the range of KRW 500 million to KRW 5 billion. Considering the potential widespread use of stablecoins as a payment instrument, the capital requirement should be set at no less than the level currently prescribed for electronic money institutions under the Electronic Financial Transactions Act (KRW 5 billion). Furthermore, once the stablecoin market expands, a tiered capital requirement that increases with issuance volume could also be considered. As for scope of business eligibility, the licensing framework should be sufficiently broad to encompass banks, investment firms, and fintech companies, thereby promoting the long-term growth of the market. A more diverse issuer base would also increase the likelihood of stablecoin operations reflecting a wider array of market demands.

Alongside issuer eligibility, regulation of reserve assets plays a crucial role in maintaining stablecoin value. Even in scenarios involving issuer credit risk or large-scale operational failures, stablecoin redemption value must remain intact. To this end, reserve assets must be sufficient in volume and composed exclusively of highly liquid, low-credit-risk financial instruments such as deposits, government bonds, and repurchase agreements (repos). Additionally, reserve assets must be externally escrowed or entrusted to insulate them from issuer insolvency. They should be held with reliable custodians and managed appropriately, with a clear legal stipulation that reserves receive priority use for redemptions in the event of issuer bankruptcy.

One of the most frequently raised concerns regarding stablecoins is their potential use as channels for illicit fund transfers. Given their reliance on distributed ledger technology (DLT), peer-to-peer (P2P) transfers make it extremely difficult to trace underlying fund flows. This technological attribute heightens the risk of stablecoins being exploited for crimes such as money laundering or tax evasion. While they could also facilitate legitimate cross-border payments, they may similarly be misused to circumvent foreign exchange controls. As such, regulatory efforts to minimize the potential for illicit use of stablecoins are essential. Institutional measures should leverage and align with existing anti-money laundering (AML) and foreign exchange transaction regimes rather than introducing duplicative requirements within stablecoin-specific legislation. Incorporating AML and foreign exchange controls directly into a stablecoin law could create inefficiencies from overlapping regulation. Instead, consideration should be given to explicitly recognizing stablecoins within the frameworks of the Act on Reporting and Use of Certain Financial Transaction Information (the “AML Act”) and the Foreign Exchange Transactions Act, thereby enabling the application of existing obligations such as customer due diligence and transaction reporting.

Overseas Stablecoin Regulations and User Protection Rules

Major jurisdictions worldwide have been steadily refining regulatory frameworks for stablecoins. Europe, which has taken the lead in establishing such frameworks, introduced binding regulatory standards for stablecoins through the Markets in Crypto-Assets Regulation (MiCA, Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets, and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937). MiCA classifies crypto-assets into

three categories: E-Money Tokens (EMTs), Asset-Referenced Tokens (ARTs), and other crypto-assets. Among these, EMTs correspond to what are deemed stablecoins in Korea.

To ensure user protection, MiCA stipulates detailed rules concerning reserve assets, verification of such reserves, and procedures for redemption requests. Reserve assets must be segregated from the issuer's proprietary assets in order to insulate them from insolvency proceedings. However, although segregation is mandatory, deposit insurance does not apply. Eligible reserve assets are limited to bank deposits and highly liquid financial instruments. At least 30% of reserve assets must be held as deposits, and for significant stablecoins, this requirement is increased to 60%. Issuers must publish monthly disclosures on the composition of reserve assets, and significant stablecoins are subject to semi-annual audits. Supervisory authorities in EU member states must report key stablecoin-related metrics to the European Banking Authority (EBA) and the European Central Bank (ECB) at least twice per year.

Issuers are also obligated to disclose redemption terms in their whitepapers and are prohibited from charging fees on redemption requests. Redemption must be executed in legal tender such as cash or bank deposits; redemption in stablecoin form is not permitted. The trading of foreign-issued stablecoins within the EU is, in principle, prohibited. To issue or distribute foreign currency-denominated stablecoins within the EU, an issuer must obtain authorization as a credit institution or electronic money institution in the EU. As an example of MiCA's impact, U.S.-based Circle, which issues USDC, established Circle France and obtained authorization as an electronic money institution from France's ACPR in July 2024.

To solicit transactions involving foreign currency-denominated stablecoins within the EU, issuers must publish a crypto-asset whitepaper and comply with MiCA requirements.

In the United States, regulatory efforts for stablecoins gained momentum with the commencement of former President Trump's second term, and in July 2024 the GENIUS Act was passed, creating a formal regulatory framework. The GENIUS Act's provisions on stablecoin user protection are broadly consistent with MiCA in direction, though they diverge in some details. Requirements for reserves, verification processes, and redemption procedures mostly align with MiCA. One key contrast is that while the EU strictly prohibits interest payments on stablecoins, the U.S. only prohibits payments of interest by issuers directly to holders; it does not restrict Digital Asset Service Providers (DASPs) from offering yields. Thus, in the U.S., Coinbase, acting as a DASP, can provide interest payments to holders of Circle's USDC.

In principle, the circulation of foreign-issued stablecoins within the United States is prohibited. However, exceptions are permitted if the foreign issuer has the technical capacity and willingness to comply with lawful orders and reciprocal arrangements with U.S. authorities.

Japan, through amendments to the Payment Services Act, formally defined stablecoins as legal electronic payment instruments. However, due to the strict reserve management rules under the version implemented in June 2023, stablecoin issuance was practically unfeasible. Accordingly, the Act was amended again in 2025 to relax reserve management requirements. The framework for reserve composition, verification, and redemption procedures generally aligns with MiCA and the GENIUS Act.

Japan had traditionally prohibited the circulation of foreign-issued stablecoins, but the 2023 amendment enabled such circulation under the condition that Electronic Payment Instruments Exchange Service Providers (EPIESPs) assume the obligation of loss compensation. If the issuer of a foreign stablecoin defaults or fails to fulfill obligations, the EPIESP is legally required to compensate users' losses. The lower the regulatory compliance level of a foreign-issued stablecoin, the greater the risk of loss borne by the EPIESP. This creates an incentive for EPIESPs to selectively distribute only those foreign-issued stablecoins with high regulatory compliance, thereby ultimately enhancing user protection within Japan.

Policy Considerations for Protecting Domestic Users of Stablecoins

Drawing on the experiences of countries that have introduced stablecoin regulations ahead of us, it is necessary to carefully design user protection rules when implementing a domestic stablecoin framework. Key elements emphasized under U.S. and EU legislation to safeguard stablecoin users include: the composition of reserve assets, verification of reserve assets, enhancement of redemption convenience, and restrictions on the circulation of overseas-issued stablecoins.

With respect to reserve asset composition, there is already broad consensus in the market. By holding reserves with external custodians, users can be shielded from the issuer's credit risk, and such custodians should be limited to highly creditworthy financial institutions. For verification, issuers should be required to regularly disclose (e.g., monthly or more frequently) updates on reserve asset composition, undergo external audits of reserves on a semiannual

basis, and publish the audit reports to the public.

To ensure redemption convenience, issuers should be mandated to disclose redemption terms in their whitepapers, and regulations should prohibit the imposition of any fees on redemption requests by holders. Redemption must be conducted in legal tender—such as cash or bank deposits—rather than in other stablecoins.

User protection measures must also be firmly established for overseas-issued stablecoins. The U.S., EU, and Japan generally prohibit their domestic circulation. In the EU, foreign issuers must obtain an issuance license within the EU and maintain their reserves within the region. In the U.S., there is no requirement for foreign issuers to obtain a local license, but they must be subject to regulation and supervision equivalent to the U.S. “GENIUS Act,” register with the Office of the Comptroller of the Currency (OCC), and maintain reserves within the United States. In Japan, reserves must be held domestically, and if overseas-issued stablecoins are distributed, Electronic Payment Instrument Service Providers (EPIESPs) are required to bear loss-compensation obligations to protect domestic users.

Korea should likewise adopt rules that apply the same level of user protection to overseas-issued stablecoins as to domestic issuers. Given the inherent limits of applying Korean regulatory oversight to foreign issuers, possible approaches include requiring reserves to be held domestically or, following Japan’s model, imposing loss-compensation obligations on local digital asset service providers.

Although there is ongoing debate over the introduction of stablecoins, considering the trends in the U.S. and EU, Korea is visibly moving toward institutional adoption. Rather than engaging in unproductive disputes, Korea should focus on fully preparing user protection regulations so that stablecoins can maximize their efficiency and convenience while ensuring that a stable foundation of market trust is established.