

OPINION

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Introduction of the Security Token Framework and Future Market Changes

In February 2026, Korea's capital market reached a technological turning point with the promulgation of amendments to the *Electronic Securities Act* and the *Financial Investment Services and Capital Markets Act*, marking the formal incorporation of security tokens into the institutional framework. The most fundamental significance of this reform lies in the innovative expansion of securities issuance formats, achieved by recognizing blockchain-based distributed ledger technology (DLT) as a legally valid securities registry. Moving beyond the traditional centralized electronic registration system, this shift is expected to enhance transparency in issuance systems and broaden access to a wider range of investment assets by leveraging technological advancements.

Technically, security tokens utilize smart contracts to automate various rights-related processes such as dividend and interest payments and collateral management, while integrating trading and settlement processes to significantly reduce intermediary steps and costs. They also have the potential to substantially improve asset liquidity and investor accessibility by enabling fractional ownership and 24-hour trading infrastructure.

For the successful establishment of the security token framework, substantial infrastructure development must precede implementation. Clear permission standards for issuer account management institutions—including capital requirements, technical standards, and internal control systems—must be established to ensure investor protection and market transparency. In addition, systems for node management, total issuance control, and proprietary account ledger creation centered around the Korea Securities Depository (KSD) must be developed. To prevent market fragmentation,

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standardization and interoperability across different main-nets must also be secured. At the same time, a detailed regulatory framework for over-the-counter (OTC) brokerage of investment contract securities and similar instruments must be designed, alongside strengthened investor protection mechanisms.

Security tokens are expected to diversify investment universe by facilitating fractional investment in non-traditional real-world assets such as real estate, artwork, and intellectual property. This will provide retail investors with access to new asset classes while offering small and medium-sized enterprises (SMEs) and project-based businesses new, lower-cost fundraising channels. Beyond the mere adoption of new technology, security tokens will act as a catalyst for efficiency enhancement in capital markets. If regulators and market participants collaborate to continuously advance infrastructure and investor protection systems to build up market trust, security tokens will establish themselves as an innovative securities issuance method suited to the digital economy.

Market interest in the introduction of the security token system is high. The need for such a framework has long been raised within the financial industry. The amendments to the “Act on Electronic Registration of Stocks, Bonds, etc.” (hereinafter the “Electronic Securities Act”) and the “Financial Investment Services and Capital Markets Act” (hereinafter the “Capital Markets Act”) passed the National Assembly on January 15, 2026, were transferred to the government on January 23, and promulgated on February 3, thereby realizing the introduction of the security token system.

A security token refers to a security under the Capital Markets Act that can be issued and distributed on a tokenized distributed ledger based on blockchain technology (Kim Gab-rae, 2024). Recognizing growing market demand to utilize DLT in securities issuance and distribution, the government began preparations in 2023. It first established criteria for determining whether digital assets qualify as securities to prevent legal violations and ensure investor protection. It also announced plans to incorporate security tokens into the electronic securities system, introduce issuer account management institutions that directly register

and manage security tokens, and establish an OTC brokerage system for investment contract securities and beneficiary certificates (Financial Services Commission, February 6, 2023).

Although several legislative proposals were introduced, they initially failed to pass. A comprehensive final bill was proposed on December 4, 2025, and was eventually approved in the plenary session, laying the institutional foundation for issuing and distributing security tokens.

With the expansion of the digital economy, the market has shown strong interest in the utility of security tokens as a means of securities issuance and distribution. While their technological advantages suggest potential use even for traditional securities such as stocks and bonds, they are more likely to be initially utilized for non-traditional securities such as beneficiary certificates of non-monetary trusts and investment contract securities. This paper examines the significance of introducing the security token system, identifies the necessary infrastructure improvements for appropriate issuance and distribution, and explores potential market changes following its adoption.

Significance of Introducing the Security Token Framework

The existing Electronic Securities Act and Capital Markets Act were enacted before the possibility of using DLT-based security tokens as a form of securities issuance was fully considered, and thus did not recognize them as legitimate. However, active attempts to issue security tokens—particularly in fractional investment markets—have emerged globally and domestically. Due to legal constraints, the government temporarily allowed blockchain-based fractional investment services through the financial regulatory sandbox, with examples including Casa-Korea, Lucentblock, Fundblock, Apanda, and Galaxia Moneytree.

Nevertheless, sandbox-based issuance had limitations, including weak legal enforceability and difficulties in issuer-led account management. This led to amendments to relevant laws, establishing a comprehensive institutional foundation for security token issuance and distribution.

A key significance of the reform is the expansion of securities issuance forms through DLT. Previously, Korea's regulatory framework only allowed physical certificates and centralized electronic registration. The amendment now recognizes blockchain-based distributed

ledgers as a new legally valid securities registry. Because transaction records are distributed across nodes, data tampering or hacking is virtually impossible. This feature satisfies a critical requirement for secure issuance systems and represents a natural institutional evolution leveraging technological progress.

Security tokens also enhance capital market infrastructure efficiency by integrating issuance, distribution, custody, trading, clearing, and settlement. Unlike traditional systems where these functions are separated among different entities, security tokens enable integration—especially when combined with digital payment systems—potentially allowing real-time gross settlement (RTGS). This reduces transaction costs, improves transparency, and enables real-time verification of transaction data. It also enhances accessibility by reducing reliance on centralized platforms, enabling 24-hour automated trading and settlement.

These capabilities are based on smart contract technology, which automatically executes predefined conditions without third-party intervention. Smart contracts ensure transparency and efficiency in executing rights such as dividend and interest payments and can also automate disclosure and reporting processes by notifying stakeholders or recording information on the ledger.

Necessity of Infrastructure Development

Although the legal foundation for the introduction of the security token system has been established, practical infrastructure must be developed for smooth operation. Compatibility with existing capital market systems is essential. Blockchain infrastructure for issuance and regulatory frameworks for distribution must be established.

Well-functioning issuance and account management infrastructure is crucial. Disclosure regulations should align with existing systems, while private placements and small public offerings may be encouraged where investor risk is relatively low—without allowing regulatory arbitrage.

The introduction of issuer account management institutions represents a major shift from centralized systems. However, risks related to security, rights management, and record accuracy must be addressed through clear standards for capital requirements, technological security, and internal controls.

The Korea Securities Depository must develop systems for node management, total issuance monitoring, and proprietary ledger management. Standardization and interoperability across different main-nets are also essential to prevent market fragmentation and ensure seamless trading.

The secondary market infrastructure must also be refined. The revised Capital Markets Act introduces an OTC brokerage system for investment contract securities and beneficiary certificates. Given the likely characteristics of small-scale, retail-focused trading, strong price discovery mechanisms and investor protections are necessary.

Investor protection measures should include investment limits, fair platform operation, anti-manipulation systems, and disclosure frameworks. While existing investor protection principles apply, new regulatory gaps may arise due to blockchain features such as automated execution and global trading platforms, requiring ongoing collaboration between regulators and market participants. Compatibility with traditional clearing and settlement systems must also be ensured, as full real-time settlement may be limited by existing financial infrastructure.

Market Changes Following Introduction

The adoption of security tokens is expected to bring structural changes to capital markets. Asset tokenization will diversify investment opportunities, enabling access to real estate, art, intellectual property, and infrastructure assets through fractional ownership, significantly improving accessibility and portfolio diversification.

It may also reduce financing costs and diversify funding channels for companies, particularly SMEs and project-based ventures. Tokenized securities backed by project cash flows—such as real estate development, contents production, and renewable energy—are likely to expand.

Competition in the financial investment industry will intensify, with fin-tech and platform companies entering alongside traditional securities firms, creating new business models in issuance, trading, and asset management.

Digitalization of market operations will accelerate, improving efficiency through automation of rights and enhancing transparency and trust via blockchain-based systems.

Securities tokens are likely to become an efficient financial infrastructure that strengthens capital market functions and provides new investment opportunities. While initial challenges

may arise, continued collaboration between regulators and market participants will enable securities tokens to serve as a key catalyst for capital market innovation.

References

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