



FINANCIAL MEASURES TO CURB SPECULATION IN CRYPTOCURRENCY TRADING

The FSC announced measures that only allow accounts with a users' real name to be used in cryptocurrency trading and introduce banks a guideline to prevent cryptocurrency-related money laundering (hereinafter '*Cryptocurrency-related AML Guideline*'), as part of the government-wide efforts to curb speculation in cryptocurrency trading.

Real Name Policy in Cryptocurrency Transactions

Banks will switch to real name policy starting from January 30 that only allows accounts with a user's real name to be used in cryptocurrency trading. Under the new rule, users who want to make cryptocurrency transactions must have accounts under their real names at the same banks where cryptocurrency exchanges open their accounts. Those who do not have their real-name accounts at the same bank with the exchanges will not be allowed to make new deposits into the exchanges' accounts. They will be only allowed to make withdrawals. These are intended to make sure banks identify their customers and comply with their anti-money laundering (AML) obligations in regard with cryptocurrency transactions. Minors under the age of 18 and foreigners will not be allowed to use such accounts to trade cryptocurrencies in local exchange. With the real name policy coming into effect at the end of this month, the existing 'virtual accounts,' anonymous accounts that have been widely used to trade cryptocurrencies, will no longer be in use.

Cryptocurrency-related AML Guideline

The KoFIU and the FSS conducted joint inspections from January 1 to 16 on six commercial banks that offer cryptocurrency trading accounts to cryptocurrency exchanges.¹ Based on the results of the inspections, the KoFIU came up with a 'Cryptocurrency-related AML Guideline' that clarifies obligations and responsibilities of financial institutions to prevent cryptocurrency-related money laundering. The guideline, approved by the FSC today, will go into force on January 30.

※ Summary of key points:

1. The guideline requires high-level due diligence by financial institutions in transaction with cryptocurrency exchanges. If a customer is identified as a cryptocurrency exchange, financial institutions will be required to conduct enhanced due diligence (EDD) that asks them to verify additional information for high-risk customers: the purpose of financial transactions and the source of money; details about services that the exchanges provide; whether the exchanges are using real-name accounts; and whether the exchanges verify their users' identification.

¹ Press release (Jan. 8, 2018), 「KoFIU and FSS Inspect Banks over Cryptocurrency Trading Accounts」

2. The guideline suggests types of financial transactions that can be suspicious of cryptocurrency-related money laundering.

For example, if a user makes deposits or withdrawals worth more than KRW10 million per day or KRW20 million per week, it falls into a type of suspicious transactions that can be deemed as money laundering. If banks have reasonable evidence of such a suspicious transaction, they will be asked to report to KoFIU.

If a user is a company or an organization, their deposits and withdrawals to trade cryptocurrencies constitute a type of suspicious transactions for money laundering.

3. If a cryptocurrency exchange refuses to provide information about its users' identification, financial institutions shall deny any provision of accounts to such an exchange. Financial institutions can also deny transaction with a cryptocurrency exchange if it is deemed to have high risk of money laundering – e.g. if the exchange is not using real-name accounts in cryptocurrency transactions.
4. The guideline requires financial institutions to strengthen their internal control related with cryptocurrencies and share information about cryptocurrency exchanges with each other.

Expected Effect

The FSC expects the measures announced today to reduce room for cryptocurrency transactions to be used for illegal activities such as crimes, money laundering and tax evasion.

The measures will allow banks to stop offering accounts to cryptocurrency exchanges if the exchanges refuse to submit AML-related information upon banks' request. We expect such measures in practice could have effect that cryptocurrency exchanges with a high risk of being exploited for money laundering are forced out of business.

The new guideline will caution banks against offering accounts to cryptocurrency exchanges without careful consideration. That will prevent accounts offered by financial institutions from being excessively used for speculative cryptocurrency trading or illegal activities.

The measures are aimed to minimize side effects of cryptocurrency trading such as money-laundering and tax evasion. We would like to stress that these are not intended to formally institutionalize cryptocurrency exchanges, or facilitate cryptocurrency trading through such platforms.

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