

January 3, 2018

Korean Cryptocurrency Exchanges Halt New Accounts in Response to Government Pressure

On December 28, 2017, the Minister of the Office of Policy Coordination announced at a press conference that the government will instruct banks to cease opening new “virtual bank accounts” (*gasang gyeja* in Korean) for cryptocurrency exchanges—such accounts allow buyers and sellers on cryptocurrency exchanges to send or receive funds. Although no legal basis for the instruction was provided, shortly after the press conference, the major cryptocurrency exchanges announced that they would comply with the instruction, and some exchanges announced that they would also stop accepting KRW deposits into existing accounts.

Somewhat of a misnomer, virtual bank accounts are actual bank accounts opened at traditional banks by a cryptocurrency exchange. Typically, each virtual bank account will be designated to a particular customer of the exchange, although the official name on the account with the bank will be the cryptocurrency exchange. These virtual accounts have been critical to the business of the Korean cryptocurrency exchanges because they allow an exchange, in cooperation with its partner banks, to quickly retrieve and deposit money on behalf of customers, facilitating transactions made on the exchange. Since each transaction requires Korean Won paid by the buying customer and Korean Won received by the customer, the virtual account provides a location where this Korean Won can be quickly retrieved and deposited for transaction purposes. Citing money laundering concerns, the government desires to halt opening new virtual accounts and prefers that the exchange of funds related to transactions be made using traditional bank accounts opened in the name of customers.

The Minister did not specify the legal basis for instructing the banks to stop opening virtual bank accounts for crypto exchanges, and did not propose any new legislation related to such virtual bank accounts. Therefore, the quick affirmation of the instruction by the cryptocurrency exchanges may be a result of the simultaneous pressure being placed by multiple government agencies, including the Korea Fair Trade Commission and the Korea Communications Commission, on the exchanges.

The Minister ended the press conference by noting that the Ministry of Justice proposed new legislation to shut down the cryptocurrency exchanges. When asked for clarification regarding the comment, the Minister stated that 10 Ministries were represented at the meeting and it was the Ministry of Justice that proposed the new legislation. From this vague and somewhat non-responsive statement, it appears that the other Ministers may not agree with the Ministry of Justice. The cryptocurrency exchanges have not yet announced when they will resume services for new customers (either through virtual accounts or some alternative means).

For additional information regarding this alert or to sign up for future updates, please contact Steve Ahn or Steve Kim. For information generally on cryptocurrency, ICOs, regulatory matters or other related questions, please do not hesitate to contact the partners in SEUM's blockchain and cryptocurrency team, Steve Ahn and Hoseok Jung.

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