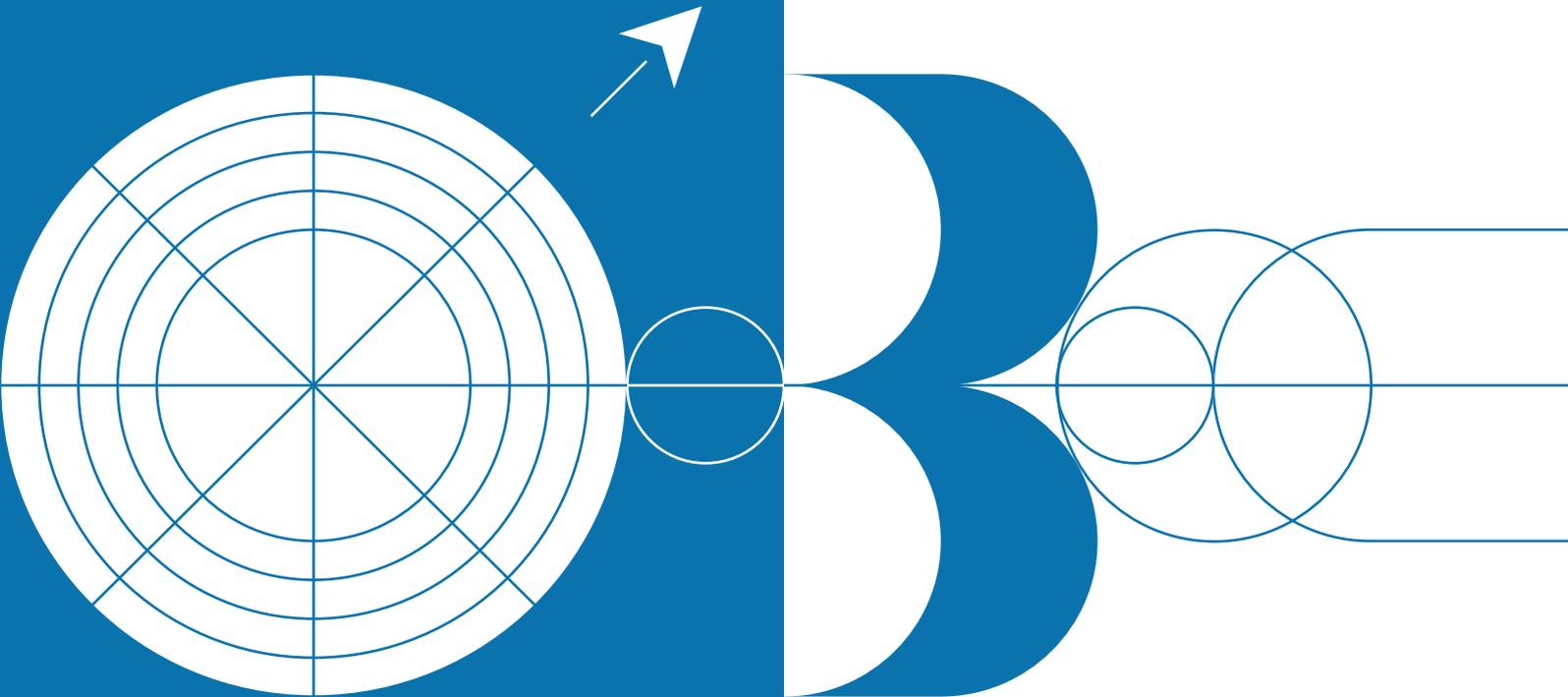


# A Guidance on Fractional Investment and Its Trend

for Bolstering Fin-tech Ecosystems  
in Busan Financial Center



BUSAN  
FINANCE  
CENTER

Ahn, Soon Goo  
Hong, Geum Pyo

2024



# **A Guidance on Fractional Investment and Its Trend**

for Bolstering Fin-tech Ecosystems  
in Busan Financial Center

## CONTENTS

# BUSAN FINANCE CENTER

---

- P. 6**            1. Understanding the Fractional Investment Market
  - P. 11**        2. Understanding Security Tokens
  - P. 13**        3. Key Considerations for the Commercialization of Fractional Investment
    - 3.1 Protection of Investors
    - 3.2 Electronic Securities Registration
  - P. 20**        4. Proposals to Amend Laws Related to Securities Tokens
  - P. 23**        5. Business Case of B-Brick: Commercializing the STO Platform
-

## Preface



Blockchain technology, attracting attention from bitcoin, has accelerated the tokenization of various assets. Korea has seen real estate, artwork, and even music turning into real-world assets with a variety of innovative financial services, commercialized since 2018. In this way, the tokenization of assets, including real estate, enables micro-investment in all assets covering ships, airplanes, and the arts, becoming one of the new financial industries.

This report was published not only to reflect the trend at home and abroad but also to facilitate fin-tech ecosystems in Busan financial hubs. Busan's blockchain regulation-free, special zone system has encouraged Sejong Telecom to commercialize a platform for fractional investment issuing and trading its real estate assets as beneficiary certificates since 2021. The Busan International Financial Hub was designated as a financial center specializing in maritime investments and derivatives in 2019, leading it to both realize fractional investment, called ship finance STO, and release derivatives based on various real assets.

The purpose of this report is to help businessmen, working-level staff, and researchers understand the basic concept of security tokens and financial systems for the realization of fractional investment platforms. Furthermore, in order to realize platforms for fractional investment, it has elaborated on beneficiary tokens, investment securities, and the necessity of application for the financial regulatory sandbox for fractional investment, which helps with exemptions and delays of existing regulations. B-Brik, one of the successful business cases in Busan's financial hub, was also introduced to enhance understanding of entrepreneurs in the fin-tech sector. Such information on blockchain regulation-free, special zone systems' regulatory sandboxes in this report will be helpful to the birth of various new platforms for fractional investment in Busan's financial hub.

President of Busan Finance Center, **Rhee, Myong-ho**

# 1

## Understanding Fractional Investment Markets

Fractional investment is not a newly emerging concept but a method to divide tangible assets at a high price - but with low liquidity - into lots of pieces, enabling small investments and enhancing their convenience and liquidity. It is more similar to the concept of ABS (Asset-Backed Securities). According to the Ministry of Trade and Industry's Dictionary of Current Economic Terms, asset-backed securities are, "securities issued based on tangible and intangible underlying assets held by companies or banks, such as real estate, receivables, securities, mortgages, and other property rights."

Real estate, art, and other relatively higher-priced, tangible assets were difficult for private investors to invest in, but the tokenization of assets and fractional investment platforms have enabled them to be easily traded. These strengths have attracted fin-tech firms who want to create fractional investment platforms, as well as securities companies, to enter into securities tokens and fractional investment industries.



**"I believe the next generation for markets, the next generation for securities will be tokenization of securities."**

— was stated by Larry Fink, CEO of BlackRock in 2023.<sup>1)</sup>

1) A statement of Larry Fink, CEO of BlackRock, in an interview with New York Times, 2023.

## Korea's Major Securities Companies' Business Trend for Fractional Investment Platforms

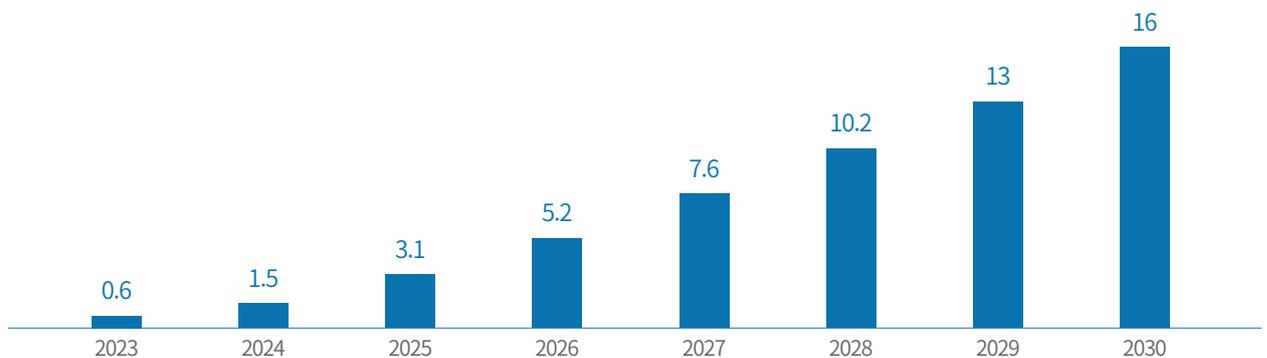
Securities companies, banks	Trend
Consortium of banks	The consortium of seven banks (NongHyup, KB Bank, Shinhan Bank, Woori Bank, IBK, Jeonbuk Bank, National Federation of Fisheries Cooperatives) built a consortium to partner with 12 fractional investors and venture capitalists, entering into STO markets (September 13, 2023)
Hana Securities	Built a platform of 10 billion won with ITCEN INF Consulting (November 9, 2023)
Mirae Asset Securities, Hana Financial Group	Set up the Next Finance Initiative with SK Telecom (June 1, 2023)
Shinhan Securities, KB Securities, NH Investment & Securities	Built a consortium on a joint network for securities tokens (September 12, 2023)
Samsung Securities, SK Securities, Woori Bank	Embarked on 3.0 Partners, trilateral forum (August 31, 2023)
Korea Investment & Securities	Completed required infrastructure for all processes from the issuance to liquidation of STO for the first time of the industry (November 5, 2023)
Koscom	Contracted to provide platforms for securities tokens to Kiwoom Securities (August 25, 2023), Daishin Securities (January 25, 2024), IBK Investment & Securities (January 30, 2024)

Source: Each company's press release

As mentioned, the creation of platforms for fractional investment facilitates trading assets at higher prices, leading to growing participation of investors (demanders) in existing assets. As trade increases by growing demand, it encourages suppliers' participation in fractional investment platforms. The continued increase in participation of demanders and suppliers is the core mechanism of

these platforms. In this way, fractional platforms and securities tokens promote real-world acquirement of various tangible assets. Larry Fink, CEO of BlackRock, the world's largest asset management company, stated RWA is the future of (financial) markets. The RWA market is expected to grow from 0.6 trillion USD to 16 trillion in 2030.

## The Market Growth of RWA



Source: Boston Consulting Group Report (2021), Unit: trillion USD

The Financial Services Commission (FSC) approved various fractional investment platforms for commercialization in Korea as investment contract securities. The FSC published: ① the criteria of products as investment contract securities ('22.04), ② the definition and identification of securities tokens ('23.02), and ③ guidelines on the realization of fractional investment for non-monetary trust beneficiary certificates.

The fractional investment services of five companies were approved by the FSC as investment contract securities. They include: Music Cow (music copyright) in April 2022, Stockkeeper (Korean beef), Tessa (arts), Seoul Auction Blue (arts), Together Art (arts), and Yeolmae Company (arts) in December 2022. Therefore, those businesses are subject to relevant rules and regulations, including the Financial Investment Services and Capital Markets Act (FSCMA).

Fractional investment, via distributed ledger technology, realizes and commercializes tokenized assets. Tokens, a sign of rights such as bus tokens, commonly refer to electronic certificates issued and dispensed in distributed ledgers. For tokens approved as investment contract securities, the FSC announced that those tokens can be categorized as securities tokens in February 2023. However, as the FSCMA,

Electronic Financial Transactions Act (EFTA), and other relevant rules and regulations make the realization of fractional investment difficult, financial regulatory sandboxes such as Busan's blockchain regulation-free, special zones and the STC's innovative financial service systems will help with applications for special cases for demonstration, which exempt and delay existing regulations to commercialize platforms for fractional investment.

A substantial number of companies did not adopt tokenization but created fractional investment platforms under the EFTA. For example, Music Cow, Bankcow, Art Together, Kasa, and other platforms utilize non-monetary trust beneficiary certificates and investment contract securities issued according to the EFTA without tokenization. They showed that it is not essential for the realization of fractional investment platforms to have tokenization based on distributed ledger technology.

If the amended EFTA approves securities tokens as securities, the transfer of rights in blockchain distributed ledgers may be effective, but the rights of those securities tokens are not approved under existing rules and regulations. Thus, the FSC's future measures regarding whether securi-



## List of Platforms for Fractional Investment

Company	Fractional investment platform (release date)	Subject of the platform	Type of securities issued (planned)
Stockkeeper	Bankcow (June 2021)	Korean beef	Investment contract securities
Yeolmae Company	ArtNGuide (September 2018)	Artworks	
Together Art	Art Together (2018)		
Tessa	Tessa (April 2020)		
Seoul Auction Blue	Sotwo (January 2021)		
BuySell Standards	Piece (March 2021)	Luxury products	
Music Cow	Music Cow (August 2018)	Music	Non-monetary trust beneficiary certificates
Kasa Korea	Kasa (May 2018)	Real estate	
Sejong Telecom	B-Brick (December 2021)		
Lucentblock	Sou (April 2022)		
Funble	Funble (May 2022)		
Apanda partners	Bondes (September 2023)	Loan receivables	

Source: Each company's press release

ties tokens are approved as securities will be elaborated in Section 4: "Proposals to Amend Laws Related to Securities Tokens," in this report.

The FSC has introduced relevant guidelines for businesses to commercialize fractional investment platforms since April

2022, including: △ Guideline on Fractional Investments in April 2022, △ Plan to Overhaul the Regulatory Framework Around the Issuance and Distribution of Security Tokens in January 2023, and the △ Guideline on the Requirement of Trust Beneficiary Certificates as Underlying Assets in December 2023.

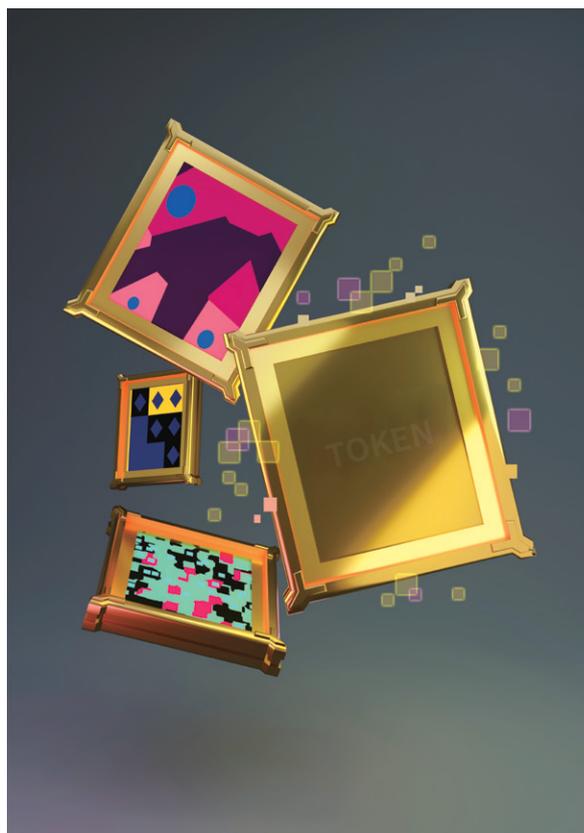
## The FSC's Guidelines on the Realization of a Platform for Fractional Investment and Security Tokens

Month and Year	Guideline	Content
April 2022	Guideline on Fractional Investments	The determination of whether a fractional investment product is a security, the principles of dealing with securities for fractional investment.
February 2023	Plan to Overhaul the Regulatory Framework Around the Issuance and Distribution of Security Tokens	The plan to facilitate issuance and distribution of security tokens by amending the FSCMA and the Act on Electronic Registration of Stocks and Bonds
July 2023	Revision of Registration Statement Form for Investment Contract Securities	The revised registration statement form for investment contract securities to be submitted
December 2023	Guideline on the Requirement of Trust Beneficiary Certificates as Underlying Assets	The minimal criteria for subjecting trust beneficiary certificates to apply to the financial regulatory sandbox for fractional investment by non-monetary trust beneficiary certificates

Source: The FSC

In addition, businesses that realize platforms for fractional investment under the guidelines of the FSC on a platform for security tokens and fractional investment have commercialized fractional investment services, building on special provisional regulatory exemptions for innovative services.

Yeolmae Company’s fractional investment services for works of art were approved as investment contract securities on December 15, 2023 for the first time. It selected “Pumpkin,” by Yayoi Kusama as an underlying asset, submitting a registration statement which has finally been authorized as an investment contract security by the FSC after three rounds of correction since its initial submission on October 13, 2023. As the FSC focused on the protection of investors, inherent risks associated with the subscription of investment contract securities should have been described, including the risk of loss of principal in investment. In addition, SeoulAuction Blue and Together Art followed Yeolmae Company to offer investment contract securities as a form of fractional investment in art.



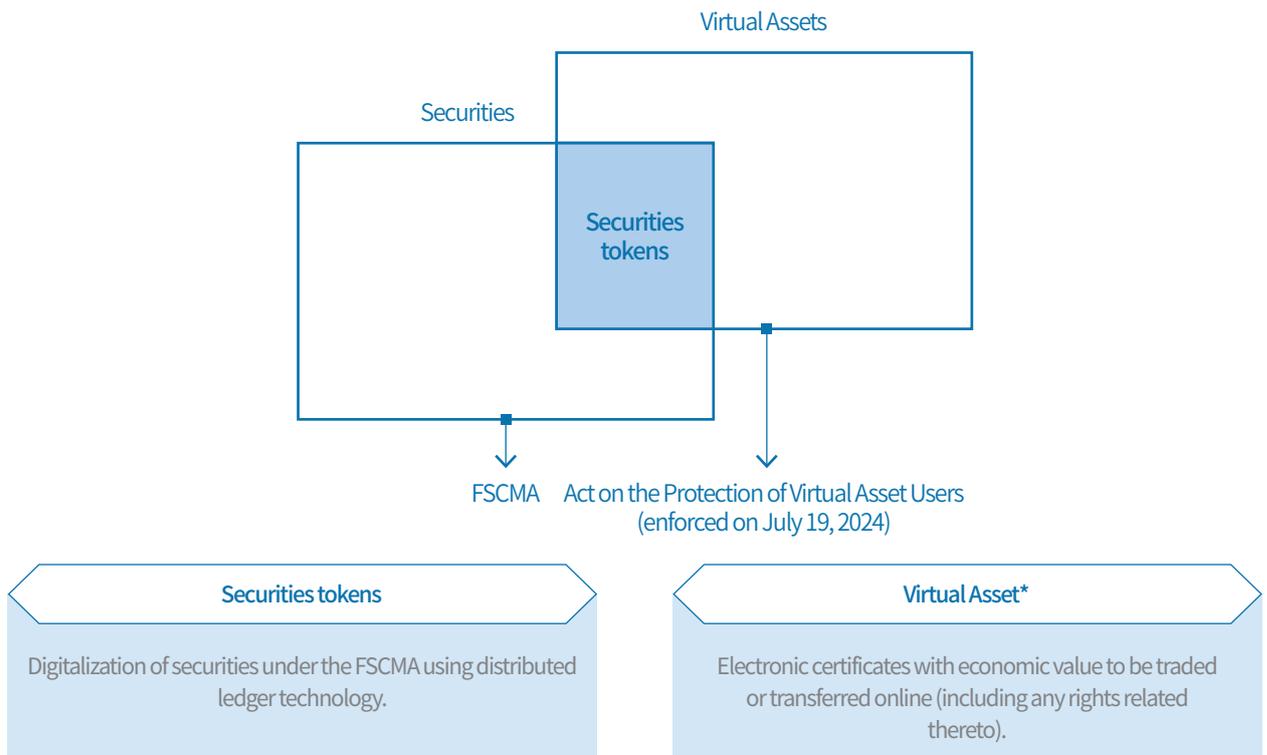
### The Approval of Investment Contract Securities for Fractional Investment in Artwork

Company	Name of Securities	Underlying Asset
Yeolmae Company	Yeolmae Company’s Investment Contract Securities #1 (12. 15, 2023)	Art (Pumpkin by Yayoi Kusama, 2001)
SeoulAuction Blue	SeoulAuction Blue’s Investment Contract Securities #1 (1. 12, 2024)	Dollar Sign (by Andy Warhol, 1981)
Together Art	Together Art’s Investment Contract Securities #1 (1. 16, 2024)	Art (Pumpkin by Yayoi Kusama, 2002)

Source: each company

# 2

## Understanding of Security Tokens



\* Excludes electronic certificates that cannot be exchanged for money, goods, services, etc., tangible and intangible results related to game products, electronic money, electronic registered shares, electronic notes, electronic bonds, mobile gift certificates, deposit tokens, non-fungible tokens (NFT), etc.

## Definition of Securities

Securities are one of the financial investment products in which investors do not bear any additional payment obligation after acquisition with payment. It is categorized as debt, equity, income, derivative-linked, or investment contract securities.

**Source:** The FSC, Guideline on New Securities Business including Fractional Investment (April 28, 2022)

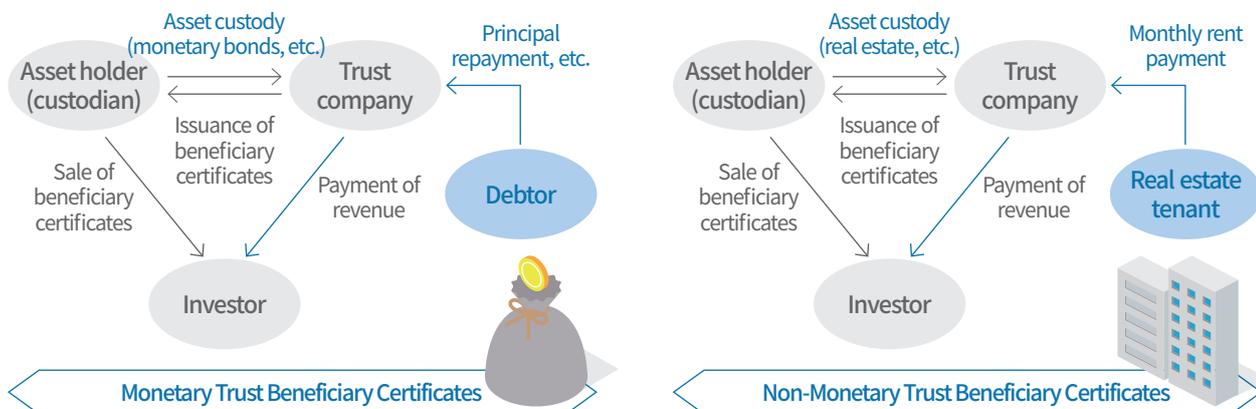


Securities tokens mean the digitalization of securities under the FSCMA using distributed ledger technology. In the context of digital assets, digital assets that are not securities are contrasted with ‘securities-type digital assets’. As securities tokens are securities with a form of digital assets, they are naturally subject to the FSCMA. The FSC built an institutional foundation and direction of policies for STOs (Security Token Offering), the issuance, and distribution of security tokens, in order to support the securitization of various emerging rights and enable the convenient issuance and trade of existing securities by distributed ledger technology, according to the FSC’s Plan to Overhaul the Regulatory Framework

Around the Issuance and Distribution of Security Tokens on February 6, 2023.

Furthermore, the guideline consists of the determination of whether a digital token is a security and relevant considerations for a business operator based on the principles presented by guidelines on fractional investment. That is, in case where investors have the right of claim for profits from assets proportional to their shares, business operators should confirm whether their products are ‘securities’ and follow the relevant financial disclosure regulation, such as the submission of a registration statement.

## Monetary and Non-Monetary Trust Beneficiary Certificate Examples



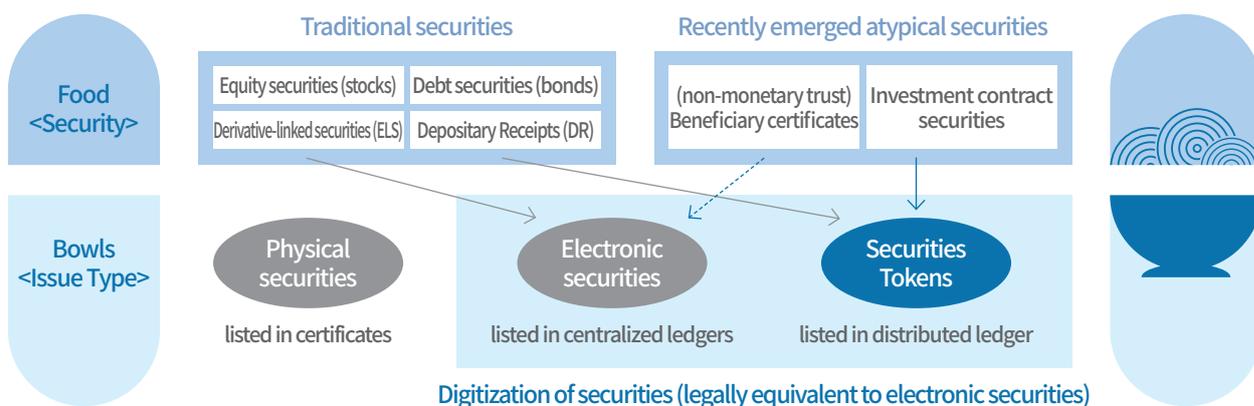
※ This structure diagram is intended to help you understand the beneficiary certificates. Additional issues, such as separation of issuance and distribution, will be elaborated on later.

# 3

## Key Considerations for the Commercialization of Fractional Investment

Securities in fractional investment products that have been commercialized or planned are categorized as non-monetary trust beneficiary certificates and investment contract securities. Monetary trust beneficiary certificates are models to issue and distribute beneficiary securities by entrusting real estate, arts, music copyright, and other forms of non-monetary assets.

Investment contract securities pertaining to joint investment are defined as the right to invest money in collective businesses with a profit, depending on their result. The Securities and Futures Commission<sup>2)</sup> announced that various fractional investment products, such as music copyright claims, artwork, and Korean beef, which were previously



Source: Adapted from The FSC's data

2) The Securities and Futures Commission is a consensus-based administrative body that decides on the investigation of unfair transactions in the capital market, matters related to corporate accounting standards and accounting audits, and preliminary deliberations on major matters related to the management, supervision, and monitoring of the capital market. It is composed of the chairman of the Securities and Futures Commission (vice-chairman of the FSC), as well as standing and non-executive members.

## Category of Securities Related to Fractional Investment

Types of Securities	Details
Beneficiary certificates:	A certificate that indicates the right to invest the asset entrusted by the customer and receive a share of the profits generated therefrom (profit right). Simply put, a security that marks the right to receive back the profits earned by entrusting the investment company with the management.
(Non-monetary Trust) Beneficiary certificates	Under the FSCMA, only monetary trusts can issue beneficiary certificates, but beneficiary certificates issued by non-monetary trusts, such as real estate and copyrights, are allowed for a limited time using the innovative financial services system.
Investment contract securities:	<p>Contracts with a collective investment nature. A contractual right to invest money in a joint business and receive profits or losses based primarily on the results of the joint business conducted by others.</p> <p style="text-align: center;">Further considerations</p> <p>(1) The distribution or avoidance of profits from fractional investment is difficult without business operators.            (2) The success or failure of distribution markets by business operators has a substantial impact on profits.            (3) When attracting investors, it is reasonably expected that business operators' efforts or competence enable the price of fractional investment products linked to business to increase.</p>

launched, are considered investment contract securities in November 2022.

The FSC clarified that fractional investment is equivalent to securities, even in a case where investors have joint ownership, as the business operators' expertise and business activities have an important influence on investors' profits.

The Financial Supervisory Service (FSS) stated it would operate an exclusive deliberation team for investment contract securities' registration statements to maintain consistency and expertise in August 2023. The FSS fully revised the registration statement form from its previous, almost free-style, to protect and guide investors. Issuers of securities preliminarily review for themselves whether their products

are equivalent to investment securities and investor protection systems before submitting registration statements. Given the atypical nature of investment contract securities, they should focus on business and issuance structures and investor protection systems.

Those who issue or distribute "securities" under the FSCMA will be subject to relevant regulations within the act, such as disclosure, business licensing and registration, and the restraints of unfair trades. Those who violate will be subject to fines, restraints of security issuance, and given notice to the investigating agency.

Korea's FSCMA does not allow mixed business with the issuance and distribution of securities by a single business

### Examples of Investment Contract Securities

<Announcement from the Finance Services Commission on November 29, 2022> The fractional investment services by Stock-keeper for Korean beef that combined co-owned shares of calves (ownership) and service contracts for breeding, sales, and profit and loss allocation were sold. This corresponds to the requirements for investment contract securities under the FSCMA.

operator. However, it is permitted for a limited time by regulatory sandboxes when mixed operation provides innovative services in a distribution market in order to protect investors.

The business operator of fractional investment trading platforms who wants to sell securities and open a distribution market should earn exemption from Article 373 (Prohibition Against Establishment of Markets Without Permission) and Article 11 (Prohibition Against Business Activities Without Authorization) under the FSCMA, respectively.

It is temporarily allowed to mix business with the issuance and distribution for fractional investment in typical types of securities for real estate and music, given the innovative nature. However, fractional investments in Korean beef or the arts as investment contract securities are not permitted for mixed operations. This is due to indeterminate underlying values and market prices via continued cash flow during the investment period, with a concern for investment protection issues triggered by information asymmetry for the evaluation of fractional prices in a market, since they have their own auction markets.

### Key Special Regulatory Exemptions for the Realization of Fractional Investment Business

Clarification	현행법	Needs for Regulatory Exemptions
Unauthorized business activities of platform operators*	Article 11 of the FSCMA (Prohibition of Unauthorized Business Activities)	Special exemption for platform operators to solicit trust contracts, arrange public offerings of securities, and relay sales of securities
Establishment of an Exchange*	Article 373 of the FSCMA (Prohibition of Unauthorized Market Opening)	Special permission to open a market for token distribution to a large number of people on the platform
(Beneficiary certificates) Issuance of non-monetary trust beneficiary certificates	Article 110 (1) of the FSCMA (A trust company may issue beneficiary certificates representing the right of return under a monetary trust contract)	Special exemption for issuance of non-monetary trust beneficiary certificates based on trust contracts for real estate and intangible property rights by trust companies
(Beneficiary certificates) Collective investment securities	Article 230 (3) of the FSCMA (Collective investment vehicles with no redemption, listing of collective securities within 90 days)	Recognition of the platform trading method as a method to guarantee the refundability of no-repurchase funds <sup>3)</sup>
(Investment contract securities) Deemed securities when distributed	Article 4 of the FSCMA (Investment contract securities are considered securities only when issued)	Distribution of investment contract securities is also considered a security
Reporting of subscription or sales	Article 119 (1) of the FSCMA (Issuer is obligated to submit a report on sales of securities)	Special exemption from submission of sales report for trading on platforms
Platform disclosure	Article 123 (1) of the FSCMA (Preparation and Disclosure of Prospectus) Article 129 of the FSCMA (Disclosure of Declarations and Reports)	Special exemptions for platform disclosures such as prospectuses and securities registration statements
Destruction of personal information	Article 21 of the Personal Information Protection Act (Destruction of Personal Information)	The Personal Information Protection Act recognizes the destruction of investors' personal information in an off-chain manner.

\* Common considerations for implementing a fractional investment distribution platform

3) Under the FSCMA, real estate funds are categorized as 'closed-end funds' where investors cannot request the repurchase of collective securities.



### 3.1 Protection of Investors

The FSC stated that business operators should deposit or entrust investors' deposits to third-party financial institutions to separate them from their own assets for investor protection. Business operators also separate the rights of investors' tangible assets, cash flows, and the legal risks of insolvency.

#### Needed Measures to Protect Investors

Investor Protection Issues	Details
Trusting investor deposits	Separate investor deposits from business assets and deposit or entrust them with an external financial institution, and return them to investors in the event of business insolvency.
Bankruptcy insulation	Legally insulate the real assets and rights of the investment and the cash flows generated from them from the risk of the business' insolvency.

#### Examples of fractional investment for investor protection (Together Art)

- ▶ Entrusted public offering funds to NH Investment & Securities, an account custodian, to insulate their risk of insolvency.
- ▶ Validated co-owned shares (ownership) of purchased artwork by investors and provided a financial resources position (listed in the securities registration statement) to insulate the fractional investment business operators' insolvency.
- ▶ Delegated the storage and management of Together Art's assets, disposal, liquidation, etc., to an independent third party in the event that it ceases to be a business.
- ▶ Designated auction companies with higher credit ratings as joint business operators to continue businesses for investors.



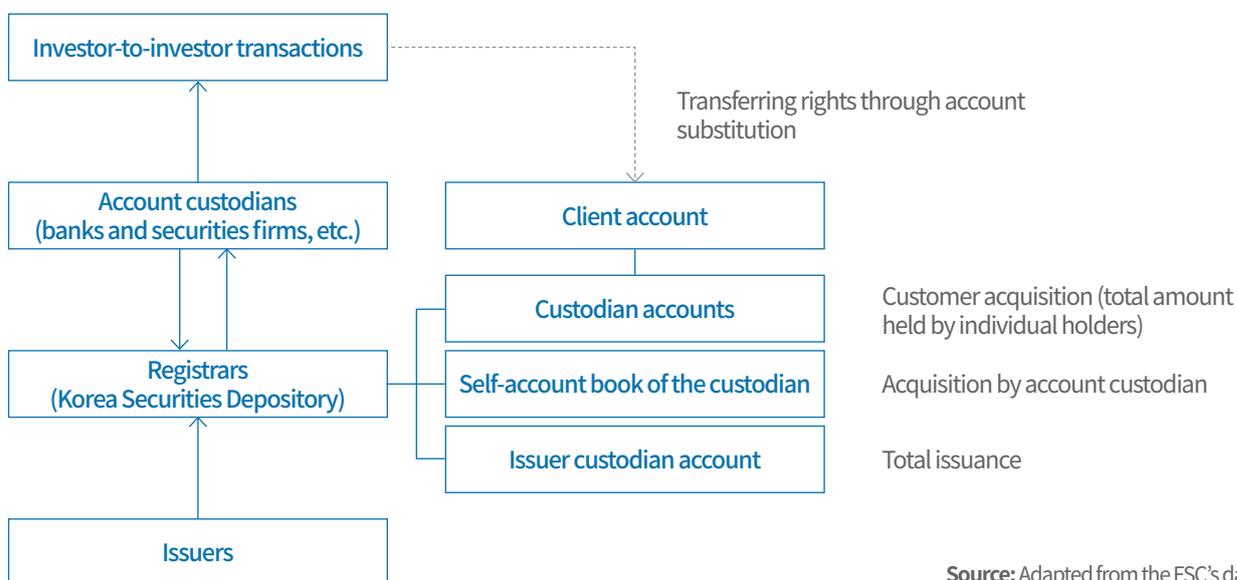
### 3.2 Electronic Securities Registration

Fractional investment business operators realize their business when issuing and circulating securities referring to the EFTA. The current EFTA does not recognize the legal effect of securities tokens; those who commercialize securities tokens should follow the rules to link them to customers' account books, as a legal requirement stated by security firms and banks in the EFTA. Therefore, even though securities tokens are realized using distributed ledger technology, platforms should be created based on cooperation with financial institutions stipulated in the act. There are several methods to electronically secure investments, such as mirroring to match existing electronic securities to securities tokens one to one.<sup>5)</sup>

Specifically, under the current act, when issuing securities:

- (1) The total amount of securities issued must be recorded in the 'Issuer Management Account' of the electronic registration system, the Korea Securities Depository.
- (2) Account custodians (banks and securities firms) must register the acquisition of each client and the total amount of securities held by individual rights holders in the "client management account" of the Korea Securities Depository based on their client accounts. Meanwhile, securities acquired by the custodian itself must be registered in the "self-account book of the custodian."

Registration of securities issuance and distribution under the Electronic Registration Act<sup>4)</sup>



4) The total amount of issuance registered in the issuer's custodian account = The sum of the client's custodian account + Self-accounts such as custodians. The total amount of the custodian's client account and the registrar's client account must be the same.

5) Subject to change in accordance with future amendments to the FSCMA and the EFTA. For details, see Section 4: Proposals to Amend Laws Related to Securities Tokens.



Accordingly, when the issuing entity provides securities tokens, the custodian entity must electronically register the total amount of issuance with the Korea Securities Depository under the EFTA.<sup>6)</sup> The transfer of electronically registered stocks is effective through inter-account transfer. Inter-account transfer means terminating the securities issuance by reducing the amount on the seller's account book and increasing it on the buyer's account.

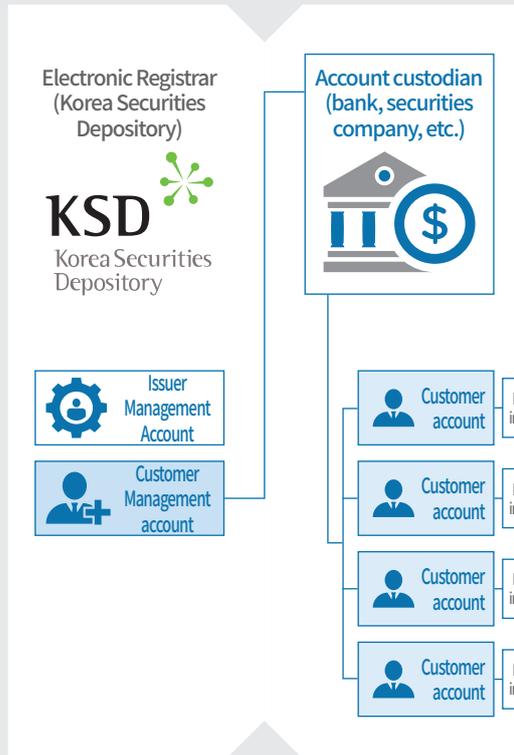
Currently, as electronic securities are allowed to be registered by account custodian entities, such as securities firms and banks, business operators can only enable the commercialization of securities token-based platforms through cooperation with securities firms and banks. Furthermore, since the current act does not allow direct registration of securities tokens, business entities should issue electronic securities separately.

---

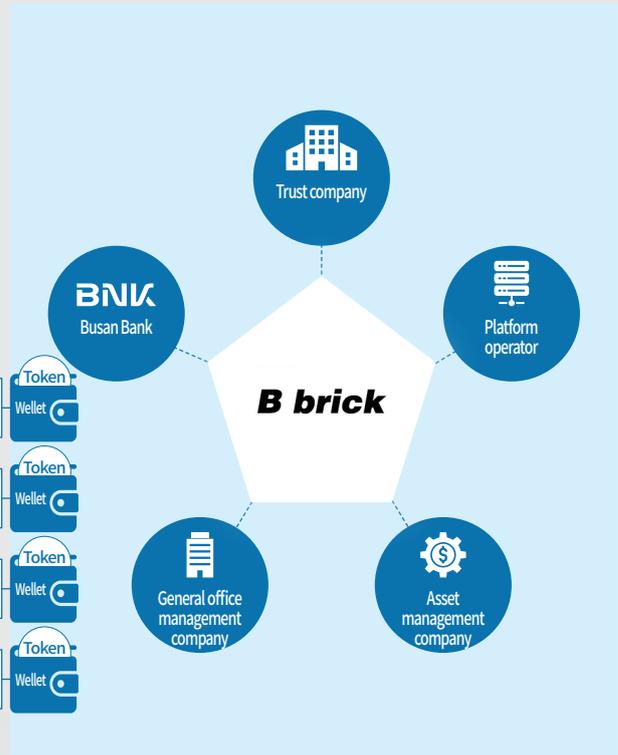
<sup>6)</sup> Under Article 2 of the EFTA, various securities must be registered electronically. According to Articles 4 through 18, electronic registration institutions are considered by the Korea Securities Depository. According to Article 19 of the same Act and Article 11 of the Enforcement Decree, banks and securities companies are designated as account custodians.

## B-Brick's Commercialization through Mirroring under the EFTA

### Traditional Electronic Registration System



### Blockchain Electronic Registration System

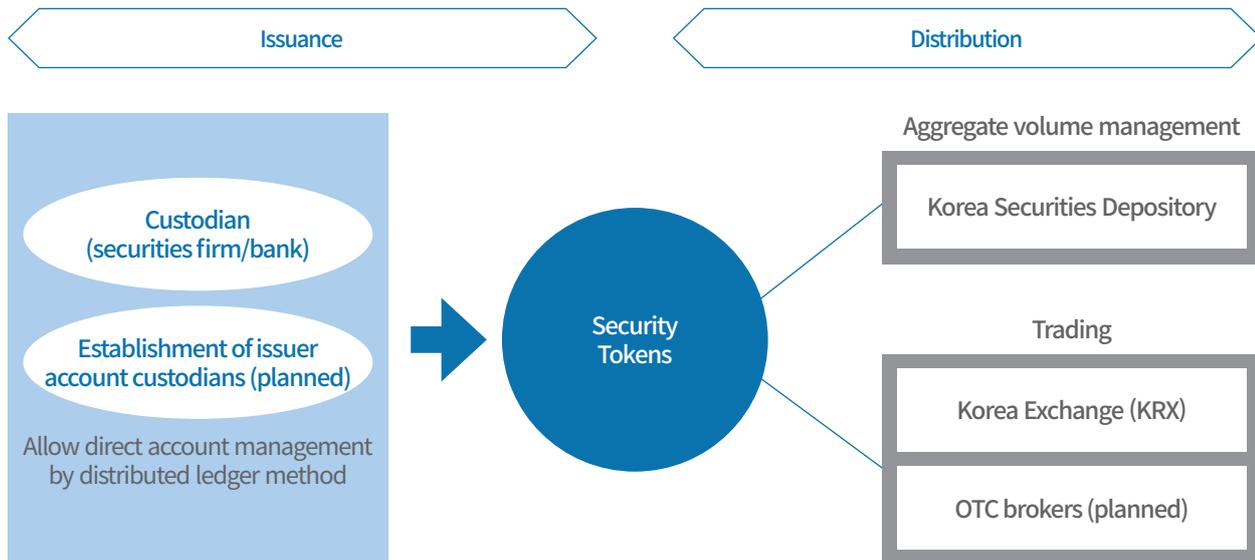


B-Brick, a non-monetary, trust beneficiary, certificate-based, STO fractional investment platform that makes real estate possible for a collective investment business, was designed for the first time to enable securities tokens to obtain the legal effect of securities under the EFTA through a 1:1 real-time mirroring method that links customer accounts with wallets of the account custodian, BNK Busan Bank. Accordingly, the issuance history and transaction history of securities tokens on the blockchain are linked to the customer account of the account custodian in real-time. The customer account book records the total number and total amount of electronically registered securities in the customer management account of the electronic registration institution, the Korea Securities Depository.



# 4

## Proposals to Amend Laws Related to Securities tokens



Source: Adapted from The FSC's data

As mentioned, business operators who want to commercialize fractional investment should receive special regulatory exemptions for the recognition and distribution of investment contract securities of an innovative nature, and for the issuance and distribution of non-monetary, trust

beneficiary certificates by regulatory sandboxes. The FSC published proposals to amend laws and regulations as follows to include STO businesses into formal sectors on February 6, 2023, spearheading the following amendment accordingly.

#### 4.1 Securities tokens accepted as a form of securities issuance under the EFTA

- ▶ Securities tokens that meet distributed ledger requirements<sup>7)</sup> are accepted as a method of digitalization (electronic registration) of securities under the EFTA. Distributed ledger technology is recognized as a method of recording legal documents that chronicle information on the creation, modification, and extinguishment of securities rights.

#### 4.2 Establishment of issuer account custodians to register and manage securities tokens by themselves

- ▶ Traditional tangible securities and electronic securities are registered by securities firms, but securities tokens are allowed to be registered by issuers who meet certain requirements.
- ▶ Accordingly, business entities with relevant businesses, such as fractional investment platforms, are expected to earn a license for issuer account custodians to provide securities tokens by themselves.

#### 4.3 Authorization of new over-the-counter brokerage business for investment contracts and beneficiary certificates

- ▶ A new OTC brokerage business, which contracts buying and selling investment contract securities and non-monetary trust beneficiary certificates among multiple parties, was authorized. Accordingly, the OTC brokers can broker trade among their clients in a multilateral counterparty trading system.<sup>8)</sup>
- ▶ Issuance and distribution (market operation) are separated on principle to avoid a conflict of interest.
- ▶ When trading investment contract securities and beneficiary certificates with a registration statement or micro-offering disclosure statement - submitted by OTC brokers, exceptions of revenue disclosure<sup>9)</sup> will be accepted.



7) Nodes must be composed of other financial institutions or electronic registration organizations, etc. at a rate of 51% or more and be suitable for handling business related to the securities to be issued.

8) The multilateral counterparty trading method executes trades only when the predetermined bid and ask prices match. This transaction method is in contrast to competitive trading, whereby, despite the predetermined price, the transaction is adjusted in a competitive manner and executed at a price favorable to investors.

9) The disclosure obligation to submit a securities registration statement to 50 or more investors whenever an offer to sell, or a solicitation of an offer to buy an existing security, is met.

[Reference]

## KRX Atypical Securities (Investment Contract and Non-Monetary Trust Beneficiary Certificates) Market Launched

On December 13, 2023, the FSC designated the market for atypical new securities (investment contract securities and non-monetary trust beneficiary certificates) on the securities market of the Korea Exchange as an innovative financial service. Accordingly, the Korea Exchange will utilize its securities market system to provide services such as the trading of new securities.

The previous exemption was that investment contract securities can only be issued under the current FSCMA and are not regulated by distribution systems. Therefore, special exemptions were granted to allow them to be recognized as securities under the FSCMA. In addition, as investment contract securities were not included in the scope of the exchange's authorized market opening, the exchange was granted a special exemption to open and operate an investment contract securities market.

KRX's new securities market does not apply a distributed ledger and plans to distribute 'electronic securities'. Initially, securities tokens on the distributed ledger will be distributed through the platforms of OTC brokers, and if the volume of distribution increases, those tokens will be distributed in the form of electronic securities on the KRX New Securities Exchange. In the future, operators will be able to choose whether to allocate distributed ledger-based securities tokens in the small-scale OTC market or in the on-market through the KRX exchange.



- ▶ KRX will review and approve the listing of investment contract securities and non-monetary trust beneficiary certificates issued by fractional investment companies and execute trading transactions.
- ▶ Securities firms will broker trading transactions.
- ▶ General investors can participate in the new securities market in the same way as stock trading - by utilizing their existing brokerage accounts.

While OTC trading of fractional investment platforms has been realized through the regulatory sandbox, allowing investors to trade only through multilateral counterparty transactions, the Korea Exchange's new securities market will allow competitive trading and

on-exchange investment. This will improve the convenience of financial consumers as investors, while issuers will be able to choose between the OTC market for small-scale distribution and via traditional market distribution for large-scale distribution.

Source: The FSC's announcement and press release (December 13, 2023)

# 5

## Business Case of B-Brick: Commercializing the STO Platform

B-Brick's creation of a trust-type, collective investment securities (beneficiary certificates) based, real estate fractional investment platform

### 5.1 Company (Project) Overview

Sejong Telecom, founded on June 9, 1992, is a leading domestic company focusing on the information and communication technology (ICT) sector. It has nationwide optical communication cable infrastructure and provides voice, data, and video services and solutions, meeting the needs of customers through stable network connectivity, security, and control services. It operates telecommunication equipment, budget phones, long-distance services, and various innovative services.



### 5.2 Introduction of Fractional Investment Platforms

B-Brick, launched on December 21, 2020, was implemented as a mobile service that provides investment opportunities for anyone to invest in real estate with small amounts of money and benefit from rental income and sale profits by utilizing blockchain technology.



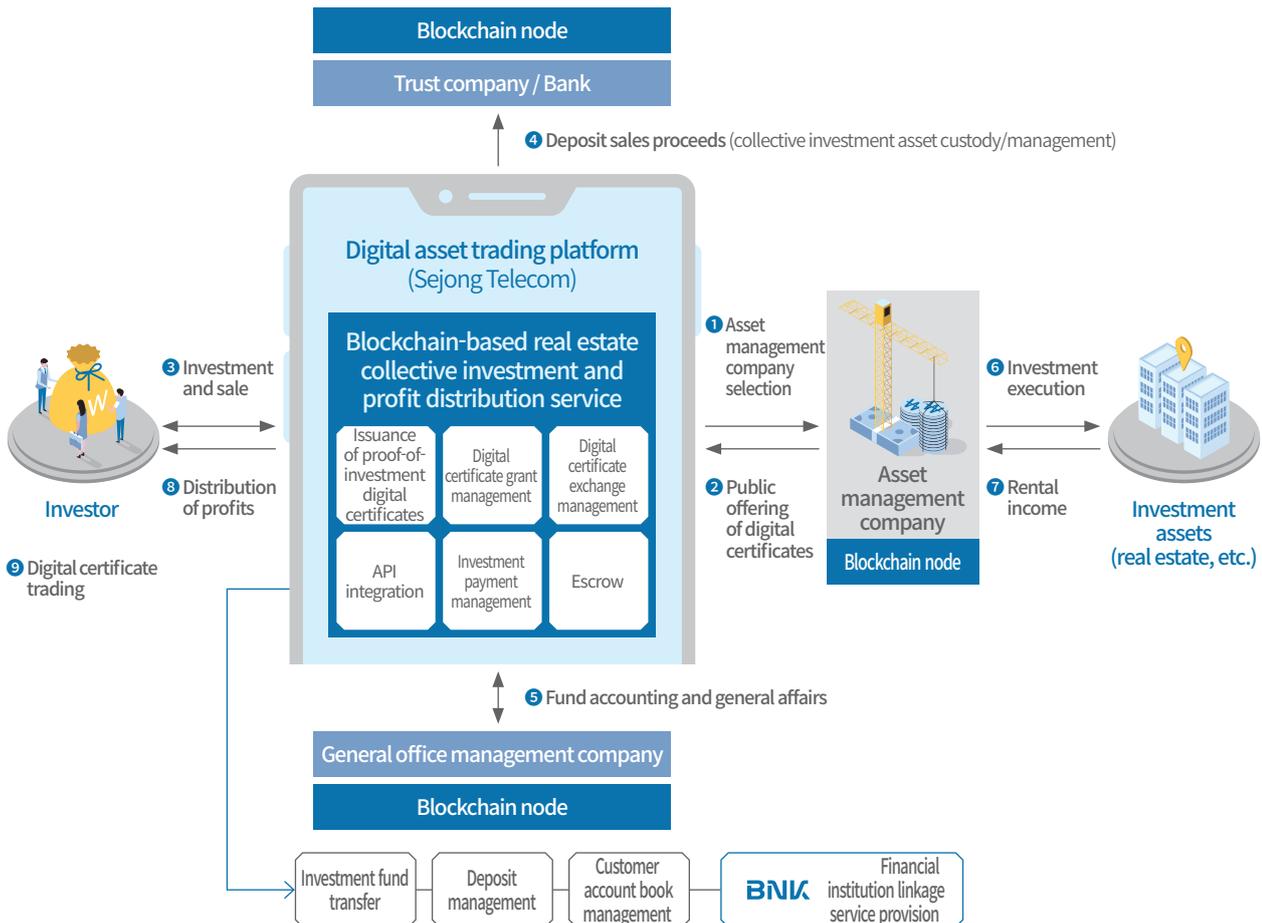
### 5.3 The Process of Implementing the Fractional Investment Platform (including Introduction of Special Exemptions and Solutions)

#### A. Demonstration Overview

► A service that allows anyone to pursue profits by investing in expensive real estate in small amounts through a blockchain-based real estate fractional investment platform, and to cash out at any time through person-to-person transactions.



#### Business Overview of Real Estate Collective Investment and Profit Distribution Services



## B. Demonstration Case for Special Exemptions

### Limited permission for trading platform operators to open a market for trading beneficiary certificates (Article 373 of the FSCMA)

**Reason for application** The platform is interpreted as a market for buying and selling securities, and therefore, a market for financial investment products. In principle, an exchange license under the FSCMA is required to operate the platform.

### Limited Permission for Financial Investment Business of Trading Platform Operator (Article 11 of the FSCMA)

**Reason for application** Since financial investment products can be transferred and exchanged on the proposed platform, it can be considered brokerage of financial investment products on the proposed platform. Therefore, it is necessary to obtain an investment brokerage business license under the FSCMA in order to operate the proposed platform.

### Temporary recognition of the platform trading method as a means to guarantee the refundability of no-repurchase funds (Article 230 of the FSCMA)

**Reason for application** The securities of the demonstration project are collective investment vehicles of a no-repurchase type collective investment scheme, but they will not be listed on the stock market (Korea Exchange) during the demonstration period, so a special exemption is required to spare them from the obligation to be listed on the stock market.

### Special exemption from the obligation to destroy personal information (Article 21 of the Personal Information Protection Act)

**Reason for application** Personal information stored on the blockchain is structured in such a way that some of it can-

not be destroyed, even in situations where destruction is required. Therefore, a technical and legal solution must be provided.

**Special condition** Allow a demonstration exception for off-chain storage and destruction methods in regards to the obligation to destroy personal information under the Personal Information Protection Act.

## C. Key Conditions and Period of Demonstration

- ▶ Service users: Customers who have a deposit account with Busan Bank (for the purpose of conducting a demonstration centered on Busan citizens)
- ▶ The investment object of the fund product is limited to real estate located in Busan City.
- ▶ Demonstration period
  - 1st: January 1, 2021 to December 31, 2022
  - Additional extension: January 1, 2023 to December 31, 2024

## D. Performance During Period of Demonstration

- ▶ Service opened in December 2021
  - The first introduction of the mirroring method under the EFTA



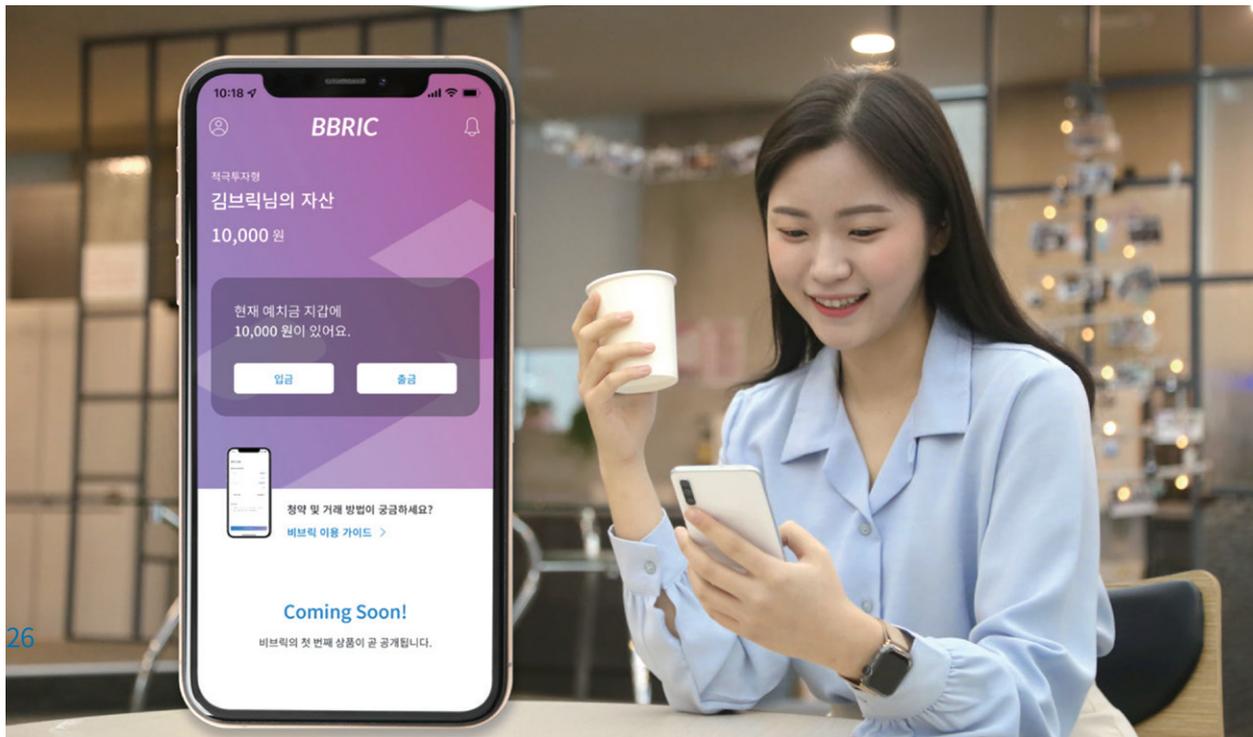
- ▶ Completed public offering of Busan Station B-Square Building No. 1 on April 22
  - 17 billion won public offering was sold out
  - Secured more than 12,000 subscribers
  - Total cumulative return: 4.9%, 4 dividends, totaling 872 million won

- ▶ A total of 5 patent applications
- ▶ Acquired ISMS information protection management system certification in November 2022
- ▶ Automated and transparent real estate fund sales and transaction process

## E. Comparison to Competitors

Category	B-Brick	K Company	L Company
Investment Target	Real Estate (Small, Medium, Large)	Real Estate (Small, Large)	Real Estate (Small, Large)
Product Management Entity	Asset management company	Trust company, sales company	Trust company, sales company
Product	Collective investment securities (trust-type beneficiary certificates)	Asset-backed securities (ABS)	Asset-backed securities (ABS)
Securities Depository	Electronic registration with a depository (fund business division)	Trust management after initial issuance of physical securities	Electronic registration with depository
Financial Account Management	Investment details can also be checked on your Busan Bank account	Not provided	Not provided
Public Reporting	Compliance with disclosure obligations such as securities report (KFSC), periodic disclosure, management report, audit report, etc.	Lack of disclosure obligations	Lack of disclosure obligations
Domestic Market Size	About 101 trillion KRW (2019 KFTC announcement)	About 23 trillion KRW (based on 2019 Korea Corporate Assessment, real estate PF ABS issuance)	About 23 trillion KRW (based on 2019 Korea Corporate Assessment, real estate PF ABS issuance)

Using the user's B-Brick



Category	B-Brick	K Company	L Company
Special case clause	<ul style="list-style-type: none"> <li>① Investment brokerage business license (Article 11 of the Capital Market Act)</li> <li>② Exchange license (Article 373 of the Capital Market Act)</li> <li>③ Exchange listing obligation (Article 230 of the Capital Market Act)</li> <li>④ Authorization to participate in electronic registration of investment trust for beneficial interests (Article 28 of the Electronic Registration Business Regulations)</li> </ul>	<ul style="list-style-type: none"> <li>① Investment brokerage business license (Article 11 of the Capital Market Act)</li> <li>② Exchange license (Article 373 of the Capital Market Act)</li> <li>③ Allow issuance of beneficial securities under real estate trust contracts (Article 110 of the Capital Market Act)</li> </ul> <p>※ Currently, trust companies are only allowed to issue securities under monetary trust contracts.</p>	<ul style="list-style-type: none"> <li>① Investment brokerage business license (Article 11 of the Capital Market Act)</li> <li>② Exchange license (Article 373 of the Capital Market Act)</li> <li>③ Allow issuance of beneficial securities under real estate trust contracts (Article 110 of the Capital Market Act)</li> </ul> <p>※ Currently, trust companies are only allowed to issue securities under monetary trust contracts.</p> <ul style="list-style-type: none"> <li>④ Omit submission of securities report upon sale if sufficient disclosure system is in place (Article 119 of the Capital Market Act)</li> </ul> <p>※ A service that issues real estate management disposition trust beneficiary certificates through electronic registration and then trades them using blockchain distributed ledger technology.</p>
Collateral conditions	<ul style="list-style-type: none"> <li>• Investment advertisements at the same level as crowdfunding are allowed after deliberation by the Korea Financial Investment Association, but offline investment briefings and solicitation of investment through telephone and email are prohibited.</li> <li>• Prohibition of sales through partnerships with third-party platforms such as ○○Pay and over-the-counter sales by financial companies</li> <li>• (Trading method and business scale) Limited to multilateral counterparty trading methods and limited business scale</li> <li>• Total issuance of beneficiary certificates is limited within the demonstration period to 500 billion KRW</li> <li>• Restriction on investor qualification: limited to Busan Bank account holders</li> <li>• Restriction on real estate properties: properties in the Busan area</li> <li>• Investment limit: 20 million KRW for general investors or 40 million KRW for income-qualified investors</li> <li>• Turnover rate per investor per day: 100% or less</li> </ul>	<ul style="list-style-type: none"> <li>• Investment advertisements at the same level as crowdfunding are allowed after deliberation by the Korea Financial Investment Association. (Sales through partnerships with third-party platforms and over-the-counter sales of financial companies are prohibited.)</li> <li>• Limit the trading method to multilateral counterparty trading and limit the business scale.</li> <li>• Total liquid securities issuance is limited to 500 billion KRW within the designated period for innovation services.</li> <li>• Annual investment limit per investor is 20 million KRW for general investors or 40 million KRW for income-qualified investors</li> <li>• Limit the daily trading turnover rate per investor to 100% or less</li> </ul>	<ul style="list-style-type: none"> <li>• The trust company issues trust beneficiary certificates (electronic securities), and the transfer of investors' beneficiary certificates is recognized as effective if it is listed in the account book of the account custodian linked to the platform opened by L Company.</li> <li>• Other existing conditions are the same as those for K Company.</li> </ul>

## F. Demonstration Issues and Solutions

### ► Demonstration Issues

“Securities under the EFTA are registered in the “customer account” of the account custodian. Furthermore, only securities with the total amount of issuance electronically registered in the customer management account of the electronic registration organization can have legal protections, but tokens recorded in the wallet of the distributed ledger have no basis for legal protections, causing problems when issuing and distributing token securities.”

#### The Ministry of Justice / The FSC

The electronic registration of securities under the EFTA is a legal requirement to establish the legal relationship and effect of electronic securities, regardless of administrative acts such as permits, and is not an administrative regulation under Article 2(3) of the Special Economic Zones Act, so it does not meet the requirements for applying for a demonstration exception. **Therefore, it is not subject to administrative regulation and must be recognized as effective through separate legislation.**

#### Local governments / Business operators

Even if the effectiveness of Article 35 of the EFTA is recognized, it does not create any type of real rights, but merely recognizes a special exception for the disclosure method according to the development of technology. **It is judged to be an administrative regulation that restricts the rights of the people.**

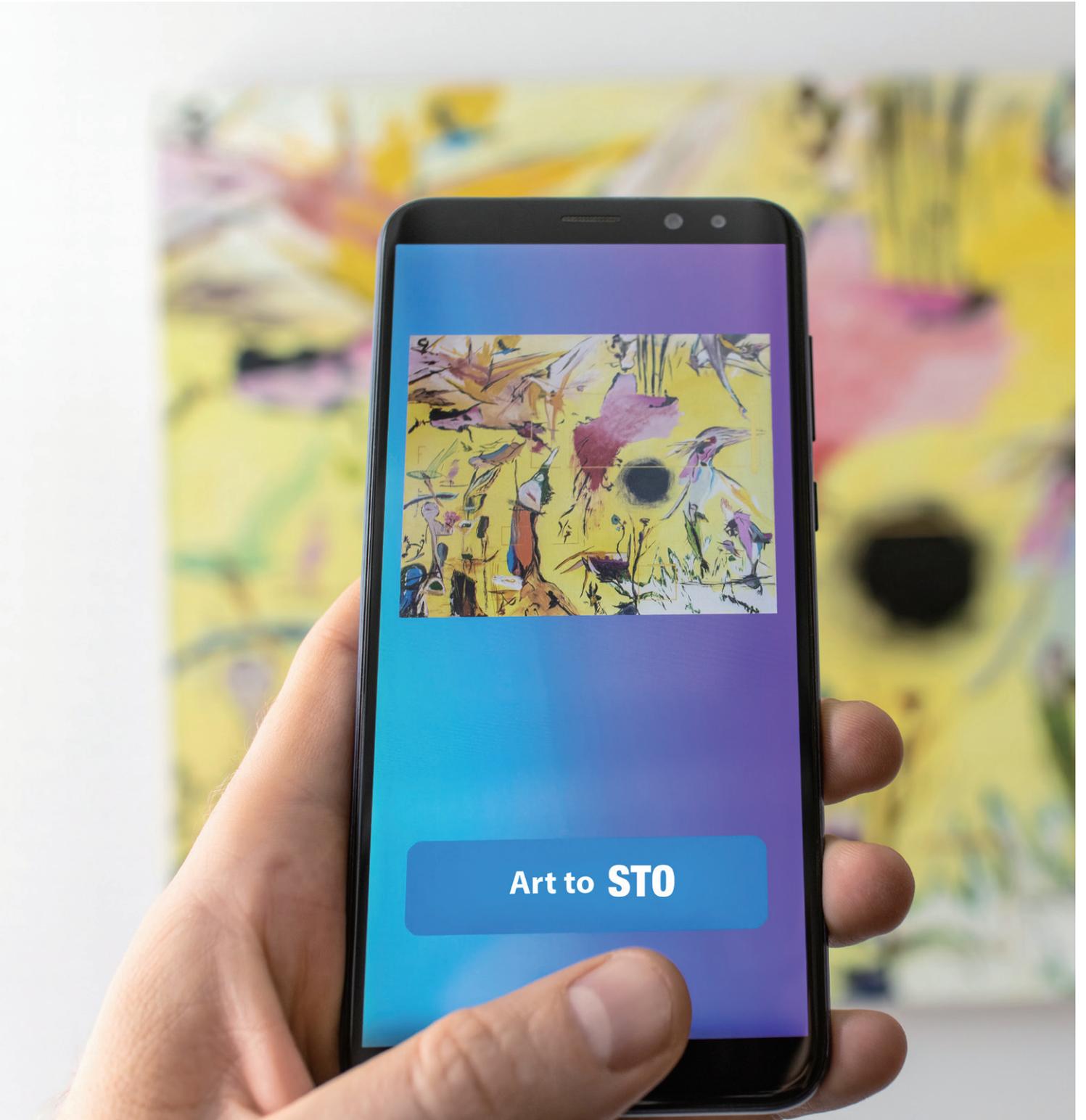
### ► Solution

By enabling the issuance of token securities and transaction details, recorded in the wallet of the distributed ledger-based fractional investment platform, to be recorded (mirrored) in real-time in the customer management account under the EFTA, such businesses can be recognized as legal securities in compliance with existing EFTA regulations. Subsequently, companies

conducting token securities business through the regulatory sandbox adopted the mirroring method to demonstrate their business.

## G. Future Plans

- Currently, the second property in the Busan area is scheduled to be listed in the first half of 2024. (In 2023, the announcement was made to expand the fractional investment properties beyond Busan - to properties nationwide, but it was reversed due to a violation of the Regulatory Free Zones Act. The search is underway to re-limit the available investments to properties in Busan)
- There are plans to either obtain a temporary license at the end of the demonstration period or obtain an issuer account management agency license when the relevant laws are amended.
- The blockchain PoC project, hosted by the National IT Industry Promotion Agency in 2023, was completed, thereby establishing a system that separates issuance and distribution.
- Due to the real estate recession, handling various underlying assets besides real estate is planned, as well as promoting global expansion.
  - Other plans include discovering underlying assets that can be securitized in the fields of non-monetary, trust beneficiary certificates and investment contract securities under the principles of efficient financing and placing investor protection first.
  - Additionally, pioneering overseas routes to transfer or apply know-how in building STO platforms is in the works.



# A Guidance on Fractional Investment and Its Trend

for Bolstering Fin-tech Ecosystems  
in Busan Financial Center

**Publication date** April 2024

**Publisher** Busan Finance Center 051-631-0295

**Design** Design Geulggol

The contents of this report are the views of the researchers and may differ from the official position of the Busan Finance Center.  
In addition, all rights reserved but may be freely quoted as long as the source is acknowledged.



 **Busan Finance Center**



[www.kbfc.or.kr/eng](http://www.kbfc.or.kr/eng)