

South Korea Sets Sights on Risky Crypto Lending to Safeguard Investors

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South Korea is preparing to implement new regulations aimed at curbing high-risk cryptocurrency lending services. The initiative seeks to protect inexperienced investors and reduce the risks associated with excessive leverage in volatile digital markets. The move follows the rollout of aggressive lending products by major local crypto exchanges, prompting concerns from financial authorities.

The Financial Services Commission (FSC) and the Financial Supervisory Service (FSS), South Korea's top financial regulators, announced the formation of a joint task force on 31 July. The group includes representatives from government agencies, the Digital Asset Exchange Association (DAXA), and five major domestic crypto exchanges, including Upbit and Bithumb. The task force has already begun discussions to establish formal rules for crypto lending and asset renting services, as reported by Yonhap News Agency.

Concerns escalated earlier this month after Bithumb introduced a lending feature allowing users to borrow cryptocurrency or Korean won at up to four times their deposits. On the same day, Upbit launched a similar program, enabling users to borrow up to 80 per cent of their deposit value in Bitcoin (BTC), Ripple (XRP), or Tether (USDT). These offerings, launched without clearly defined investor safeguards, raised concerns about potential consumer losses and broader market instability.

Regulators are now focused on minimising the exposure of retail investors to sudden market swings and leveraged losses. The task force will review crypto regulatory models from other developed nations and evaluate established risk management practices from traditional financial markets. They aim to develop a comprehensive and locally tailored framework to address the increasing complexity of the digital asset landscape while prioritising investor protection.

The proposed rules are expected to outline clear restrictions on who can access crypto lending services, the extent of leverage allowed, and which digital assets can be used as collateral. Exchanges will also be expected to improve transparency by regularly disclosing loan activity and informing users about the risks linked to borrowing in volatile market conditions. Additionally, the guidelines will likely mandate tighter internal controls before platforms are permitted to launch such services.

Financial authorities have urged exchanges to reconsider offering lending products that may be overly risky or legally ambiguous, especially those involving significant levels of borrowing. The government's cautious approach underscores a broader concern that unchecked growth in crypto lending could pose risks to the nation's financial stability.

The final regulations are expected to be announced within the next month as part of the second phase of South Korea's wider crypto legislative agenda. Officials are aiming to strike a balance between supporting innovation in the digital asset sector and ensuring robust investor safeguards remain in place.

