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# 2026 Key Issues and Outlook for Korea

2026. 01. 08.

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# PREFACE

2026 marks a turning point—a year in which structural changes across politics, the economy, and industry begin to take concrete form.

The ninth nationwide local elections on June 3 will serve as the first public assessment of the current administration one year after its inauguration. Depending on the outcome, the elections may influence the pace and direction of policy, as well as the evolving allocation of roles between the central and local governments.

From an economic and corporate governance perspective, 2026 is expected to see the full-scale application of legislative and policy measures with material implications for corporate governance and business judgment. These include amendments to the Commercial Act driven by capital market value-up initiatives—such as the expansion of directors' fiduciary duties and, subject to legislative approval, the mandatory cancellation of treasury shares—as well as the “Yellow Envelope Act.” As these frameworks are tested in practice for the first time, related legal issues and their implications for corporate management will remain at the forefront.

At the industry level, AI is emerging as a core growth sector under an increasingly supportive legal and policy environment, anchored by the AI Framework Act and Korea's ambition to become one of the world's top three AI leaders. Semiconductors, as a foundational industry for AI, are also expected to remain an important growth engine. Meanwhile, amid the entrenchment of U.S.–China tensions and ongoing geopolitical risks in Ukraine and the Middle East, global demand for the defense industry, along with sustained policy attention, is likely to continue. In parallel, companies will face a complex set of legal risks in 2026, including expanded overseas investment in connection with U.S. investment commitments, regulations aimed at preventing technology leakage, and heightened foreign exchange volatility.

Against this backdrop, Yulchon LLC presents its report, “2026 Issues and Outlook for Korea,” which provides a comprehensive analysis of (i) domestic and foreign policy variables, (ii) key policy issues relating to AI, capital markets, and core technologies, and (iii) key industry-specific developments across sectors including semiconductors, finance, real estate, labor, shipbuilding, defense, and energy.

We hope this report will support informed strategic decision-making and effective risk management amid an increasingly complex policy and regulatory environment.

## I. Domestic and Foreign Policy Variables: Local Elections and Korea-U.S. Tariff Negotiations

### 1. 9<sup>th</sup> Nationwide Local Elections (June 3, 2026)

- Scheduled for June 3, 2026, the ninth nationwide local elections will be held just one year after the inauguration of the Lee Jae-myung administration, and serve as a public referendum on the early achievements of the government and the ruling party. Currently, 12 of the 17 metropolitan and provincial governors are affiliated with the opposition party, giving the People Power Party a relative advantage at the local level. The metropolitan area and the Chungcheong and Gangwon regions are expected to be key battlegrounds.
- Regardless of the election outcome, the policy direction and institutional framework pursued by the current ruling party are unlikely to undergo significant changes in the short term. Even in the event of an electoral defeat, the ruling party is expected to bring local policies into alignment through a combination of fiscal incentives—such as local fiscal support and national-local matching budget structures—and institutional pressure.

#### A. Welfare (“Basic Society”) Policy

The “Basic Society” is a signature policy of President Lee Jae-myung. Under this policy, the state assumes responsibility for housing, healthcare, care services, education, and public services. If the ruling party prevails in the local elections, policy implementation may accelerate and its scope may broaden. Even if the opposition party prevails, a fundamental shift in policy direction is unlikely; however, the pace of implementation of specific programs with substantial fiscal requirements may be adjusted.

#### B. Real Estate and Taxation

Given that the ruling Democratic Party’s crushing defeat in the 2022 local elections was primarily attributed to failures in real estate policies, public sentiment on real estate is expected to remain highly sensitive in this upcoming election as well. While the overall policy direction—centered on expanding supply through long-term public rental housing and basic housing, as well as balanced regional development—will be maintained, an opposition victory could give rise to conflicts between the central and local governments during the regional development approval process. The policy stance favoring stronger property holding taxes is expected to continue regardless of the election outcome, and a reform of the real estate tax regime is likely to be pursued after the elections.

### **C. Labor and Industrial Accidents**

If the ruling party wins the local elections, industrial accidents and occupational safety policies are likely to be strengthened across the board. In areas with high concentrations of industrial complexes, construction sites, and logistics centers, additional regulations such as expanded safety inspection personnel and budgets, as well as authority to suspend hazardous work, may be introduced. Even if the opposition wins, the overall trend toward stricter regulation will continue. However, some adjustments to the pace, such as grace periods for small and medium-sized enterprises, may be made to address concerns about reduced industrial investment.

### **D. AI, Advanced Industries, and Balanced Regional Development**

The Lee Jae-myung administration has pledged to establish a fund of approximately KRW 100 trillion for the national AI project. It has announced its plan to develop AI hubs across the country. If the ruling party secures victory, even projects that have faced significant friction over environmental, electricity, and levy issues may be pushed forward nationwide, aided by coordination within the ruling party. As the promotion of AI and advanced industries, and balanced regional development, are areas of bipartisan consensus, these initiatives are expected to move forward smoothly even if the opposition wins the elections.

### **E. Constitutional Amendment**

During the presidential election campaign, the Lee Jae-myung administration made constitutional amendments—centered on introducing a four-year presidential term with the possibility of re-election and a runoff election system—its top national agenda item, aiming to hold a national referendum concurrent with the 2026 local elections. However, constitutional amendments require the approval of two-thirds of the National Assembly (200 members). Amid severe partisan gridlock, securing cooperation from the opposition appears unlikely. Given the high likelihood of falling short of the required quorum and the absence of necessary amendments to related laws, the constitutional referendum is unlikely to be held simultaneously with the local elections. A ruling party victory in the local elections could lend political momentum to discussions on constitutional reform. In contrast, opposition victory may weaken the drive for reform. Even within the ruling camp, a defeat in the local election could give rise to voices calling for greater caution regarding constitutional amendments and for a need to adjust the pace of prosecutorial and judicial reform.

## 2. Implications of the Korea-U.S. Tariff Agreement for U.S.-Bound Investment

- On November 14, 2025, Korea and the United States signed a Memorandum of Understanding (MOU) for up to USD 350 billion (USD 200 billion in cash investment and USD 150 billion in shipbuilding cooperation) in Korean investment in the United States. They agreed to set reciprocal tariffs at 15%. Targeted investment sectors include shipbuilding, energy, semiconductors, pharmaceuticals, critical minerals, artificial intelligence, and quantum computing, with project selection to be completed by January 2029, the end of President Trump's term.
- The USD 200 billion cash investment will be disbursed through capital calls, capped at USD 20 billion per year, with flexibility to request adjustments to the timing and scale of contributions in the event of foreign exchange market instability. Investment returns will be distributed on a 50:50 basis between Korea and the U.S. before principal and interest repayment and on a 10:90 basis thereafter (with all shipbuilding-related profits accruing to Korean companies).
- Reciprocal tariffs will remain at 15%; automobile and auto parts tariffs will be reduced from 25% to 15% (retroactively effective from November 1, 2025); semiconductor and equipment tariffs will be subject to terms no less favorable than those to be agreed with Taiwan; and steel tariffs will remain at 50%.

### A. Follow-up Legislative Developments

On November 26, 2025, the National Assembly introduced the “Special Act on Strategic Investment Management between Korea and the United States.” This bill provides the legal basis for establishing the Korea-U.S. Strategic Investment Fund and the Korea-U.S. Strategic Investment Corporation (with statutory capital of KRW 3 trillion and a 20-year sunset provision). Funds will be raised through foreign exchange reserve earnings and government-guaranteed bond issuances, and the proceeds will be used for U.S.-bound investments and shipbuilding cooperation, as specified in the MOU.

### B. Funding Structure

Since foreign exchange reserve earnings alone are insufficient to finance the annual USD 20 billion commitment (with available resources estimated at approximately USD 6.5 billion out of USD 9.27 billion in total returns in 2024), a mixed funding strategy aimed at minimizing foreign exchange risk may be pursued. This could include leverage through policy financial institutions such as the Export-Import Bank of Korea and Korea Development Bank, inducement of private capital from the National Pension Service and insurance companies, and a combination of public-private partnerships (PPP) and fund-of-funds (FOF) structures.

## Implications

- Positive Aspects: Participation by policy financial institutions could improve dollar funding rates and maturity conditions, enhancing access to CAPEX investment and M&A markets in the U.S. A preferential consideration clause for Korean companies may lower entry barriers for Korean vendors in shipbuilding, energy, semiconductor, and related pipelines, creating favorable conditions for long-term supply contracts.
- Risks: A surge in demand for large-scale U.S. investment may raise dollar borrowing and currency swaps, thereby increasing foreign exchange hedging costs. As capital contributions are required within 45 business days of project designation, participating companies must prepare due diligence packages (including ESG, regulatory, grants, and FX hedging procedures) and liquidity buffers in advance. Furthermore, expanded U.S. investment could relatively weaken domestic investment by large conglomerates that have historically played a tent-pole role in Korea's upstream and downstream industries.

## II. Triple Inflection Point: AI, Capital Markets and Core Technology Policies

### 1. Korea's AI Policy Amid Global Competition for AI Leadership

#### A. Policy Objective: Becoming One of the World's Top Three AI Powers

- As major countries such as the U.S., EU, and Japan shift their AI policies from regulation to investment, expanding public-private partnerships, and enhancing the state's proactive role, the Korean government is aligning with these global trends. It has allocated KRW 10.1 trillion to the AI sector for 2026, a threefold increase from the previous year. The strategy prioritizes securing infrastructure and real industry resources through the National AI Computing Center and Physical AI.
- Plans to secure an additional 15,000 units of the latest-generation GPUs in 2026—bringing total public computing capacity to approximately 35,000 units—are moving forward, alongside a five-year investment plan totaling KRW 6 trillion to foster Physical AI.

#### B. The Rise of Physical AI

- In 2026, the deployment of AI in actual manufacturing sites and logistics lines is expected to increase substantially, prompting governments worldwide to establish policies focused either on industrial protection (promotion) or physical safety (regulation).
- Major countries, including Korea, the United States, Japan, and China, are designating Physical AI as a national strategic industry and are expected to focus their capabilities on securing global leadership through large-scale investment and accelerated deployment. In contrast, the EU continues to classify Physical AI as a high-risk category, maintaining a safety-oriented regulatory stance by clarifying liability and tightening certification procedures, while calibrating implementation timelines to balance industrial development.

#### Corporate Implications

- Malfunctions of collaborative robots based on Physical AI may directly implicate management liability risks under the Serious Accidents Punishment Act. Companies should secure enhanced safety certifications, such as ISO, and reorganize on-site safety manuals to establish a proactive risk management system.
- Errors in AI algorithms or failures in firmware updates are increasingly being regarded as legal product defects. Accordingly, companies should consider expanding product liability (PL) insurance coverage to include software.
- Since biometric and behavioral data collection by mobile robots is subject to regulation under the Personal Information Protection Act, companies should establish proactive compliance frameworks, including advance notice of recording and adoption of automatic masking technologies.

### C. 2026: Implementation of the AI Framework Act

- The Framework Act on Artificial Intelligence Industry Promotion and Trust Building (the “AI Framework Act”) will take effect on January 22, 2026.

#### < Core Provisions of the AI Framework Act >

Category	Key Provisions
Legal Nature and Purpose	A comprehensive framework act for AI development and trust building; AI-related matters are governed by this act in the absence of other specific laws.
Scope of Application	Applies to AI-related activities conducted outside Korea if they affect the domestic market or users; AI used solely for defense and national security purposes may be excluded as prescribed by Presidential Decree.
Key Definitions	<p>High-Impact AI: AI systems that may have a material impact on life, physical safety, or fundamental rights, including areas designated by Presidential Decree such as energy, drinking water, healthcare, medical devices, biometric identification for criminal investigations, employment, credit assessment, traffic safety, public services, and student evaluation</p> <p>Generative AI: AI systems that generate outputs such as text, sound, images, and video by mimicking the structure and characteristics of input data</p>
Risk-Based Management	Defines the concept of ‘High-Impact AI’ that materially affects human life, physical safety, and fundamental rights, with separate management provisions for prior verification and impact assessments
Penalties and Liability	Includes penalty provisions focused on information protection and accountability in governance operations, such as sanctions for unauthorized disclosure of confidential information by members of the National AI Committee

\* Source: Korea Internet Self-Governance Organization (KISO)

- With the implementation of the AI Framework Act, companies must establish internal control mechanisms to safely manage AI and mitigate legal risks associated with AI utilization.

### < Corporate Obligations for High-Impact and Generative AI Adoption >

Category	Definition	Corporate Obligations
High-Impact AI	AI that materially affects human life, physical safety, and fundamental rights (e.g., employment interviews, credit assessments, medical diagnoses, nuclear/power plant control)	<ul style="list-style-type: none"> <li>Reliability/Safety Assurance: Establish a risk management system and report to the Ministry of Science and ICT</li> <li>Explainability Obligations: Requirements to explain to users why AI made certain decisions</li> <li>Liability Insurance: Potential mandatory insurance coverage for AI-related accidents</li> </ul>
Generative AI	AI that generates new content such as text and images (e.g., chatbots, image generation tools)	<ul style="list-style-type: none"> <li>Transparency Assurance: mandatory labeling ("This output was generated by AI")</li> <li>Watermarks: mandatory insertion of identifiable watermarks (administrative fines up to KRW 30 million for violations)</li> </ul>

#### Corporate Implications

- With the enforcement of the AI Framework Act in January 2026, the end of "self-regulation" and the rise of "legal accountability" will significantly heighten compliance obligations and management accountability, emphasizing their role in shaping industry standards.
- Companies must legally assess whether their services constitute High-Impact AI, and if so, establish a reporting framework with the Ministry of Science and ICT. To comply with labeling obligations, companies should implement both visually identifiable markings and machine-readable watermarks on generative AI outputs. In addition, companies should adopt systems capable of tracking the entire lifecycle of training data—from collection to processing and utilization—so that such records may serve as exculpatory evidence in copyright disputes.
- In AI-related supply contracts, it is important to include provisions stipulating that suppliers bear full responsibility for defense costs and damages arising from third-party litigation due to defects in AI models. Service level agreements should also specify quality metrics such as "hallucination rates" and "bias indices" to allocate vendor responsibility clearly.

## 2. Capital Market Value-Up Initiatives

### A. Key Elements of the 1<sup>st</sup> and 2<sup>nd</sup> Commercial Act Amendments in 2025

Provision	Key Contents
Expanded Directors' Duty of Loyalty (Article 382-3)	<ul style="list-style-type: none"> <li>• Expands the subject of directors' duty of loyalty from 'the company' to 'the company and shareholders' and specifies that 'directors must protect the interests of all shareholders and treat all shareholders' interests fairly' (which provides a basis for minority shareholders to file damage claims or criminal complaints for breach of fiduciary duty)</li> </ul>
Strengthened 3% Rule (Article 542-12)	<ul style="list-style-type: none"> <li>• Limits the voting rights of controlling shareholders and related parties to 3% when appointing outside directors as audit committee members</li> </ul>
Virtual Shareholders' Meetings (Article 542-14)	<ul style="list-style-type: none"> <li>• Mandatory adoption of hybrid (on-site plus online) virtual shareholders' meetings for large public companies from 2027</li> </ul>
Other Major Amendments	<ul style="list-style-type: none"> <li>• From 2026, corporate governance disclosure obligations will be expanded to all KOSPI-listed companies (842 companies)</li> </ul>

## B. Changes in Capital Market Structure Following Commercial Act Amendments

### Legislative Push for Mandatory Cancellation of Treasury Shares

In July 2025, a Commercial Act amendment requiring the mandatory cancellation of treasury stock within one year of acquisition was introduced and is currently pending in the National Assembly as the third amendment to the Commercial Act. If passed, companies will face constraints on long-term retention of treasury shares, potentially reducing outstanding shares and increasing per-share value.

### Increase in Tender Offer Transactions and Stricter Delisting Requirements

In January 2025, the Financial Services Commission announced a significant overhaul of delisting requirements. As a result, companies may increasingly opt for defensive voluntary delisting or going-private transactions via tender offers, with foreign private equity funds emerging as key players.

#### < Key Contents of Delisting Requirements Reform >

Category	Changes
KOSPI Market Cap Requirement	KRW 500 million → KRW 20 billion (2026) → KRW 50 billion (2028)
KOSDAQ Market Cap Requirement	KRW 4 billion → KRW 30 billion (2026) → KRW 50 billion (2028)
Revenue Threshold	KRW 5 billion → KRW 30 billion

### Increased Burden on Management Decision-Making Due to Expanded Directors' Duty

From 2026 onward, governance restructuring will require more rigorous scrutiny of conflicts of interest between controlling and minority shareholders. While the business judgment rule previously protected board decisions absent direct harm to the company, the mere potential infringement of minority shareholder interests may now trigger legal liability.

### Complete Expansion of Corporate Governance Disclosure Obligations

Beginning in 2026, all KOSPI-listed companies (now 842 companies) will be required to submit mandatory governance reports. Disclosure follows the "Comply or Explain" approach, requiring companies to state specifically whether they comply with core governance principles and explain their reasoning.

### Potential Alliance Between Domestic Minority Shareholder Activism and Global Activist Funds

Around the 2024 shareholders' meeting season, collective shareholder actions emerged through platforms such as ACT and HeyHolder. In 2026, there is potential for domestic minority shareholder platforms and foreign activist funds to form alliances and conduct joint campaigns, exerting direct pressure on major management decisions such as director appointments, dividend policies, and governance restructuring.

## Expanded Debate on Corporate Takeover Defense Mechanisms

With successive amendments to the Commercial Act, business circles have increasingly emphasized the need for global-standard control-defense mechanisms, such as dual-class shares, poison pills, and third-party allotment capital increases.

### Corporate Implications

- As Value-Up initiatives are being fully implemented through Commercial Act amendments, significant changes in the capital market are expected, and companies need to prepare for varied legal risks related to governance, disclosure, and transaction procedures.
- In restructuring transactions such as mergers, spin-offs, and new share issuances, scrutiny of potential infringement of minority shareholder interests will intensify. Companies should ensure procedural fairness by retaining records of fairness analyses and conflict-of-interest reviews for significant decisions. When considering tender offers or voluntary delisting, companies should conduct advanced legal reviews of disclosure requirements, pricing fairness, and minority shareholder protection measures from the earliest stages to minimize dispute risks.
- From 2026, all KOSPI companies must disclose governance reports. Disclosure omissions, deficiencies, or perfunctory compliance may trigger both regulatory and litigation risks. Since activist funds may use disclosure contents as grounds for proxy fights, proactive disclosure management and shareholder communication strategies are recommended.

### 3. Protection of National Core Technologies

#### A. National Core Technology Controls

- In May 2025, the Ministry of Trade, Industry, and Energy revised the “Notice on Designation of National Core Technologies” to strengthen the protection of AI and advanced robotics technologies.

The number of designated national core technologies was expanded from 76 to 79, explicitly including “advanced AI modeling and decision-making technologies” and “industrial AI technologies.” Additionally, penalties for the leak of national core technologies have been significantly strengthened, while corporate support measures have been expanded.

#### B. Strengthening of FDI Reviews by Major Jurisdictions

- Global FDI review regimes have shifted from ‘post-management’ to ‘pre-blocking’ and ‘enhanced penalties’ paradigms, centered on core technologies such as semiconductors and AI. Major countries have firmly established a security-first approach that prioritizes national security over efficiency, with violations potentially resulting in fines approaching transaction value or mandatory divestment orders.

#### Corporate Implications

- Companies should conduct detailed due diligence on supply chains and customer information on investment targets, with precise analysis of geopolitical and national security risks. This includes tracing second- and third-tier vendors to assess prior dealings with military or intelligence agencies, exposure to forced labor, or high dependence on countries of concern, such as China.
- Business sites near military bases, data centers, and other nationally essential facilities have a high probability of being subject to real estate jurisdictional reviews, making detailed geographical risk assessments critical.
- As non-financial risks increasingly determine deal outcomes, companies may also consider quantifying “approval uncertainty” as a measurable risk variable from the initial stages of investment.

### C. Strengthened Personal Information Protection

In response to recent large-scale breaches of personal information, the government is focusing on strengthening corporate accountability and enhancing effective consumer remedies. Key measures include:

- Easing the existing burden on consumers to prove corporate negligence in hacking incidents, so that companies are held liable if they cannot prove they took security measures.
- Expanding government authority to initiate on-site investigations immediately upon detection of hacking indicators, even without voluntary corporate reporting.
- Expanding information security disclosure obligations to all listed companies (approximately 2,700 companies), with security capabilities graded and publicly disclosed.
- From 2026 onwards, gradually restricting the practice of financial and public institutions that force consumers to install security programs in ActiveX or exe formats and mandating changes in authentication methods.
- Mandating ISMS-P certification (previously voluntary) for major public systems, telecommunications companies, and large online platforms to establish continuous personal data safety management frameworks.

#### Corporate Implications

- Companies must mitigate against punitive damages exposure by undertaking enterprise-wide structural reforms across information security governance, technology, and legal response capabilities. As information security disclosures become mandatory and graded, listed companies should incorporate information security as a core ESG management indicator.
- With government investigation timelines accelerating to within five days, companies must establish internal systems capable of real-time incident detection and log preservation.
- As penalties for repeated breaches or delayed responses become more severe, companies should update incident response standard operating procedures (SOPs) and pre-establish reporting processes to ensure compliance with the golden time window.

### III. Key Industry Issues and Outlook

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#### 1. Semiconductors

##### A. 2025 Review and 2026 Legal and Policy Directions

- In 2025, Korea's legislative and policy stance on semiconductors was characterized by: (i) the introduction of the Semiconductor Industry Special Act and expanded investment support, (ii) strengthened export controls and technology protection, (iii) accelerated discussions on labor and workforce-related legislation, and (iv) the full-scale advancement of legislation related to ESG management and supply chain due diligence.

##### 2026 Outlook:

Law / Policy	Key Aspects	Corporate Impact and Implications
Semiconductor Special Act	Institutionalization of the legal basis for support measures	<ul style="list-style-type: none"> <li>• Expanded opportunities to utilize support programs, but also increased compliance burdens such as reporting and review obligations associated with subsidies and special zone designations</li> </ul>
Amendment to Industrial Technology Protection Act	Strengthened technology protection regulations for the nation and cooperating partners	<ul style="list-style-type: none"> <li>• Increased costs for security audits and contract management across the entire supply chain, but anticipated reduction in overall risk through preemptive prevention of technology leakage</li> </ul>
Amendment to Foreign Trade Act Enforcement Decree	Introduction of a Korea-style independent export control regime	<ul style="list-style-type: none"> <li>• Increased need to reassess and adjust export and procurement structures involving China, Southeast Asia, and other regions in light of regulatory risks</li> </ul>
"Yellow Envelope Act"	Significant expansion of principal contractors' employer liability	<ul style="list-style-type: none"> <li>• Heightened labor risks given the multi-tier subcontracting structure of the semiconductor industry, necessitating reorganization of labor-management systems</li> </ul>

##### B. Strengthened FDI Screening and Other Regulatory Tightening in the EU

- Following the Nexperia case, the EU is making strategic technology investments subject to permanent FDI screening. OSAT/back-end subsidiary establishment, equipment factory investments, and fabless M&A are likely to become subject to security-perspective screening, potentially resulting in extended review periods or additional obligations for structures with high China dependency.

- The 'EU AI Act' requires data, transparency, and safety standards for high-risk AI, which may indirectly affect semiconductor companies supplying GPUs, HBMs, and edge AI chips for AI servers.
- Additionally, with CSRD and ESRS implementation, Korean semiconductor companies exceeding a certain EU revenue threshold need to prepare for sustainability disclosure according to ESRS standards, with increasing requirements to manage process and environmental data according to EU standards.
- The EU is strengthening export controls on advanced process equipment, AI chips, and EDA tools targeting high-risk countries such as China and Russia in line with the U.S. export control stance, which is expected to continue in 2026.
- The EU Foreign Subsidies Regulation (FSR) reviews whether third-country companies gain unfair advantages from their government subsidies. Companies that have received K-semiconductor tax credits, policy finance, or R&D support may be subject to FSR filing or investigation when engaging in M&A, factory construction, or public procurement participation in the EU.

### Corporate Implications

- When Korean companies participate in EU subsidies and IPCEI projects, they need to pre-examine claw-back conditions for subsidies and design contracts to avoid conflicts with existing global supply agreements. When participating in Chips JU and Horizon Europe joint projects, it is essential to clearly define the scope of IP, data disclosure, and output utilization in Grant/Consortium Agreements.
- For projects where FDI screening is anticipated, Chinese equity and supply chain exposure should be minimized, and governance, technology access, and data access scope should be clearly limited to demonstrate a 'security risk-controlled deal structure.'
- AI chips and HPC suppliers should clearly define at the contract stage whether their role is that of a simple component supplier or a system co-provider and clarify in advance whether data and log access scope comply with EU AI Act and GDPR standards.
- Semiconductor companies should organize data systems related to energy, greenhouse gases, water, waste, and supply chain emissions according to ESRS standards. For EU taxonomy-favorable businesses (e.g., SiC/GaN power semiconductors, green AI data centers), designing R&D and investment structures to reflect green investment requirements from the outset is advantageous for financing, subsidies, and green bond issuance.
- Equipment, EDA, IP, and AI chip supply contracts should specify usage territory, end-users, and re-export restrictions, and include immediate termination clauses for sanctions or export control violations. Prior to transactions, companies should assess the applicability of U.S., EU, and Korean regulations. Additionally, when participating in EU Chips Act/Chips JU projects, companies should ensure alignment between Korean government support and EU State aid/FSR requirements to mitigate against potential EU subsidy approval delays or investigations.

## 2. Finance and Virtual Assets

### A. 2025 Review and 2026 Legal and Policy Directions

- In 2025, regulatory tightening in Korea's financial industry centered on three pillars: strengthened consumer protection, enhanced market transparency, and promotion of digital innovation. Under the principle of "market stability first," the Financial Services Commission has sought to balance expanded consumer finance with technology-driven financial innovation.
- In 2026, the financial regulatory environment is being restructured to apply differentiated supervisory intensity based on the business characteristics and risk levels of financial institutions, platforms, and fintech companies, with expanded corporate liability for consumer protection, market transparency, and online safety.
- Following the February 2025 revision of the Electronic Financial Supervision Regulations, supervisory approaches emphasizing autonomous judgment and ex-post accountability over ex ante rule compliance in core areas such as internal controls and management liability are expected to expand across all sectors, including capital markets, specialized financial companies, insurance, and fintech.
- After the 2025 presidential election, the government launched a Digital Asset TF to transition to the institutionalization of stablecoins and initiated discussions on KRW-linked stablecoins legislation. Both ruling and opposition parties have proposed stablecoin-related bills, with enactment anticipated in 2026.

#### Corporate Implications

- With strengthened autonomy and ex post accountability for internal controls, IT systems, and outsourcing management, companies should reorganize governance and internal control frameworks at the management level. As follow-up regulations under the Capital Markets Act, Financial Consumer Protection Act, and Lending Business Act expand, companies must systematically review conduct regulations across advertising, sales, product structuring, and disclosures to implement proactive risk management.
- Companies issuing stablecoins or providing related services must establish required frameworks in advance, including reserve asset composition, redemption and liquidity plans, and whitepaper and disclosure systems. VASPs should enhance detection of unfair trading practices (e.g., market manipulation, wash trading) and prepare for strengthened registration and disclosure obligations when handling foreign-issued tokens. Companies should also reassess cross-border remittance and fund transfer structures in anticipation of potential amendments to the Foreign Exchange Transactions Act and the Specified Financial Information Act, and implement selective restrictions for high-risk jurisdictions or suspicious addresses.
- As financial advertising regulations tighten, risk-based verification systems, including advertiser identity verification, real-name and registration checks, and pre-review procedures, will be necessary. In preparation for the implementation of the AI Framework Act, companies should also reorganize explainability and record-keeping systems for high-risk AI services and establish transparency and verification procedures for automated decision-making processes.

- Lending businesses and specialized financial companies should strengthen capital requirements, IT security systems, and outsourcing management standards. Private equity funds and asset management companies should align internal risk management and stress-testing frameworks with global FSB recommendations.

### 3. Labor, Disaster and Workplace Safety

#### A. The “Yellow Envelope Act”

- The Yellow Envelope Act (Amendments to Articles 2 and 3 of the Trade Union and Labor Relations Adjustment Act) will take effect on March 10, 2026. Its key provisions expand the definition of “employer” to impose collective bargaining obligations on principal contractors in subcontracting arrangements and limit employers’ ability to pursue excessive damage claims.

#### < Key Changes Under the Amended Trade Union and Labor Relations Adjustment Act (The Yellow Envelope Act) >

Category	Key Changes (Post-Amendment)
Expanded Scope of “Employer”	Even if not a direct party to an employment contract, any entity in a position to substantively and specifically control or determine working conditions will be deemed an employer and be subject to collective bargaining obligations.
Union Membership Eligibility	Union status will not be denied even if non-workers become members; this is expected to expand union formation and membership by special-type workers and platform workers.
Expanded Scope of Industrial Actions in Labor Disputes	The scope of legitimate industrial actions is expanded beyond existing purposes, with the addition of labor disputes concerning: workers’ status; business or managerial decisions affecting working conditions; and an employer’s clear violation of collective agreements.
Limitation on Damages Claims	A newly established exemption from liability for unavoidable damages caused by defending the interests of unions or workers against the employer’s illegal acts.
Right to Seek Reduction of Damages	Unions and workers may petition courts to reduce damages claims; courts determine the reduction based on the petitioner’s economic circumstances and the need to secure minimum living expenses.
Exemption of Guarantor Liability	Personal guarantors are exempt from liability for damages arising from industrial actions or similar activities.
Prohibition of Abuse of Damages Claims	Employers are prohibited from exercising rights to claim damages intended to threaten union existence or interfere with union operations.
Statutory Basis for Employer’s Non-Assertion of Damages Claims	A statutory basis is established for employers to waive or refrain from asserting claims for damages arising from collective bargaining, industrial action, or related union activities.

※ Source: The Law Times

### Corporate Implications

- As the scope of substantive control by principal contractors will be specified by enforcement decrees, companies should re-examine in-house subcontracting arrangements with external legal counsel to eliminate unnecessary involvement that could trigger employer status disputes, or to define bargaining obligations clearly in advance.
- In preparation for subcontractor union bargaining demands, companies should also prepare role-sharing frameworks and bargaining channel unification scenarios between principal contractors and subcontractors, and strengthen centralized labor-management control tower functions.

### B. Government's Declaration of 'War on Industrial Accidents'

- President Lee Jae-myung has declared a 'war on industrial accidents,' prioritizing workplace safety and ordering a comprehensive review of related laws and systems. The goal is to reduce the industrial accident fatality rate to the OECD average level (0.29%).
- Considering the policy direction and presidential messaging, the government's 2026 industrial accident policies are expected to maintain a strict stance at their core while allowing for minor adjustments depending on small business protection and economic variables.

### Corporate Implications

- To prepare for expanded industrial accident regulations, companies should establish integrated safety management systems across principal and subcontractor levels and enhance transparency in safety information disclosure.
- In anticipation of expanded work stoppage rights, companies should strengthen on-site communication. Companies should also prepare for safety and health disclosure requirements by creating databases of safety investments, accident rates, and prevention activities. Companies can use such industrial accident protection activities as promotional tools to support ESG management and enhance corporate value.

## 4. Competition and Fair Trade

### A. Strengthened Monitoring and Institutional Improvements Against Unfair Trade Practices, Including Technology Theft

- On November 4, 2025, the Korea Fair Trade Commission (KFTC) announced the 'Technology Theft Eradication Measures' and appointed 12 'SME Technology Protection Monitors.' The monitors are deployed in five sectors—general industry, machinery, electronics, automotive, and software—to constantly monitor unfair technology data demands and technology data misappropriation by principal contractors in subcontracting transactions and report violations to the KFTC.
- With private-sector experts serving as monitors, anonymous reporting centers established at organizations such as the Korea Venture Business Association, and expanded investigative personnel, ex officio investigations into technology theft are expected to increase substantially, with strict sanctions for violations.
- Amendments to the Subcontracting Act are planned to ease SMEs' evidentiary burdens, introducing elements of a "Korean-style discovery system," including expert fact-finding, evidence preservation orders, in-court recording of statements, mandatory submission of materials to the KFTC, and shifting the burden of proof to offending companies.

### B. Platform Regulation and Protection of Business Users

- Strict sanctions are expected against abuses of market dominance and unfair practices in digital markets. Key areas of scrutiny include discriminatory treatment in mobile and digital infrastructure transactions, leveraging dominance into AI and cloud markets, MFN clauses, tying, unreasonable commission fees in delivery apps, and excessive cost burdens (e.g., dual insurance) imposed on drivers in ride-hailing platforms.

### C. Consumer Protection

- Regulatory responses to AI-driven false or exaggerated advertising will be strengthened (e.g., classifying omission of 'virtual person' disclosures as deceptive advertising, and expanding SNS advertisement monitoring), alongside investigations into distorted price display practices in online shopping markets, and active inspection of unfair terms limiting liability for personal data breaches by major platforms.
- Amendments to the E-Commerce Act will expand platforms' direct liability to consumers, such as: (i) joint liability with merchants when platforms act as sellers; (ii) sole liability for damages arising during platform operations; (iii) refund obligations when platforms receive payments; and (iv) strengthened intermediary obligations, including seller identity verification and consumer complaint and dispute resolution mechanisms.

### D. Expanded Sanctions, Compulsory Investigation Powers, and Investigation Personnel

- In its December 19, 2025 business report, the KFTC emphasized the strengthening of economic sanctions, including up to a 50% surcharge for repeat violations and significantly increased penalty calculation rates. President Lee Jae-myung recently instructed the

Cabinet to review the granting of compulsory investigation powers to the KFTC, with plans to increase investigative and adjudicative personnel by 167 and establish a Gyeongin regional office (covering Gyeonggi and Incheon).

### Corporate Implications

- As the KFTC establishes a constant intensive monitoring regime, companies engaged in subcontracting should strengthen self-inspection and internal controls to prevent disputes proactively.
- Given the KFTC's focus on monitoring power imbalances in the digital ecosystem and consumer protection, together with its plans to demonstrate 'certain exemplary punishment' through strong financial sanctions and enhanced investigative authority, expansion of investigation personnel, and establishment of the Gyeongin Office, the KFTC's status as a de facto economic prosecutor is expected to be higher than ever. Digital platform operators should focus more than ever on internal compliance, closely monitor violations, and promptly improve problematic conduct.

## 5. Shipbuilding, Defense and Space

### A. MASGA

- Through the USD 150 billion MASGA (Make American Shipbuilding Great Again) project, the United States aims to restore its shipbuilding capabilities while pursuing technology and supply chain cooperation with the Korean shipbuilding industry. The two countries have agreed to working-level cooperation on MRO (maintenance, repair, and operations), workforce training and development, shipyard modernization, and supply chain recovery, as well as expedited expansion of U.S. commercial and military fleets, and approval of Korean construction of nuclear-powered attack submarines.
- If the 'SHIPS For America Act' and 'Ensuring Naval Readiness Act' are approved, details of investments by Korea's three major shipbuilders (Hanwha Ocean, HD Hyundai, and Samsung Heavy Industries) in U.S. commercial and naval vessels are expected to materialize. However, despite the establishment of a MASGA TF, concrete progress beyond the initial meeting has been limited. With no published agreement documents beyond the fact sheet, working-level, detailed negotiations are expected in 2026.
- Disagreements over nuclear submarine construction locations remain unresolved; even if constructed domestically, preliminary design and construction contracts would place groundbreaking in 2030, with launches expected in the mid-to-late 2030s.

### B. Carbon Neutrality Framework

- The International Maritime Organization (IMO) has postponed adoption of the Net Zero Framework (NZF), initially scheduled for implementation in 2027, by one year with a re-vote on adoption scheduled for 2026. This resulted from the U.S. characterizing it as a "global carbon tax" and warning of retaliatory measures, including tariffs and visa restrictions, against supporting countries.

- This postponement may delay some shipbuilding orders. Still, the broader trend toward demand for decarbonized vessels is expected to persist under current Carbon Intensity Index (CII) regulations and the EU Emissions Trading System (EU-ETS). However, caution is needed, as proliferation of regional standards (e.g., the EU maritime carbon tax (Fuel EU Maritime) and prospective regulations in China and Africa) may increase costs and operational complexity.
- Domestically, Korea continues to implement its 2030 Green Ship (greenship-K) strategy, with plans by the Korea Ocean Business Corporation to introduce 'Korean-style Ship Tax Incentives' utilizing tax credits and accelerated depreciation systems.

#### Corporate Implications

- Korean companies maintain technological advantages in high-value-added vessel sectors. They are well positioned to serve as strategic partners in the MASGA project through local joint ventures and joint maintenance participation.
- As the MASGA project is expected to expand benefits not only to the three major Korean shipbuilders but also to equipment, MRO, and eco-friendly technology companies, Korean shipbuilders may need to prepare in advance to win U.S. Navy and Coast Guard contracts in anticipation of the MASGA project and U.S. legislation passage.

#### C. Defense

- President Lee Jae-myung announced unprecedented budget allocations for defense and aerospace R&D through 2030 to achieve 'Top 4 Defense Industry Power' status. The 2026 defense budget is set at approximately KRW 65.9 trillion, a 7.5% increase from 2025, with focused investment on building response capabilities for wartime operational control transfer and developing advanced military capabilities based on AI and drones.
- The defense industry fast-track acquisition system will be expanded, and the K-Defense Export Fund will be established with the government and private sector jointly contributing KRW 160 billion, with full-scale investment through the first sub-fund formation in the first half of 2026.
- The domestic defense industry has seen significant profit increases since 2022 due to improved orders centered on major defense contractors, and as of Q3 2025, the defense order backlog of the four major companies (Hanwha Aerospace, KAI, LIG Nex1, and Hyundai Rotem) is at approximately KRW 100 trillion.

#### D. Space

- The space industry is attracting attention as an economic and security opportunity, with major countries including the U.S., China, and Japan rapidly expanding government spending on space programs. The Russia-Ukraine war has highlighted the importance of space assets, such as satellites, intensifying competition in space-based weapons system development.
- The Korea Aerospace Administration aims for 'Top 5 Space Power' status, converting next-generation launch vehicles to national strategic assets, and emphasizing that 'transitioning from government-led to private-sector-led is a prerequisite for space economy growth.'
- In June 2025, the European Commission proposed the 'EU Space Act' to pursue strategic control over EU satellite-based infrastructure and related services and strengthen cybersecurity.

#### Corporate Implications

- Korean defense systems are competitive in price, delivery, and quality, making defense industry engagement targeting Eastern Europe a realistic alternative with high feasibility and effectiveness. However, as movements to form defense cartels restricting Korean weapon systems are emerging in Europe, diversification of export routes (U.S., Middle East, etc.) should be explored as a countermeasure.
- Since Korea's current space-related budget lags significantly behind those of global space powers like the U.S. and China, capital and budget constraints make it more efficient for Korea to focus on areas with a significant industrial presence and competitiveness. Additionally, as a comprehensive legal framework for space activities has not yet been established, risk management is necessary across areas such as data security, technology protection, and sustainability.

## 6. Green Energy

### A. 2035 NDC

- The 2050 Carbon Neutrality and Green Growth Commission finalized a plan to reduce Korea's greenhouse gas emissions by 53–61% compared to 2018 levels by 2035. The 2nd Carbon Neutrality and Green Growth Basic Plan, which serves as the 'implementation plan,' is scheduled for establishment by the first half of 2026.
- To ease corporate carbon reduction burdens, the emissions trading system will be calibrated to the NDC's lower-bound target of 53%, with the industrial sector reduction target relaxed to 24.3% compared to 2018.

### B. Accelerated Renewable Energy Transition

- The government's renewable energy policy consists of three pillars: (i) expansion of solar and wind power generation capacity, (ii) phased closure of coal power plants, and (iii) ESS introduction and safety management infrastructure establishment. This policy direction prioritizes power system stability and efficiency alongside energy source conversion.
- According to the 11th Basic Plan for Electricity Supply and Demand, zero-carbon power generation will be increased to 53% by 2030, with significant expansion of solar and wind power capacity and an expected increase in ESS demand. The government is pursuing the rationalization and legislation of solar panel setback regulations, and from December 2025, private buildings with a floor area of 1,000 m<sup>2</sup> or more must mandatorily meet 'Zero Energy Building (ZEB) Grade 5' standards.

### C. Energy Highway

- Based on the Power Grid Special Act, the government plans to construct the West Coast Energy Highway (offshore wind power/HVDC) to supply power to AI data centers. The 2026 budget allocates approximately KRW 4.2 trillion for 'Next-Generation Power Grid Construction' projects, with bidding expected in the first half of 2026. However, more than half of the 99 nationwide transmission line and substation construction projects face delays due to local resident opposition.

### D. EU CBAM (Carbon Border Adjustment Mechanism)

- The EU CBAM officially takes effect from January 2026, requiring importer registration and Q4 2025 emissions reporting.
- The exemption threshold has changed from 'shipments under 150 euros' to annual imports under 50 tonnes (mass basis), with 91% of current EU importers expected to be exempted from obligations (electricity and hydrogen are excluded from exemption).
- CBAM certificates will be sold from February 1, 2027, with submission deadlines moved to September 30 and certificate-holding ratios reduced from 80% to 50%. Third-party delegation of technical reporting obligations is permitted.

## E. KSDS (Korean Sustainability Disclosure Standards)

- Recently, major jurisdictions have been mandating climate disclosures covering corporate climate risks and responses.
- Korea plans to introduce 'Korean Sustainability Disclosure Standards (KSDS)' aligned with international standards. The original plan was to mandate ESG disclosure for KOSPI-listed companies with assets of KRW 2 trillion or more from 2025. However, this has been postponed to 2026 or later, pending inter-agency discussions.

### Corporate Implications

- The new administration has established the Ministry of Climate, Energy, and Environment, marking an institutional shift toward integrated and consistent management of climate crisis response, energy transition, and environmental preservation under a single ministry.
- In the energy sector, expanded public-led bidding for large-scale renewable energy development, such as offshore wind power, corporate consortium participation, and RE100 industrial complex development is expected, offering opportunities to reassess existing energy procurement strategies.
- Alignment with global standards such as RE100 and EU CBAM will serve as a critical determinant of domestic companies' corporate credibility and investment activity.

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