

Recent Amendment Eases Financial Burden on Foreign Investors Seeking to Operate Casinos in FEZs

On September 21, 2012, the Enforcement Decree of the Special Act on Designation and Management of Free Economic Zones was amended to relax the investment requirements for foreigner-only casinos within Korea's free economic zones (FEZs).

Regulation of Casino Businesses in Korea

The Special Act on Designation and Management of Free Economic Zones (the "Act") was previously amended in 2007 to allow foreign investors to open casinos in FEZs. Based on the previous amendment, in order to be eligible to apply for a license to operate a casino in a FEZ, a foreign investor needed to satisfy, among others, each of the following requirements under the Act:

1. a total investment amount of USD 500 million or more (USD 300 million or more to be invested as of the time of application and the remainder to be invested by no later than two (2) years after opening of the casino); and
2. a credit rating of BBB (investment grade) or higher.

In addition, in order to promote tourism on Jeju Island and other designated areas, the Special Act on the Establishment of Jeju Special Self-Governing Province and the Development of Free International City and the Special Act on the Development of Enterprise Cities also was amended to relax approval requirements for casinos in these areas.

However, in spite of such efforts to promote tourism through these special regulations, no casinos have been approved or opened based on such regulations due to the risks related to the requirement to make an up-front investment of at least USD 300 million in order to be eligible to apply for a casino license.

Pre-Screening System Introduced for Approval of Casino Business in Free Economic Zones

The newly amended Enforcement Decree of the Act has now introduced a pre-screening procedure that lessens the financial risk and burden on foreign investors that are seeking to obtain a license for foreigner-only casinos in FEZs. Whereas a foreign investor was previously required to invest no less than USD 300 million at the time of making an application, under the new pre-screening procedure, a foreign investor is now only required to invest ten percent (10%) of the total investment amount in advance (i.e., the up-front investment amount can be as little as USD 50 million as compared to the previous amount of USD 300 million). Upon receipt of an application, the Ministry of Culture, Sports and Tourism is required to notify the investor within 60 days (subject to a potential 30 day extension) of its decision to grant a license or not. Once the Ministry provides approval at the pre-screening stage, the Ministry cannot refuse to grant final approval so long as the investor makes the total investment amount within four (years) of the approval date and unless the fault is attributable to the investor or there is a force majeure event.

If there is any question regarding the above, please contact us as set below.

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| ● Jae Young Chang | TEL : 02 316 4350 | E-Mail: jychang@shinkim.com |
| ● John M. Kim | TEL : 02 316 4680 | E-Mail: jmkim@shinkim.com |
| ● Won Gook Kim | TEL : 02 316 4223 | E-Mail: wgokim@shinkim.com |
| ● Clara Miri Kang | TEL : 02 316 1654 | E-Mail: cmkang@shinkim.com |
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