TRANSLATION

CONSOLIDATED TEXT

"Law regulating the marketing and use of crypto assets, the issuance of digital assets, the tokenization of precious metals and other assets, payment systems and other provisions."

THE NATIONAL ASSEMBLY
DECREES:

TITLE I

OBJECTIVE AND DEFINITIONS

CHAPTER I

OBJECTIVES

Article 1. *General objective.* The purpose of this Law is for the Republic of Panama to conform to/ to be in accord /become compatible/compliant/consistent/match up/congruent/ to adapt to the digital economy, blockchain, crypto assets, the tokenization of precious metals, other assets and the internet for the benefit of its inhabitants and the rest of the world, as well as to provide provisions for the protection, monitoring, inspection and control of said activities.

Article 2. *Specific Objectives.* This Law has the following specific objectives:

1. To expand the digitization of the State by promoting the use of distributed ledger technology and blockchain in the digitization of the identity of individuals and legal entities within or from the Republic of Panama and as a method for increasing the transparency of the civil service;
2. To provide legal, regulatory and fiscal certainty to the use and possession of crypto assets, to the issuance of digital assets, and to the tokenization of precious metals and other assets in the Republic of Panama, including mitigating the risks of the unlawful use of said technologies;
3. To create a regulatory framework which promotes banking interoperability to promote greater financial inclusion, the emergence of a robust innovative financial services ecosystem, greater competition amongst financial service providers, and freedom of

choice for the financial consumer;

4. To adapt the Republic of Panama to the new forms of establishing trust between people and businesses such as smart contracts and new forms of organization, such as decentralized autonomous organizations (DAOs); and
5. To promote universal access to the internet for the inhabitants of the Republic of Panama as the basic infrastructure for the participation of the people of the Republic of Panama in the new digital global economy.
6. To enable the Republic of Panama to provide cutting edge technology services which promote financial inclusion through a crypto asset trading platforms and an official digital wallet where individuals and legal entities will be able to securely carry out transactions with these new technologies.
7. To attract new foreign investment flows to the country with the consequent strengthening of the national financial system and existing productive structures.

CHAPTER II

DEFINITIONS

Article 3. *Definitions.* For the purposes of this Law, the following shall mean:

1. *Payment system administrator:* Any person, company, entity or financial institution operating a payment system, establishing the internal rules thereof or, wherever applicable, carrying out any acts to organize the conduct of participants in accordance with regulations applicable to said payment system.
2. *Blockchain:* A type of distributed ledger technology which links blocks of transactions through a decentralized consensus cryptographic mechanism including without limitation, proof-of-work, proof-of-stake and other distributed consensus protocols.
3. *Smart contracts*: Self-executing, transactional protocols deployed on blockchain networks which facilitate, secure, enforce and execute previously recorded agreements between two or more parties.
4. *Clearing:* In terms of the internal rules of a payment system, the replacement of any rights and obligations deriving from transfer orders with a single credit or a single obligation, so that only such net credit or obligation is payable, without requiring the express consent of the participants.
5. *Crypto asset:* Fungible or non-fungible digital annotation in a distributed ledger, which may or may not be a blockchain, the possession of which can be tested using

cryptography, and the transfer of which can be made by means of cryptographic digital signatures.

6. *Crypto assets with underlying asset:* Crypto assets representing assets financially invested in the Republic of Panama.
7. *Scriptural money:* A type of money which manifests itself in the form of accounting records which do not circulate as coins or banknotes which is usually held in demand deposit accounts in entities with a bank license.
8. *Tokenized gold*: For the purposes of this Law, this means 1 gram of 99.99% pure gold created using blockchain technology and backed 1:1 by physical gold deposited in vaults which meet international safety, auditing and custody standards.
9. *Tokenized silver*: For the purposes of this Law, this means 1 ounce of 99.9% pure silver created using blockchain technology and backed 1:1 by physical silver deposited in vaults which meet international safety, auditing and custody standards.
10. *Digital wallets*: Software and/or applications that function as a tool for users to store and manage digital assets which are sent and received, such as tokenized precious metals (gold and silver), scriptural money and authorized crypto assets.
11. *Digital Asset Exchange/Trading Platform of Panama:* It is a platform where tokenized precious metals (gold and silver), scriptural money and authorized crypto assets can be traded.
12. *Issuer of redeemable digital assets:* Redeemable digital asset entities as defined in this Law which operate under the provisions of Title IV of this Law for the issuance of redeemable digital assets.
13. *Redeemable Digital Asset Entity:* Any person who has been authorized under the provisions of Title IV of this Law to issue redeemable digital assets.
14. *Collective financing based on investment:* The practice of putting people into contact with the general public for the purpose of providing them with the opportunity to invest in securities conducted in a regular and professional manner through computer applications, interfaces, web pages or any other electronic or digital method of communication.
15. *Funds:* Banknotes and coins, scriptural money and redeemable digital assets.
16. *Banking Law:* Single Revised Text of Decree Law No. 9 of February 26, 1998, and any amendment thereof.
17. *Securities Law:* Single Revised Text from the National Assembly, which includes Decree Law 1 of 1999, its amendments, and Title II of Law 67 of 2011.

18. *Organic Law of the National Bank of Panama:* Single Revised Text from the National Assembly, which includes Decree-Law 4 of January 18, 2006, which subrogated Law 20 of April 22, 1975, by way of the amendment thereof by Law 24 of 2017.

19. *Settlement:* Credits and debits entered on the accounts of participants which are registered in the same payment system in accordance with the internal rules, pertaining to any debit or credit balances added thereto or deducted therefrom as a result of the processing of accepted transfer orders.

20. *Internal rules:* With regard to the same payment system, any internal rules of adherence and operation, including manuals, procedures and prevention mechanisms in the event of any default by any system participant which are adopted in accordance with this Law.

21. *Transfer orders:* There are two:

    a. An unconditional instruction provided by a participant through a payment system to another participant within that same payment system to place a specific quantity of funds or crypto assets at the disposal of the designated beneficiary in said instruction; or

    b. An unconditional instruction or notice provided by a participant through a payment system to another participant within that same payment system for the disposal, settlement, charging or transfer of securities.

22. *Accepted transfer order:* A transfer order which has passed all of the risk controls established in accordance with the internal rules of a payment system and which, therefore, can be settled in accordance with the abovementioned internal rules of the payment system in question.

23. *Security Token Offering (STO):* These are technology-based blockchain tokens that are used to represent securities, including but not limited to, capital tokens, debt tokens, and tokens backed by financial assets.

24. *Participant:* Any institution, company or entity authorized to issue transfer orders for particular payment systems in accordance with the internal rules applicable to said payment system.

25. *Payment system:* Agreements or procedures which are centralized or consortium/federated through any type of legal entity or contractual arrangement the purpose of which is to clear transfer orders or settle accepted transfer orders and which are designated as such by the Board of Directors of the National Bank.

26. *Distributed ledger technology*: Technology consisting of the storage and recording of information in databases in a decentralized, distributed and interconnected manner

managed by more than one entity.

27. *Crypto asset holding:* Possession of sufficient credentials or sufficient authority within a crypto asset network to unilaterally execute, or indefinitely prevent, the transfer of a crypto asset to another crypto asset holder.

28. *Holding of funds:* Physical possession of coins or banknotes, ownership of scriptural money or ownership of redeemable digital assets.

29. *Redeemable digital asset holder:* Any person holding a redeemable digital asset credit against a redeemable digital asset issuer, pursuant to this Law.

30. *Physically backed tokens*: These are digital assets in blockchain, 100% backed by a physical asset, such as precious metals, real property, carbon bond certificates and others, and which consequently can be claimed physically and at the request of the holder thereof.

31. *Redeemable digital asset:* Monetary value stored in a digital, electronic or magnetic medium representing a credit over the issuer which complies with the following requirements:

    a. That it is issued by the issuer upon obtaining possession of funds, physical assets or fungible crypto assets for the purpose of effecting payment transactions or facilitating the sale and purchase of crypto assets;

    b. That it is accepted by any individual or legal entity other than the issuer of redeemable digital assets; and

    c. That it is not included among the exclusions contained in Articles 14 and 15 of this Law.

32. *Average issued redeemable digital asset*: For the purposes of calculating the capital requirements established in Article 30 of this Law, it means the average total sum of financial liabilities pertaining to the issued redeemable digital asset and in circulation at the end of each calendar day during the previous six (6) calendar months, calculated on the first calendar day of each calendar month and applied to that calendar month.

TITLE II

INCLUSION OF BLOCKCHAIN TECHNOLOGY WITHIN THE DIGITAL AGENDA OF THE REPUBLIC OF PANAMA

Article 4. Inclusion within the Digital Agenda. The Government Innovation Authority shall include an assessment of the feasibility of, and shall implement the following in, the Digital Agenda of the Republic of Panama:

1. Digitizing the identity of individuals with the collaboration of the Electoral Tribunal and of legal entities with the collaboration of the Public Registry in the Republic of Panama using distributed ledger or blockchain technology, including persons who not domiciled in the Republic of Panama who wish to make use of said services;
2. Migrating public records to distributed ledger or blockchain technology wherever this is an ideal medium for providing greater transparency to such records;
3. Digitizing regulations, the adoption thereof and signatures, issuing administrative acts and resolutions of any type, including judicial resolutions, using digital signature, distributed ledger or blockchain technology, as applicable;
4. Giving practical validity, amending and proposing regulatory amendments, and providing guidelines to the public for the purpose facilitating references to smart contracts or decentralized autonomous organizations in the incorporation documents of branches registered in the Republic of Panama and of legal entities established in the Republic of Panama; and
5. Ensuring universal access to the internet for all inhabitants of the Republic of Panama, prioritizing the use of mechanisms which promote competition between providers of this service with a view to reducing the cost to the Republic of Panama and to beneficiary users of providing said access, including, but not limited to, Dutch auctions and the unobstructed portability of the service.

Article 5. *Effect*. The Government Innovation Authority shall adopt any amendments to the Digital Agenda described in this Law within six (6) months from the date on which this Law enters into effect.

TITLE III

THE USE OF CRYPTO ASSETS

CHAPTER I

SCOPE OF APPLICATION

Article 6. *Scope of application.* The definitions and legal consequences of the regulations established in this Title shall apply to any individual situated within the Republic of Panama, to any branches registered in the Republic of Panama, and to any legal entities established in the Republic of Panama which use crypto assets in or from the Republic of Panama.

CHAPTER II

THE USE OF CRYPTO ASSETS AS A MEANS OF PAYMENT

Article 7. *Use of crypto assets as an expression of contractual freedom and monetary freedom in the Republic of Panama.* Individuals situated within the Republic of Panama, branches registered in the Republic of Panama and legal entities established in the Republic of Panama may freely agree to use of crypto assets, including, but not limited to Bitcoin (BTC), Ethereum (ETH), XRP, Litecoin (LTC), XDC Network (XDC), Elrond (EGLD), Stellar (XLM), IOTA and Algorand (ALGO), as a means of payment for any civil or commercial operation not prohibited by the legal system of the Republic of Panama.

Article 8. *Ability to pay taxes, fees and other tax obligations with crypto assets.* Any authority and entity of the Republic of Panama may receive payments in crypto assets for any taxes, fees and other tax obligations directly or through payment processors or agents engaged for this purpose in accordance with the Regulations for the Use of Crypto Assets for the Payment of Taxes issued by the General Directorate of Revenue of the Ministry of Economy and Finance in collaboration with the Government Innovation Authority, based on the following principles:

1. The protection, order, stability and transparency of public finances; and
2. Cybersecurity best practices for the prevention of financial losses.

This regulation shall define which crypto assets may be received and the conditions under which they shall be received, including the conditions for the convertibility thereof into U.S. dollars.

CHAPTER III

THE USE OF CRYPTO ASSETS IN THE STOCK MARKET AND IN COLLECTIVE FINANCING ACTIVITIES

Article 9. *Use of crypto assets to represent securities and other assets.* The issuers of securities may use distributed ledger technology, blockchain, or crypto assets as a way of representing securities and any other assets, including, but not limited to, precious metals and real property, which shall fully and functionally equivalent to any other form of issuance or representation of said securities or assets.

Article 10. *Security Token Offering (STO):* Companies which meet redeemable asset entity requirements may create and issue Security Tokens (STO) to use blockchain technology for the benefit of local and international companies. This process shall be defined and developed in accordance with regulations established by the Superintendence of Securities Markets.

These regulations shall be approved within three (3) months from the date on which this Law

enters into effect.

Article 11. *Public offerings exempt from collective financing based on investments.* The Board of Directors of the Superintendency of the Securities Market shall define, by agreement of a majority of its members, the conditions in which collective financing activities based on investments provided by any financial reporting entities shall be deemed exempt offerings pursuant to Article 129 Title V of the Securities Law, based on the following principles:

1. The protection of and proper reporting to, the investing public; and
2. The promotion of and competitiveness of the Panamanian financial center.

Article 12. *Effect.* The Board of Directors of the Superintendency of the Securities Market shall adopt the agreement referred to in this Title within three (3) months from the date on which this Law enters into effect.

TITLE IV

ISSUANCE OF REDEEMABLE DIGITAL ASSETS

CHAPTER I

SCOPE OF APPLICATION AND EXCLUSIONS

Article 13. *Scope of application.* Any individuals situated in the Republic of Panama, branches registered in the Republic of Panama and legal entities established in the Republic of Panama which regularly engage in the business of issuing redeemable digital assets are subject to the provisions of this Title.

Article 14. *Exclusions from the definition of crypto asset holdings*. For the purposes of this Law, the following activities are not considered crypto assets holdings:

1. The validation of crypto asset transactions conducted by crypto asset network verification nodes, including, but not limited to, Bitcoin mining and Ethereum mining or staking by means of any decentralized consensus mechanism, including, but not limited to, proof-of-work and proof-of-stake.
2. The development or sale of hardware or software enabling the direct holding of crypto assets by people; or
3. The development of crypto assets, smart contracts or their corresponding protocols for use by third parties.

Article 15. *Exclusions from the definition of redeemable digital assets.* For the purposes of

this Law, redeemable digital assets do not include electronically stored monetary assets that meet any of the following criteria:

1. Those which enable the holder of the redeemable digital asset to acquire goods and services only from the issuer, including, but not limited to, loyalty programs or monetary assets not representing a credit redeemable by the issuer in funds or fungible crypto assets;
2. Those which enable the holder of the redeemable digital asset to acquire goods and services solely from a limited network of providers with direct commercial agreements with the issuer and which are not deemed to be a payment system in accordance with the definition of said phrase in Article 3 of this Law and in the Payment Systems Regulations established in Title VI of this Law; or
3. Those which are the digital representation of assets issued by or on behalf of a publisher and used solely within an online game, gaming platform or family of games sold by the same publisher or offered on the same gaming platform.

CHAPTER II

ISSUERS OF REDEEMABLE DIGITAL ASSETS AS REPORTING PARTIES

Article 16. *Designation as a reporting party.* Issuers of redeemable digital assets, including redeemable digital asset entities, are considered reporting parties under Law 23 of 2015. As such, issuers of redeemable digital assets shall comply with due diligence measures and any other mechanisms for preventing and controlling the risks of money laundering, terrorist financing and financing the proliferation of weapons of mass destruction established in Law 23 of 2015.

Article 17. *Supervisory body.* In its capacity as the supervisor of financial reporting parties under Law 23 of 2015, the Superintendency of Banks shall ensure that any applicable regulations take into account the criteria recommended by the International Financial Action Task Force with regard to:

1. The risks of money laundering, the financing of terrorism and the financing of the proliferation of weapons of mass destruction of virtual currencies; and
2. The balance between financial inclusion and the prevention of use for unlawful purposes.

Article 18. *Effect.* The Board of Directors of the Superintendency of Banks shall adopt any

agreements required to comply with this Title within three (3) months from the date on which the Ministry of Commerce and Industry (MICI) begins to receive license requests from redeemable digital asset entities.

CHAPTER III

THE REGULATION AND MONITORING OF REDEEMABLE DIGITAL ASSET ENTITIES

Article 19. *Creation of regulations.* The Ministry of Commerce and Industry (MICI) shall be in charge of creating the regulations for Title IV of this Law.

Article 20. *Term for creation of the regulations.* These regulations shall be adopted within three (3) months from the date on which this Law enters into effect, at which time any application for licenses from redeemable digital asset entities shall begin to be accepted.

Article 21. That Article 52 of Executive Decree 46 of 2008 be amended to read as follows:

> **Article 52.** The purpose of the General Directorate of Financial Companies shall be to supervise and **monitor redeemable digital asset entities**, financial companies, financial leasing companies, remittance companies, credit history data information companies, financial factoring companies and pawn shops, as well as compliance with rules on the prevention of money laundering for financial companies.

Article 22. That Article 53 of Executive Decree 46 of 2008 be amended to read as follows:

> **Article 53.** The General Directorate of Financial Companies shall perform the following functions:
>
> 1. Authorize by the **granting of any registration or license, as appropriate, the operation of redeemable digital asset entities**, financial companies, financial leasing companies, remittance companies, credit history data information companies, financial factoring companies and pawn shops following compliance with any legal requirements and formalities.
> 2. **Solely and exclusively regulate the obligations of redeemable digital asset entities.**
> 3. **Take measures to protect financial consumers when trading crypto assets in redeemable digital asset entities which are deemed to pose a substantial risk of fraud to the financial consumer.**
> 4. Cancel **any registration or license, as the case may be, of redeemable digital asset entities**, financial companies, financial leasing companies, remittance companies, credit history data information companies, financial factoring

companies, and pawn shops in accordance with any applicable rules.

5. Issue resolutions authorizing amendment or changes to **redeemable digital asset entities**, financial companies, financial leasing companies, remittance companies, credit history data information companies, financial factoring companies and pawn shops.

6. Arrange the performance **of monitoring tasks and** regular and special audits of companies under their supervision and control**, including redeemable digital asset entities**.

7. Update the operating records of companies under its supervision and control**, including redeemable digital asset entities**.

8. Arrange the preparation and remittance of statistical, administrative and relationship reports to the Financial Analysis Unit (UAF) and any other competent entities for the prevention of money laundering and the financing of terrorism.

9. Prepare regulations for companies under its supervision and control aimed at improving management competence, **and prepare guides, instructions and other documentation to be used by redeemable digital asset entities.**

10. Train any parties regulated by the Directorate on the prevention of money laundering and the financing of terrorism, and on other related matters.

11. Supervise and organize all operational and administrative processes developed under the management framework.

12. Address, at first instance, any complaints submitted by the users of services provided by regulated companies, including any redeemable digital asset entities.

13. Apply the pertinent penalties to regulated parties for breach of any rule rules that govern the same, including any redeemable digital asset entities.

14. Provide the Directorate of Statistics of the Office of the Comptroller General of the Republic with accounting, statistical and financial information regarding the performance of these commercial activities within the national economy.

15. Take part in the Financial Coordination Council to maintain an exchange of information between different regulated sectors.

16. Establish applicable registration or licensing fees to its regulated entities.

17. Any other functions pertaining thereto in accordance with any law, regulations

and resolutions, and any other similar functions assigned thereto.

CHAPTER IV

OBLIGATIONS OF REDEEMABLE DIGITAL ASSET ENTITIES

Article 23. *Redeemable digital asset issuer license requirement.* Any individual situated within the Republic of Panama, any branch registered in the Republic of Panama or any legal entity established in the Republic of Panama which are regularly engaged in issuing redeemable digital assets to third parties and which do not fall within the exclusions contained in Articles 14 and 15 of this Law shall obtain a license as redeemable digital asset entities issued by the Ministry of Commerce and Industry (MICI).

Article 24. *Obligation to safeguard funds.* Any redeemable digital asset entity shall be obliged to safeguard any funds received in exchange for the issued redeemable digital asset by following one, or a combination of the two safeguard alternatives referred to in the following Articles.

Article 25. *Safeguarding funds in bank accounts or safe and liquid investments.* As a first option for compliance with their obligation to safeguard funds, redeemable digital asset entities shall:

1. Hold the funds in a bank account kept in one or more licensed banking entities in the Republic of Panama or in countries authorized under the regulations of this Law; or
2. Invest the funds received in safe and liquid, low-risk investments as described in the regulations of this Law.

Article 26. *Safeguarding funds with insurance and bonds.* As a second option for compliance with the obligation to safeguard funds, redeemable digital asset entities shall obtain an insurance policy or bond in Panama issued by any entity authorized for this purpose by the Superintendency of Insurance and Reinsurance or from any of the countries authorized under the regulations of this Law, in compliance with the procedures and audits established therein for said purpose.

Article 27. *Prohibition on the use of safeguarded funds as collateral and duty to keep separate accounting.* Redeemable digital asset entities shall comply with the following:

1. No person other than the Redeemable Digital Asset Entity shall be entitled to own any rights to such funds or shall be the beneficiary of the insurance policy or bond, as applicable, and
2. Separate accounting for these funds shall always be maintained and reported to the Directorate of Financial Companies of the Ministry of Commerce and Industry.

Article 28. _Duty to safeguard fungible crypto assets and other physical assets received._ Any redeemable digital asset entity shall safeguard any fungible crypto assets or physical assets received in exchange for the issued redeemable digital asset and shall be liable for any loss resulting from any technology breach or physical loss of the safeguarded fungible crypto assets or physical assets.

The Ministry of Commerce and Industry (MICI) shall define the best practices which shall be obligatory for any Redeemable Digital Asset Entity holding fungible crypto assets or physical assets in its possession.

Article 29. _Capital requirements._ Any redeemable digital asset entity shall at all times maintain paid-in capital in addition to the funds, fungible crypto assets and physical assets safeguarded corresponding to 2% of the average redeemable digital asset issued as the same is defined in paragraph 32 of Article 3 of this Law.

The Ministry of Commerce and Industry (MICI) shall determine:

1. The method for calculating the average redeemable digital asset for the purposes of defining the initial capital requirement;
2. Any amendments to the percentage established in the foregoing paragraph;
3. The authorization of alternative safeguard methodologies;
4. The creation of thresholds of general application to redeemable digital asset entities with lesser or greater capital requirements:
    a. To promote experimentation with new technologies and business models (sandbox regulation) by redeemable digital asset entities which are designated as experimental by the Ministry of Commerce and Industry (MICI), where the operation risk thereof is limited and clearly disclosed to its end users; and
    b. To mitigate any risks created by Redeemable Digital Asset Entities determined to be of systemic importance by the Ministry of Commerce and Industry (MICI) in accordance with guidelines set forth in the regulations of this Law.

Article 30. _Appropriate management of operational risks._ Each Redeemable Digital Asset Entity shall adopt and maintain an appropriate operational risk management manual in accordance with the provisions of this Law.

CHAPTER V

ADDITIONAL PROVISIONS ON THE ISSUANCE OF REDEEMABLE DIGITAL ASSETS

Article 31. *Funds, fungible crypto assets and physical assets held on a trust basis.* Funds, fungible crypto assets and physical assets held by redeemable digital asset entities shall be subject to the following regime:

1. Safeguarded funds, fungible crypto assets and physical assets are deemed to be held on a trust basis by the issuer of the redeemable digital asset in the name and for the benefit of one or more of its clients;
2. It shall be understood that said funds, fungible crypto assets and physical assets do not form part of the personal assets of the issuer of the redeemable digital asset; and
3. Such funds, fungible crypto assets and physical assets may not be seized, encumbered or attached or otherwise subject to any claims from, or actions by, the creditors of the issuer redeemable digital asset, nor shall they form part of the assets of the issuer of the redeemable digital asset in any insolvency or other similar proceedings.

The holding on a trust basis referred to in this Article is mandated by law without requiring a trust agreement to be entered into between the issuer of the redeemable digital asset and its client.

The provisions of Law 1 of 1984 shall not apply to this holding on a trust basis. Issuers of redeemable digital assets shall not require a trust license and will have no obligations other than those expressly contemplated hereunder, in the provisions of the Ministry of Commerce and Industry (MICI), and in any agreements entered into in connection with said matter.

Article 32. *Prohibited raising of funds.* The issuance of redeemable digital assets shall not be deemed:

1. A prohibited raising of funds from the public in accordance with paragraph of Article 2 of the Banking Law;
2. To be covered by the offence of unlawful raising of financial resources as provided in the Criminal Code;
3. A public offering of securities as defined in Title V of the Securities Law; or
4. A trust activity as defined in Law 21 of May 10, 2017.

Article 33. *Access to banking services and non-discrimination of Redeemable Digital Asset Entities.* The Board of Directors of the National Bank of Panama, by agreement of the majority of its members, shall issue guidelines to facilitate the opening of accounts by Redeemable Digital Asset Entities in the National Bank of Panama with a view to providing said entities with access to banking services. These guidelines shall comply with the usual requirements established by the Superintendency of Banks as the bank regulator.

The Board of Directors of the Superintendency of Banks, by agreement of the majority of its

members, shall issue guidelines promoting access to banking services by Redeemable Digital Asset Entities amongst all of the banks of the Panamanian financial center, taking into account the need for competition and the interoperability of the Panamanian financial system and the limitations imposed on banks by their correspondent counterparties abroad.

The Board of Directors of the National Bank of Panama and the Superintendency of Banks shall adopt any measures required under this title within three (3) months from the date on which the regulations of this Law enter into effect.

CHAPTER VI

PENALTIES RELATING TO THE ISSUANCE OF REDEEMABLE DIGITAL ASSETS

Article 34. *Procedure for imposing penalties.* The Ministry of Commerce and Industry (MICI) shall regulate the procedure for imposing penalties which shall be applicable with respect to redeemable digital asset entities and third parties responsible for a breach of the rules of this Law.

In the event of any gaps, these shall be filled by the rules of the procedure set forth in Law 38 of 2000.

Article 35. *Criteria for imposing penalties for a breach of obligations by the issuers of redeemable digital assets.* In order to apply the penalties established in this article, the Ministry of Commerce and Industry (MICI) shall take into account the following assessment criteria:

1. The seriousness of the breach;
2. The threat of, or damage caused;
3. Evidence of intent;
4. The effect of the administrative penalty in repairing the damage to the clients of the entity issuing the redeemable digital asset suffering the direct damage; and
5. The duration of the conduct.

The Ministry of Commerce and Industry (MICI) may establish additional criteria for imposing penalties wherever deemed appropriate.

Article 36. *Penalties for infringement by Redeemable Digital Asset Entities.* Any breach of the obligations established in this Chapter shall be penalized by the Ministry of Commerce and Industry (MICI).

Any party in breach of any of the obligations established in Chapter IV of this Title IV shall

be penalized with one or more of the following penalties:

1. A fine of not less than the gross profit made as a result of any acts or omissions involving the serious breach and not more than double the gross profit made. In the event that this criterium is not applicable, the sum of the fine may rise to the greater of the following amounts: 5% of the funds of the party in breach, 5% of the totality of its own or any third-party funds used during the breach, or one million balboas (B/.1,000,000.00).
2. The suspension or limitation of the type or volume of operations or activities which the party in breach is able to perform, including, but not limited to, a suspension of trading in crypto assets determined to be a substantial risk of fraud for the financial consumer.
3. Revocation or cancellation of the license as an issuer of redeemable digital assets.

Article 37. *Appeals.* Resolutions of the General Directorate of Financial Companies of the Ministry of Commerce and Industry (MICI) are subject to reconsideration and appeal, which shall be presented by the affected party within five (5) business days from the notification of the pertinent resolution or the notification of the resolution deciding the reconsideration, as the case may be. The decision deciding the appeal shall exhaust all government channels.

CHAPTER VII

THE ISSUANCE OF REDEEMABLE DIGITAL ASSETS BY THE REPUBLIC OF PANAMA

Article 38. *Operation of Redeemable Digital Asset Entities by the Republic of Panama.* The Republic of Panama, through its authorities and entities, may engage in the activity of issuing redeemable digital assets by obtaining the corresponding license, or by hiring a provider holding said license for the following purposes:

1. To offer digital wallets to any individual and legal entity for the purpose of effecting payments and trading crypto assets in a secure manner, incorporating and facilitating the latest *blockchain* technologies;
2. To promote the financial inclusion and economic development of the inhabitants of the Republic of Panama; and
3. To contribute to the achievement of the Sustainable Development Goals (SDGs) of the United Nations.

Article 39. *Capabilities of the operation.* Redeemable digital asset activities carried out by

the Republic of Panama shall include the following capabilities:

1. Offering digital wallets to any individual and legal entity for the purpose of effecting payments and trading crypto assets;
2. Tokenizing precious metals with blockchain technology, including, but not limited to gold and silver, each token 100% backed by the physical metal;
3. Facilitating the conversion and exchange of tokenized precious metals, crypto assets and scriptural money;
4. Facilitating the conversion and exchange of crypto assets for scriptural money, which may include, but is not limited to, Bitcoin (BTC), Ethereum (ETH), XRP, Litecoin (LTC), XDC Network (XDC), Elrond (EGLD), Stellar (XLM), IOTA and Algorand (ALGO);
5. Authorizing the redemption of such tokens if desired by the customer; and
6. Ensuring the safekeeping, storage and security of precious metals in accordance with applicable safeguarding regulations.

Article 40. *Backing of tokenized precious metals.* Precious metals tokenized on said platform shall be one physically and hundred percent (100%) backed at all times by deposits in security vaults which comply with international standards and are situated within the territory of the Republic of Panama, or which, if situated outside of Panama, form part of an international network of duly certified vaults. Said metals shall not be subject to any tax and the value thereof shall be set by the market.

Article 41. The State shall promote the use of this platform within all of its institutions and dependencies to facilitate the collection and payment of public services in general.

TITLE V

BANK INTEROPERABILITY AND PAYMENT SYSTEMS

CHAPTER I

SCOPE OF APPLICATION

Article 42. *Scope of application.* The definitions and legal consequences of the regulations established in this Title shall apply to payment systems, their administrators and any participants who, if they are individuals, are situated in the Republic of Panama, or if they are legal entities, are established or registered as branches in the Republic of Panama, or who

operate in the Republic of Panama.

CHAPTER II

REGULATION AND MONITORING OF PAYMENT SYSTEMS

Article 43. *Payment systems regulator*. In addition to its powers under Article 10 of the Organic Law of the National Bank of Panama, the Board of Directors of the National Bank of Panama will also have the sole and exclusive competence to regulate other payment systems operating within or from the Republic of Panama through the adoption and maintenance of Payment Systems Regulations by agreement of a majority of its members.

The rules of this chapter may be regulated and clarified in said regulations to include the any operational and technological changes which may arise, provided that any principles and requirements set forth in this Law are complied with.

Pursuant to a general resolution of a majority of its members, the Board of Directors of the National Bank of Panama may interpret the provisions of this Law and the Payment Systems Regulations for administrative purposes and in a general manner. These decisions shall be published digitally on the institution's website.

Article 44. *Effect.* The Board of Directors of the National Bank of Panama shall adopt the Payment Systems Regulations required by this Title V within three months from the date on which this Law enters into effect.

Article 45. *Monitoring payment systems and interpretation of particular cases.* As established in the Payment Systems Regulations, a specialist and dedicated department shall be created for this purpose in the National Bank of Panama, the sole objective of which is to monitor compliance and penalize any breaches of the Payment Systems Regulations and this Title.

The General Manager of the National Bank of Panama may interpret the provisions of this Law and the Payment Systems Regulations for administrative purposes and in a particular manner through said specialist department.

Said resolutions shall not contravene the provisions of this Law nor any resolutions which are general in scope which have issued by the Board of Directors of the National Bank of Panama. Moreover, they shall be published digitally on the institution's website.

Article 46. *Appeals.* Resolutions issued by the General Manager of the National Bank of Panama during its monitoring of the payment system are subject to reconsideration by the General Manager himself, and to appeal before the Board of Directors, which shall be presented by the affected party within five (5) business days from the notification of the pertinent resolution or the notification of the resolution deciding the reconsideration, as the

case may be. The decision deciding the appeal shall exhaust all governmental channels.

Resolutions issued by the Board of Directors at first instance shall only be subject to reconsideration by the Board itself, which shall be presented by the affected party within five (5) business days from the notification thereof. The decision of the Board of Directors or the resolution deciding the appeal shall exhaust all governmental channels.

CHAPTER III

OBLIGATIONS OF THE ADMINISTRATORS OF A PAYMENT SYSTEM AND INTERNAL RULES

Article 47. *Declaration of the existence of a payment system.* Through the specialist department which monitors payment systems, the General Manager of the National Bank shall, *ex officio* or at the request of any person, declare the existence or extinction of a payments system and its corresponding administrator in compliance with the definitions of this Law.

Payment Systems Regulations shall regulate the legal consequences and deadlines for registering as a payment system administrator for the pertinent payment system administrator.

Once it has adopted the first version of the Payment System Regulations, the Board of Directors of the National Bank of Panama may declare the existence of payment systems. Said Regulations shall progressively develop criteria for declaring the existence thereof, however, there shall be evidence of the existence thereof when at least three (3) entities with a banking license, financial banking groups, or members of financial banking groups as defined in the Republic of Panama, directly or indirectly take part therein as participants.

Article 48. *Authorization of the internal rules for payment systems.* The internal rules of any payment system and any amendments thereto shall be subject to authorization by the National Bank of Panama as established in the Payment Systems Regulations and shall comply with the general requirements established in said regulations.

Article 49. *Publication of the internal rules of payment systems.* The internal rules of any payment system and any amendments thereto shall be kept up to date and shall be published digitally on the website of the National Bank of Panama providing free access thereto to any person.

Article 50. *Principles to be followed by the internal rules of any payment system.* In all cases, the internal rules of any payment system shall promote:

1. The efficiency and security of the payment system;

2. The competitive development of the services provided using the payment system;
3. The immediacy of payments between the payment system participants;
4. Digital direct debits, interoperability and standardization of the bank accounts of customers of payment system participants; and
5. Open banking, the portability of information and the portability of the bank accounts of customers of payment system participants.

The Board of Directors of the National Bank of Panama shall progressively develop these principles, revising and modifying the Payment Systems Regulations if appropriate, at least once every calendar year with the specific purpose of promoting the greatest possible competition between payment systems participants for the benefit of the customers of any participants.

Through the specialist department which monitors payment systems, the General Manager of the National Bank of Panama may cancel or require amendments to, or the revocation of, the internal rules of any payment system which fail to comply with this Law and with the Payment Systems Regulations.

Article 51. *Minimum requirements for internal rules of any payment system.* In all cases, the internal rules of any payment system shall contain:

1. The moment in which transfer orders sent to the payment system in question are deemed accepted transfer orders;
2. The criteria for determining who may participate in the pertinent payment system, always focused on remaining open to the largest number of participants, in particular non-banks, and for the benefit of end users;
3. The methods available to the payment system for controlling any risks arising from clearing or settlement, including fraud control and chargeback rules;
4. The measures which shall be adopted in the event of any failure to comply by any participant;
5. The security measures of the operating system and any corrective actions in the event of any system failure, including the appropriate contingency plans;
6. Fees or any other charges which may be levied among the payment system participants as well as any others which may be levied on participants by the system administrator, including interchange fees where they exist, which shall be non-discriminatory;
7. That the assets, rights and securities granted as collateral for the fulfillment of accepted transfer orders, and any clearing and settlement arising therefrom shall, at all

times, be free of any other encumbrance, except for the safeguarding obligations established by this Law for redeemable digital asset entities; and

8. That the participants of the pertinent payment system shall register as reporting parties under Law 23.

CHAPTER IV

ADDITIONAL PROVISIONS REGARDING PAYMENT SYSTEMS

Article 52. *Irrevocability and validity of accepted transfer orders and regulation of deadlines for effectiveness.* Accepted transfer orders, the clearing and settlement thereof, and any act which, in terms of the internal rules of a payment system, shall be carried out to ensure compliance shall be final, irrevocable, binding and enforceable against third parties.

Payment Systems Regulations shall determine the terms and procedures for the effectiveness of judicial or administrative decisions, including, but not limited to, seizure, attachment and other acts of enforcement or any acts derived from the application of bankruptcy, the taking of control, or the liquidation of any participant.

Article 53. *No lien shall be placed on any security for payment and settlement of the obligations of payment system participants.* Any security and funds deriving from accounts which have been encumbered by any participants for the fulfillment of accepted transfer orders and any clearing or settlement arising therefrom in accordance with the internal rules of the corresponding payment system are not subject to seizure on or at the start of the daily operations of the payment system until the fulfillment of any payment obligations arising from the settlement of said accepted transfer orders each day. Therefore, during the abovementioned period, no execution ordered against the foregoing by any administrative or judicial authority shall be enforced.

Article 54. *Priority of the enforcement of the security.* Should it become necessary to enforce any of the security mentioned in the foregoing article of this Law, the proceeds of said enforcement shall be used, as appropriate, to pay any obligations derived from accepted transfer orders and the clearing and settlement thereof, with priority over any other obligation.

Wherever the proceeds of any enforcement and, where appropriate, of any other act carried out under the relevant internal rules of payment systems are insufficient to meet the obligations referred to in the foregoing paragraph, the pertinent creditors may enforce their rights in accordance with any applicable provisions.

In the event of any surplus remaining after the enforcement of said security, it shall be made available to the pertinent bankruptcy proceedings of any participant or to whomever it may be

applicable, in accordance with any applicable provisions.

Article 55. *Holding security or account funds on a trust basis.* The payment system administrator holding funds required to fulfil accepted transfer orders or for any clearing and settlement resulting therefrom, shall be subject to the following regime:

1. They shall be deemed to have been acquired on a trust basis by said payment system administrator in the name and for the benefit of one or more participants to whom the payment system administrator has granted rights relating to accepted transfer orders and the clearing and settlement thereof;
2. It shall be understood that they do not form part of the personal assets of the payment system administrator;
3. They cannot be seized, encumbered or attached or otherwise subject to any claims from, or actions by, the creditors of the payment system administrator, nor shall they form part of the assets of the payment system administrator in any insolvency or other similar proceedings.

The holding on a trust basis referred to in this Article is mandated by law, without requiring a trust agreement to be entered into between the payment system administrator and payment system participant.

The provisions of Law 1 of 1984 shall not apply to this holding on a trust basis. Payment system administrators shall not require a trust license and will have no obligations other than those expressly contemplated hereunder, in the Payment Systems Regulations, and in any agreements entered into in connection with said matter.

CHAPTER V

PENALTIES RELATING TO PAYMENT SYSTEMS

Article 56. *Procedure for imposing penalties.* The Payment system Regulations shall regulate the procedure for imposing penalties which shall be applicable to payment system administrators and participants in payment systems responsible for a breach of the rules of this Law.

In the event of any gaps, these shall be filled by the rules of the procedure set forth in Law 38 of 2000.

Article 57. *Criteria for imposing penalties for a breach of obligations by the issuers of redeemable digital assets* In order to impose the penalties established in this article, the

National Bank of Panama shall take into account the following assessment criteria:

1. The seriousness of the breach;
2. The threat of, or damage caused;
3. Evidence of intent;
4. The relative position of power between participants in cases where participants are partial or total owners of the relevant payment system administrator;
5. The effect of the administrative penalty in repairing the damage to anyone directly harmed by the action; and
6. The duration of the conduct.

The Payment Systems Regulation may establish additional criteria for imposing penalties. The behavior of any individual or legal entity preventing inspectors and auditors of the National Bank of Panama from conducting their monitoring tasks or which directly or indirectly hinders said tasks shall be considered an aggravating circumstance.

Article 58. _Penalties for breach by payment system administrators or payment system participants._ Any party in breach of any of the obligations established in Chapter III of this Title shall be penalized by the National Bank of Panama with one or more of the following penalties:

1. A fine of not less than the gross profit made as a result of any acts or omissions involving the serious breach and not more than double the gross profit made, or if this criterium is not applicable, the greater of the following amounts: 5% of the funds of the party in breach, 5% of the totality of its own or any third-party funds used during the breach, or one million balboas (B/.1,000,000.00).
2. Suspension or limitation of the type or volume of operations or activities which may be carried out by the party in breach for a period not exceeding two years;
3. An order for permanent de-linking of the ownership by payment system participant of a payment system administrating entity, wherever discrimination against another participant in the same payment system is established; and
4. Revocation or cancellation of its status as a payment system administrator.

AMENDMENTS

Article 59. Paragraph e of Article 696 of the Tax Code is amended to read as follows:

> **Article 696.** Gross income is the total income of the taxpayer in cash, in kind or in securities without deducting any sum and therefore included in said total are any

amounts received by way of:

(…)

e) Gains made on the disposal of personal and real property, **crypto assets with underlying value**, bonds, shares and other securities issued by legal entities in accordance with Article 701.

Article 60. Paragraph e of Article 701 of the Tax Code is amended to read as follows:

Article 701. The following rules shall be followed for the purposes of calculating income tax in the cases mentioned below:

(…)

e) With the exception of the provisions of paragraphs (1) and (3) of Article 269 of Decree Law 1 of July 8, 1999, any profit made on the disposal of bonds, shares, membership interests and any other securities issued by legal entities, and any profit made from the disposal of other personal property, **including crypto assets with underlying value**, are taxable.

In the case of any profit made on the disposal of securities as a result of the acceptance of a public offering of shares in accordance with the provisions of Decree Law 1 of July 8, 1999 which constitutes taxable income in the Republic of Panama, as well as from the sale of shares, membership interests and any other securities issued by legal entities which are considered taxable income in the Republic of Panama, the taxpayer shall be treated as having made a capital gain, and, consequently, income tax on any profit made shall be calculated at a fixed rate of ten percent (10%). The Executive Branch shall regulate this matter.

The buyer shall be obliged to withhold from the seller a sum equivalent to five percent (5%) of the total value of the sale as an advance on any income tax payable on the capital gain. The buyer shall be obliged to remit the amount withheld to the tax authorities within ten (10) days from the date on which the obligation to pay arose. In the event of any default, the entity issuing the security is jointly and severally liable for any unpaid tax. The Executive Branch shall regulate this matter.

The taxpayer may choose to consider the amount withheld by the buyer as the final income tax payable on any capital gain.

If the amount of withheld tax paid in advance is greater than the amount resulting from applying the rate of 10% on the capital gain made on the sale, the taxpayer may submit a sworn statement confirming the withholding and claim any surplus that, if the taxpayer so chooses, may be reimbursed in cash or as a tax credit for the payment of taxes administered by the General Directorate of Revenue. This tax credit may not

be transferred to other taxpayers. The amount of any gain made on the disposal of securities shall not be combined with the taxpayer's taxable income.

The Executive Branch, through the Ministry of Economy and Finance, shall regulate the procedure for the recognition of tax credits resulting from the sale of securities under the capital gains regime established in this Article.

Without prejudice to the provisions of any current legislation, income from Panamanian sources is deemed to be income earned on capital or securities invested financially within the national territory, regardless of whether the sale takes place within our outside of the Republic.

For the purpose of calculating Income Tax in the event of a sale of personal property, the taxpayer shall be treated as having made a capital gain and, consequently, income tax on any profit made shall be calculated at a fixed rate of ten percent (10%).

For the purpose of calculating any income tax arising from the sale of crypto assets with underlying value, the taxpayer shall be treated as having made a capital gain, and, consequently, income tax on any profit made shall be calculated at a fixed rate of four percent (4%).

Article 61. Paragraph 7 (d) of Article 1057-V of the Tax Code is amended to read as follows:

Article 1057-V:

…

PARAGRAPH 7.

The following shall not be subject to this tax:

(…)

(d) Transfers of negotiable documents and securities, **crypto assets** and securities in general.

Article 62. Article 2 of Executive Decree 170 of 1993 is amended to read as follows:

Article 2. Description of gross income.

Gross income is any income from:

(…)

i) the disposal of any personal property, real estate, securities, (bonds, shares, profit sharing and the like), **crypto assets with underlying value**, the assignment of rights and the leasing of personal or real property;

Article 63. The following Article 117-K of Executive Decree 170 of 1993 is added, which shall read as follows:

Article 117-K.- Regime of gains and losses on the sale or transfer of crypto assets with underlying value for good and valuable consideration.

For the purposes of any Income Tax, Dividend Tax and Complementary Tax, any profits made on the sale of crypto assets with underlying value which are not considered the ordinary business shall be taxable provided that said crypto assets represent underlying assets invested financially in the Republic of Panama.

The disposal of a crypto asset with underlying value means the granting of sufficient credentials or sufficient authority within a crypto asset network by the grantor to the acquirer in order to unilaterally execute or indefinitely prevent the transfer by the grantor of the crypto asset to another crypto asset holder.

In this case, treatment as a capital gain shall be applicable, and the definitive tax amount payable on any profit made shall be calculated at a rate of four percent (4%).

Gains or losses made on the sale or disposal of crypto assets with underlying value for good and valuable consideration shall be calculated by subtracting the cost of acquisition from the sales price.

For the purposes of this Article, the use of a crypto asset as a means of payment for the acquisition of goods or services, with the exception of crypto assets, bonds, shares and other securities issued by any legal entities is not considered a disposal of the crypto asset.

Article 64. Subsection g of paragraph 1 of article 22 of Law 23 of 2015 is amended which shall read as follows:

Article 22. Reporting parties. The following are reporting parties:

1. Those who are supervised by the Superintendency of Banks of Panama for the prevention of money laundering, the financing of terrorism and the financing of the proliferation of weapons of mass destruction:

   …

   g. Issuers of means of payment and issuers of redeemable digital assets.

   …

Article 65. Paragraph 6 is added to Article 129 of the Consolidated Text of the Securities Law, and the numbering is corrected, as follows:

Article 129. Exempt offerings. The following offerings, sales and transactions in securities are exempt from registration with the Superintendency:

(...)

6. (collective financing and offerings using crypto assets) within the parameters established by the Superintendency for the protection of the investing public, offerings considered collective financing based on investments and offerings using crypto assets; and

7. (others) any other offerings, sales or transactions with securities that the Superintendency agrees to exempt from the registration requirement established in this Title, within the parameters it has set forth for the protection of the investing public.

Article 66. Reference article. This Law amends Subsection g of Paragraph 1 of Article 22 of Law 23 of 2015, Articles 52 and 53 of Executive Decree 46 of 2008, Paragraph e of Article 696, Paragraph e of Article 701, and Subsection d of Paragraph 7 of Article 1057-V of the Tax Code, Paragraph i of Article 2 of Executive Decree 170 of 1993, adds Article 117-K to Executive Decree 170 of 1993, paragraph 6 to Article 129 of Decree Law 1 of 1999, and its amendment laws.

Article 67. Effect. This Law shall enter into effect on the day following the publication thereof.

LET IT BE NOTIFIED AND COMPLIED WITH.

HD Raúl Pineda

President

HD. Cenobia Vargas

Deputy Commissioner

HD Gabriel Silva

Deputy Commissioner