

Executive Report

**Crypto Law: Making Panama
Compatible with the Digital Economy,
Blockchain, Cryptoassets and the
Internet**

**Presented by Legislator
Gabriel Silva**

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Republic of Panama
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Where is the world heading?


The world of international trade and finance is moving in the direction of blockchain and cryptoassets as an integral technological phenomenon.

Blockchain is a decentralized database technology that allows every transaction or interaction to be recorded and no person or entity has the unilateral power to erase or manipulate it.

Why is blockchain incorruptible?

The base of blockchain is that the information is decentralized, so every time a user generates a transaction, such as sending money, the computers running the software, called nodes, verify the transaction to validate the information and update the record on all other nodes. In this way, they all inspect and validate the information almost immediately without an intermediary to potentially compromise the information or the transaction. If a node fails, there is no information loss due to a copy of it being registered in the other nodes.

Blockchain has multiple uses, in both the public and private sectors.



Uses of Blockchain

Blockchain in the public sector.

In the public sector, it is used by governments as well as international organizations such as the United Nations in programs developed to improve processes of document authentication, signature validity, identity verification, and public registry.

It is also recommended in the public sector as a mechanism to fight corruption, as it makes it increasingly difficult to hide or erase information.



Blockchain in the Private Sector

In the private sector, Blockchain is used as a digital platform to carry out transactions with cryptoassets.

It is also used internally in companies to eliminate bureaucratic processes, to lower software maintenance costs, and to optimize exchange of information between software within a production chain.





Cryptoasset Revolution

The Revolution

Digital currencies will be massively adopted and will become the most common means of payment worldwide. Also, investors are flocking to cryptoassets due to the possibility of fast returns.

The cryptoasset revolution has just begun, with growing popularity due to the development of reliable digital platforms that accelerate the adoption of its use. This has forced financial institutions and international entities to take strong steps to integrate cryptoassets with their operations.

The Value of Cryptoassets

The market cap of cryptoassets passed the trillion dollar mark in 2021. By 2025, it is estimated to up to 3 trillion.

Who uses cryptoassets?

Countries such as the United States, Canada, Switzerland, Japan, the United Kingdom, Germany, and the Netherlands have enacted regulation on the matter. Corporations such as Visa, MasterCard, PayPal, Amazon, and Microsoft, among other corporate giants, as well as local Panamanian retailers such as Dolt Center and Multimax are also using cryptoassets.

Leading international players recommend regulation of blockchain and cryptoassets

The World Economic Forum, The Interamerican Development Bank, and The Financial Action Task Force (FATF) recommend regulating blockchain and cryptoassets with standards that guarantee the use of these technologies legally and properly.





Key Terms

Blockchain

Blockchain is a decentralized database technology that records every transaction or interaction and no person or entity has the unilateral power to erase or manipulate it.

What are Cryptoassets?

Cryptoassets are digital notations that can be used as stores of value, investments, or even to pay for everyday goods and services.

They are also used as protection against inflation and to protect people's long-term purchasing power.

How do Blockchain and Cryptoassets work?

1. Transaction order is issued
2. The order is sent to the members of the network
3. The members validate the information, creating a block
4. The block is added to the public record, which is also transparent and incorruptible
5. Final step: effective transaction.



Why do we need this?

From retailers selling electronic goods and services, to restaurants, hotels, travel agencies, airlines, pharmacies, clothing stores, and even hospitals, more and more businesses in Panama are adapting to changes and to technological innovation by accepting payment with cryptoassets. Unfortunately, these businesses have been forced to undergo complex processes, such as opening bank accounts abroad, because there is currently no legal certainty in Panama for the use of cryptoassets.

PANAMA AT THE FOREFRONT OF TECHNOLOGICAL INNOVATION


IT IS ESSENTIAL THAT PANAMA ADAPTS ITS LEGISLATION TO THE USE OF BLOCKCHAIN AND CRYPTOASSETS SO WE DON'T LAG BEHIND. TO FORBID ITS USE WOULD BE THE EQUIVALENT OF CLOSING THE DOOR TO THE INTERNET IN 1995. TO NOT ACCEPT CRYPTOASSETS IS TO CLOSE THE DOOR FOR THE COUNTRY AND FOR THOUSANDS OF PANAMANIAN TO ADOPT A TECHNOLOGY THAT WILL CHANGE THE BASES OF HOW WE OPERATE SOCIALLY AND ECONOMICALLY.

Better for Panama

If there is a country that should be at the forefront, it is Panama.

1. It is an expression of our long-standing tradition of monetary freedom.
2. It benefits the population that does not have access to traditional banking services, encouraging the participation of everyone in the modern economy.
3. A system based on rules, with certainty and transparency in its emissions.
4. Adapts us to the world's new technological and financial tendencies.

Better for the People

1. New businesses bring more job opportunities and income sources.
 2. It allows you to have self-custody of your assets.
 3. They are the transactions of the future: fast and with no intermediaries.
 4. It can be a refuge from inflation.
 5. Having new service providers will help lower prices.
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The 5 Pillars of our Proposal

After extensive consultation, we concluded that this proposal for regulating blockchain and cryptoassets must be supported by the following 5 pillars:

1. Legal Certainty.

Provide legal, regulatory and fiscal certainty for cryptoassets:

- a. Provides the option of using cryptoassets as a means of payment (this will not be mandatory as it goes against the Constitution).
- b. Protect users of cryptoassets from financial crime.
- c. Provide users legal tools for the resolution of conflict involving cryptoassets.
- d. Allow the use of cryptoassets as a method of paying taxes and State fees. (This is optional)

2. Encourage Investment.

Provide a legal framework that will attract and encourage companies that use cryptoassets and other types of financial innovation to establish their businesses in Panama.

- a. More options are given to citizens as to where to keep their savings, where to invest, and how to pay for goods and services.
- b. Allows for interoperability between existing and future financial systems. Banks can also participate.

3. Citizen participation.

Any further regulation of this law, must be discussed with the public.

4. International standards against money laundering and other illegal activity such as terrorist financing and proliferation of weapons of mass destruction.

5. Promotes the use of blockchain in the public sector for more efficient and transparent processes. Make Panama compatible with new forms of trust establishment between people and businesses such as smart contracts and new forms of organization such as decentralized autonomous organizations (DAOs).



BENEFITS OF OUR PROPOSAL

The Project seeks to make Panama compatible with the Digital Economy, Blockchain, Cryptoassets and the Internet.

Digitalization of the State

1. Access to digital identity.
2. Efficiency of public service.
3. Transparency of public processes.

Certainty for the use of Crypto

1. Voluntary use of cryptoassets.
2. Non-discriminatory tax treatment.

Certainty For Innovative Platforms

1. Attractive and safe regulation for digital economy and cryptoassets.
2. Risk mitigation following international regulatory standards, including those of the FATF.
3. Access for platforms that could not operate locally under current legislation.
4. Creation of employment opportunities.

Compatibility of traditional banking with the digital economy and cryptoassets

1. Strengthen Panama's role as an innovative financial center.
2. Enact regulation that allows interconnection between innovative platforms and traditional financial institutions.
3. Greater competition in the payment services market.
4. Options of higher quality for financial consumers.

Universal Access to the Internet

1. Mandate to provide universal access to the internet.
2. Connection for all the population with the new digital economy.
3. Equal access to opportunities.

All this will be carried out within a framework of citizen participation and global benchmarking, which will be mandatory for any amendments made to regulation.

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6533.4866

despacho@gabrielsilvadiputado.com

