

COMMITTEE OF INDEPENDENT EXPERTS

FINAL REPORT

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COMMITTEE OF INDEPENDENT EXPERTS

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FINAL REPORT

I. INTRODUCTION

This document presents the recommendations and conclusions of the Committee of Independent Experts (hereinafter the "Independent Committee") established by the His Excellency, Juan Carlos Varela Rodríguez, President of the Republic of Panama by way of Executive Decree No. 94 of April 29, 2016, in order to *"analyze the service platform for the purpose of formulating recommendations that be incorporated as best practices, to achieve the transparency objectives required by the international community"*.

In compliance with the requirement of the said Executive Decree, the Independent Committee has studied the regulations that oversee the service platform of the Republic of Panama (hereinafter referred to as "Panama") as well as the international standards and recommendations from multilateral organizations. In parallel, it consulted with the public institutions that regulate the services sector, the private sector that participates in it and multilateral organizations.

This report is a reflection with recommendations of action to the Government with the purpose of maintaining the competitiveness of Panama as an international financial center and central axis of international operations for businesses and non-profit organizations, as well as to enhance the competitive advantages of the country in the face of the opportunities and threats of a globalized world with constantly evolving standards of transparency and exchange of information and control, which were significantly affected by the fiscal difficulties and the increase of illicit flows of capital that occurs in the world, mainly from the g-20 countries.

This work has made a comparative analysis with jurisdictions that have maintained a competitive position towards the rest of the world and offer services that are positive for their economy and meeting international standards in the field.

In order to achieve the stated objectives, the need has been identified to immediately establish commitments with the international community. These commitments shall require

action by the authorities, in a constant effort of evaluation and decision-making, regulations, implementation and compliance ("Enforcement").

A financial, logistical center and international operations *hub* depends on its ability to offer competitive elements which behave in a manner that is different for each country, creating a wide spectrum of opportunities. Said elements of competitiveness must be combined to provide an efficient and reliable platform so the international community may recognize them as such.

The main elements to consider are the following¹:

- Availability of skilled labor and executive staff with a high degree of professionalism;
- A strong and balanced regulatory regime;
- Access to international financial markets;
- Business infrastructure, logistics and connectivity;
- Accessibility to local and international suppliers and customers;
- A strong and independent judicial system;
- Responsiveness of the government to the constant progress of the modernization and changes of context in the globalized world;
- A competitive corporate and personal tax regime;
- Existence of clusters of local suppliers and distributors;
- A high quality of life standard;
- Multiculturalism and multilingualism;
- A dynamic and modern real estate market; and
- Efficiency in the establishment of new organizations.

Although Panama stands out in several of the aforementioned elements, it is important to note that the clarity and implementation of a regulatory regime which meets international

¹ Z/Yen Group Limited, 2013.

standards, is essential in any jurisdiction that seeks to establish itself as an international service center.

Panama seeks to attract world class players for the establishment of substantial operations in its territory. To achieve this it is imperative for the country to increase its competitiveness, the effective implementation of applicable standards by the international community on transparency in identifying the final beneficiary of legal and financial instruments, and the exchange of information on tax matters, as well as the deployment of a competitive environment in the previously indicated dimensions.

An operation is considered of substance when it provides the country with capital by way of productive investments which generate sustainable jobs, aggregate economic value and new trade channels, new products and services for citizens, transfer of knowledge, technologies, know-how, and/or development of new productive sectors and; in short, that which contributes to growth in its economy, social progress and/or environmental sustainability.

The Panamanian Economy

One of the main characteristics and competitive advantages of the Panamanian economy is its maritime, aerial, telecommunications, commercial and cultural connectivity. This characteristic has turned it into a service economy that, given its installed capacity, can serve both the domestic and international markets.

The Panamanian economy is mainly service-based: 83% of its Gross Domestic Product (GDP), estimated in 2015 at USD 52,132 Million according to the International Monetary Fund², belongs to the service sector, of which less than 1% are legal services. 90% of exports are services. Approximately 25% of the GDP is made up of services from the Panama Canal and its related activities, transshipment ports, the Colon Free Zone, services such as fuel, repair and maintenance of ships and containers, as well as tourism from cruise ships which dock in Panamanian ports and/or transit through the Panama Canal.

After adding banking and financial services, airport services from Tocumen International Airport and its airlines, the merchant marines, non-Canal based tourism,

² Source: www.imf.org/external/datamapper/index.php

telecommunications, the City Of Knowledge, the Panama-Pacific area, the professional services of lawyers, insurers and accountants, among others; the contribution of the service sector amounts to approximately 45% of the GDP. To this you must add the contribution of the 124 multinational companies that operate regional offices in Panamanian territory. In other words, the conglomerate of some 26 activities in the transit region produces more than 45% of the GDP.

Between the years 2013 and 2015 the economy grew by an average of 8.1% per year; and it is estimated that by 2016 it will close at least 5%. Exports, mainly of services, grew an average of 14.5% per year in those years. Investments made up 27% of the GDP on average per year, the highest level of any country in the hemisphere. It is estimated that about one-third of these were national private investments, another third were national public investments and a third foreign direct investment in Panama. These levels of growth were the best in Latin America and one of the highest in the world.

As a result, during the period 2003-2015 unemployment was reduced from 13% to 4.5% of the workforce. Poverty fell from 39% to 23% of the population.

This growth was mainly due to the increase in demand caused by the increase in exports, the expansion of installed capacity due to total investment, and a banking and credit system open to the development of projects of acceptable risk consistent with the sector dynamics.

The banking center is a fundamental pillar of the economy, representing approximately 9.5% of the GDP, being a primary source of the expansion of the economy. As an international financial center, it exports its services mainly to the region and is a fundamental part of the connectivity of the country's economy.

Foreign source deposits and transactions are an important part and supplement for local deposits and banking transactions. Both sustain the credit to the local economy and also provide international credits, mainly to countries of South America. The banking sector employs more than 24,000 people directly, and many more in companies servicing the banking sector: infrastructure, security, software, technology, logistics, maintenance, etc.; generally in well-paid jobs and sustainable by the very fact of being linked to a sector of high international competitiveness.

Panama has a well-diversified economy. The most dynamic sectors, in addition to banking and finance, have been construction, telecommunications, electricity, wholesale and retail trade, tourism, maritime activities, cargo and passenger air transport activities, among others. The fastest growing sectors have been agriculture and industry manufacturing, although in some subsectors they also had sporadically good years.

Connectivity, macroeconomic stability, the use of the dollar of United States of America as legal tender, and other characteristics of the economic system, make Panama an attractive place for investment and as a center of operations.

The Panamanian economy remains the second most competitive in Latin America, ranking at number 42 at the global level, according to the global competitiveness index 2015-2016, published by the World Economic Forum.

Notwithstanding the favorable conditions of the Panamanian economy, presently it faces serious challenges; according to international institutions that evaluate transparency and competitiveness, such as Transparency International, the World Economic Forum and the Tax Justice Network, Panama shows serious weaknesses in institutional strength, ethics and corruption, independence of judicial and control institutions, influence peddling, separation of State powers and problems stemming from lack of transparency.

Evaluation of International Organizations, Risk Rating and other jurisdictions

In recent times and particularly after the terrorist events of September 11, 2001 and onwards, coupled with the increase in illicit money flows caused by drug trafficking, terrorism, human trafficking and the illegal arms trade and growing globalization which allows companies and organizations to develop fiscal optimization strategies by combining various tax jurisdictions, combined with increasing fiscal control by a growing number of nations, new standards of control have been promoted at the international level on international capital flows.

The need for better control in the flow of capital is not a problem unique to Panama. It is part of an international effort promoted by the Organization for Economic Cooperation and Development (OECD), the United Nations (UN), the World Bank (WB) and the International Monetary Fund (IMF), as well as some governments. The real purpose of this effort is to minimize as far as possible illicit flows of capital and for this it requires the joint

and united action of many nations rather than demanding responsibility for changes over a few.

The current situation in Panama with regard to the control of the flow of capital, according to evaluations carried out by international and multilateral organizations, is as follows:

1. Global Forum on Transparency and Information Exchange for OECD Fiscal Purposes: The Joint Evaluation of the so-called Phase 2, which monitors the implementation, compliance and effectiveness of the legal system in accordance with the 2010 Rules, is in process. To pass this Phase 2, the country must meet 8 of the 10 standards set out in Supplementary Peer Review Report, Phase 1, Legal and Regulatory Framework (Annex 7). At the close of this Report, the Authorities have said that the Phase 2 evaluation will require a supplementary evaluation, due to the short time since Panama re-initiated the adjustments to its control system in order to effectively measure its implementation. It is expected that this supplementary evaluation will be carried out in 2017³.
2. Financial Action Task (“FATF-GAFI”): Panama was removed from the FATF-GAFI gray list in February 2016. As a member of GAFILAT, the country will be evaluated in the context of the Fourth Round of Mutual Evaluation in 2017. As the regulatory framework has been duly approved, the evaluation will measure compliance with the 40 recommendations to prevent money laundering and terrorist financing, and the capacity and effectiveness of the measures implemented.⁴
3. International Monetary Fund: On June 10, 2016, the Executive Committee of the International Monetary Fund (IMF) published the results of its latest revision of Panama, called the Article IV Consultation of Panama. In this publication, in addition to recognizing the country's good economic performance, the IMF repeatedly mentions the need to strengthen financial transparency and fiscal structure. The IMF stresses the importance of strengthening the structure to combat money laundering, in line with international standards and ensuring its

³ <https://www.oecd.org/tax/transparency/panama-supplementary.pdf>

⁴ <http://www.imf.org/external/pubs/ft/scr/2014/cr1454.pdf>

effective implementation and recognizes the exclusion of Panama from the list of countries with deficiencies. The IMF stresses that the country must continue to strengthen financial integrity and transparency. The directors recognize the Panamanian commitment to the automatic exchange of fiscal information and encourage the country to continue negotiating this type of agreement with other jurisdictions.⁵

4. S & P Global Rating (S&P): On September 28, 2016, rating agency S & P Global Ratings reiterated Panama's BBB/A-2 risk rating with a stable outlook. S & P highlighted the prospects for strong economic growth, a moderate fiscal position, and a moderate public debt burden, in support of Panama's risk rating. On the other hand, institutional weaknesses in some political institutions and the challenges of transparency and regulation in their financial system act as constraints to an improvement in the risk rating. S & P mentions in its report the need for Panama to strengthen transparency and the exchange of tax information.
5. The United States of America ("USA"): The US through one of its agencies, OFAC (Office of Foreign Assets Control), has included one of the country's commercial groups on the so-called Clinton List, which seeks to create an alert about entities or individuals being investigated for money laundering.
6. The European Economic Community (EEC): There is no discriminatory list at the moment. Panama is subject to qualifications by EEC member countries through evaluations made by organizations such as the OECD or FATF. The so-called "Panama Papers" have raised the alarm about the globalization of the problem and certain countries are seeking to apply sanctions to transactions carried out with or from Panama unilaterally.
7. Other: Some jurisdictions have included Panama on tax haven lists or as a non-cooperative country, and apply sanctions to the commercial operations conducted by their nationals in, with or from Panama.

⁵ <https://www.superbancos.gob.pa/superbancos/es/evaluaciones-fmi>

In the world there is a movement orchestrated, but at the same time decentralized, to promote the transparency of financial flows and to minimize tax evasion. This occurs in global, regional, and nation-wide institutions. A country whose economy depends partly on commercial financial transactions and/or services to organizations operating and/or domiciled therein, cannot afford to be on lists that call into question its ability to handle such flows and transactions without incurring significant risks for themselves and their counterparts to allow the financing of illicit activities or the diversion of fiscal flows.

II. ANALYSIS OF OTHER CENTERS OF SERVICE

The Independent Committee has conducted an analysis of jurisdictions that offer service structures comparable to the Panamanian platform and have maintained their offer in front of the international community. They have faced the significant challenges set by international organizations, such as OECD, G-20, by updating its platform of services such as those provided by Panama, in terms of regulation, cooperation and supervision and which have thus been maintained outside the discriminatory lists issued by those bodies.⁶

This analysis has allowed us to conclude that a financial, logistical and international services center, offering both legal and corporate and financial structures as well as regimes for taxes and various transactions, can only be successful and competitive in the immediate future, if it steers away from the offers and positioning that weaken the tax bases of third countries and sophisticates its tax regime and increases the reporting requirement, particularly for non-resident organizations and individuals. Likewise, it is concluded that international and financial services centers should have mechanisms to ensure transparency in international cooperation for tax and money laundering issues.

In Panama, there are a number of operations that use the services hub, such as: (i) banking, financial, insurance and reinsurance, legal, accounting and corporate; (ii) logistics and connectivity; (iii) foreign companies and organizations established in national territory that use the infrastructure and human capital to provide services to other divisions of the same economic group or to international customers and suppliers; (iv) the legal seat of foundations and non-profit organizations with international operations; (v) free zone

⁶ See: Singapore, Bahamas, Hong Kong, Colombia, Bermuda, Liechtenstein, Luxemburg, Switzerland, England, British Virgin Islands. Report in Annex 2.

manufacturing and/or services companies; (vi) regional distribution centers for international property companies; aside from the normal operation of companies and non-profit organizations operating in and from Panama.

Panamanian legislation maintains a high degree of flexibility for the aforementioned operations in tax terms and for reporting obligations to the respective authorities in each case, which results in the establishment of organizations in Panama with little regulation and few control mechanisms in place in their nation of origin. These transactions are legal, but create a real risk in terms of illicit capital flows, because of their laxity in controls and reporting needs.

The experience of other jurisdictions indicates that at the international level, the offer of services with low tax requirements (tax competition) is not questioned as long as it is public, transparent and subject to certain limitations and to the extent that a State receives information in a timely manner with respect to such organizations for their own fiscal control. An example of this is the successful SGPF (*Societe De Gestion De Patrimoine Familial*) offered by Luxembourg that pay at a privileged rate - less than 1% - and there is no debate in the European Union regarding its legitimacy, given the possibility that exists in Luxembourg to share information with other States when necessary and required by them.

At the same time, there are jurisdictions that have substantially modified their domicile and residence rules in order to attract investment, capital and international talent, always on the basis of an attractive tax offer and facilitates by means of transactional schemes and transfer prices, their fiscal situation. This form of convenience is dangerous if liquidity control systems are not established at the same time as to allow the identification of those investments that are made exclusively for illicit purposes.

In this sense, Panama could become an attractive jurisdiction for a plurality of companies and investors to facilitate its legitimate international business by offering competitive prices and easy quotation, as long as there are rules in the stock market that meet quality conditions and regulation of the standards of the International Organization of Securities Commissions (IOSCO).

Panama has some control gaps that it must close to create an environment that, without affecting the operational competitiveness of companies and organizations legally residing in Panama, provides the necessary security in terms of detecting and eventually eliminating potential illicit flows.

From the analysis carried out it is derived that there are six levels of mechanisms that a nation must have to establish its relation with the companies and organizations that operate in it:

- a) institutions, created to control and supervise those sectors and/or groups of organizations whose operations and/or transactions involve a risk of illicit flows;
- b) legislation that establishes reporting requirements to control and supervisory bodies;
- c) incentives to properly report what is required and sanctions applicable to those who violate their legal and/or reporting obligations;
- d) allocation of human capital with authority, responsibility and preparation to measure, evaluate and report properly and in accordance to the laws, norms and regulations in force, (sometimes called champions or anti-money laundering tsars);
- e) infrastructure and technology, ie the physical, technological and/or digital platforms where the necessary control and reports will be given; and
- f) security and confidentiality, ie the mechanisms that guarantee a selective, transparent and adequate use of the information provided by the organizations under control.

All of the above in the framework of a legal, tax and commercial environment that is properly regulated and controlled, but which remains competitive and attractive as an international financial and service center.

III. RECOMMENDATIONS

The country's strategy should be to achieve a high standard of performance in transparency and effective control of illicit flows, while retaining its competitiveness as a financial,

service and domiciliary center of international organizations and remains off any discriminatory list or qualification of opacity or lack of transparency.

This will require decisions, investment, legislation and a high degree of commitment by the authorities and regulatory bodies of Panama; will imply strengthening the control and reporting systems for the different productive sectors of the country and for all those organizations that are domiciled in Panama.

Panama must act proactively, consistently and internally and in clear view of the international community. The following are recommendations for the National Government based on the structural analysis of the country's economy, the analysis of the situation and risk currently perceived, the comparative jurisdictional analysis carried out, visits and opinions of regulators and the private sector in Panama, and the analysis of the concepts evaluated by the OECD and the FATF and how they are evolving. It is based on the understanding that the exchange of information for fiscal purposes is effective when the information to be obtained to comply with the requirement is relevant and available or can be accessed in a timely manner, and there exist legal mechanisms to do so.

1. Strategy and participation:

- a. Strategy. The National Government should establish as soon as possible an integral vision for the national strategy of international services, which must respond to the national interest and to the national strategy of long term development. Specifically, this should include Panama's exclusion from any discriminatory list related to tax issues, transparency and effective exchange of information as one of its main objectives.

The strategy should define short-, medium- and long-term initiatives to ensure compliance with this strategic objective based on the recommendations made below and on a constant analysis of trends and risks in the international context.

- b. Participation: Panama should aim to be included in the relevant multilateral fora (OECD, IMF, FATF, and UN) where there are discussions that could affect public policies or establish international agreements that could affect the national strategy of the international services sector.

2. National political commitment:

- a. Panama must establish the necessary political agreements, as well as make the main economic actors of the country aware of the need to advance in terms of transparency and institutionality, as the main way of moving towards a simultaneously more competitive and transparent Panama.
- b. Execute a wide campaign of awareness about the risk involved in the handling of illicit flows of any kind in Panama or through organizations registered in Panama.

3. Independent Advisory Committee:

Establish a permanent advisory committee, made up of independent professionals, with proven solvency and experience in issues related to money laundering, tax evasion and estate planning, which have no conflicts of interest and which can put the needs of the country before personal and professional agendas in these matters, to serve as an advisor and present recommendations to the National Government for the fulfillment of the vision and strategy for the international service center and the implementation of the recommendations of this report that the Executive Power decides to host (hereinafter "Advisory Committee").⁷

This Advisory Committee should analyze whether maintaining tax incentives of some type for the international services platform and other sectors (headquarters of multinational companies, free zones, for example) contributes to the economic and social development of the country through the establishment of jobs and the diversification of the economy. The reports of the Independent Advisory Committee shall be submitted annually to the Authorities through the Ministry of Economy and Finance, which shall make them public through its annual reports.

⁷ It is suggested that it be modeled after the Advisory Board of the Board of Directors of the Panama Canal (Law No.19 of 11 of June 1997).

4. Availability of the Information:

- a) To comply with the provisions of Law 52 of October 26, 2016, which requires offshore⁸ legal entities to maintain available accounting records through their resident agent, similar to how the shareholder information, and establish the obligation of annual private reports, which will be required and kept in strict confidentiality except in cases of flows suspected of being illegal, in which case they will be raised to the respective authority.
- b) Establish mechanisms to identify and keep identified the last beneficiary (and not the shareholder) of the different types of legal entities of any nature, including trusts that operate and are domiciled in Panama through the resident agent, beyond what is established in the Law No. 23 of April 27, 2015, which requires it only for money laundering issues.

5. Information access:

a. Information providing agents:

- i. Establish in the short term rules that differentiate resident agent services and legal services from the practice of law. Resident agent services must be provided by individuals or entities duly licensed and identified for this purpose and subject to supervision and regulation.
- ii. Update the Law that regulates the practice of law, so that lawyers who advise users of the international platform maintain the highest ethical standards and professional performance.
- iii. Prohibit the performance of entities that are not regulated and subject to supervision with fiduciaries, even if it's not a regular part of their business.

- b. Intendance for the Supervision and Regulation of Non-Financial Subjects: To strengthen the capacity, access and effective monitoring of its regulated to

⁸ We refer to the term offshore to refer to legal entities that are not taxpayers of income tax in Panama for not carrying out taxable operations within Panamanian tax territory.

enable it to comply with the objectives established by the Law, the following is proposed:

- i. Provide him with the necessary resources for his operability and professionalization.
 - ii. Independence, in the short term, from the Ministry of Economy and Finance and make it an independent regulator.
 - iii. Restructure it administratively in focused and specialized directions by regulated sector with special attention to legal services, construction and real estate sector, free zones of any nature, casinos and gambling, based on a national risk assessment.
- c. Financial Analysis Unit: Independence from the Presidency of the Republic and guide it in a professional and institutional manner to the analysis of the illegal management of capital in all its forms, for which it must be strengthened in its resources, human capital, authority and visibility.
- d. Institutionality of the financial sector:
- i. Insurance Sector: Strengthen, in the short term, the supervisory and control capacity of insurance and reinsurance companies. It is important that the Insurance and Reinsurance Superintendence should adopt the Basic Insurance Principles provided by the "International Association of Insurance Supervisors", an entity to which Panama is subscribed.
 - ii. Trusts: Strengthen the supervision that the Superintendence of Banks applies to trusts. Eliminate the possibility of non-supervised entities performing fiduciary activities under the pretext of not doing so on a regular basis.
 - iii. Cooperatives: To strengthen the supervision and regulation capacity of the Panamanian Autonomous Cooperative Institute.
 - iv. Financial: Independence of the General Directorate of Financial Companies of the Ministry of Commerce and Industries, creating an autonomous regulatory body.

- v. Savings and credit societies: Shall no longer be under the supervision of the National Mortgage Bank (Banco Hipotecario Nacional) and be regulated by a capable and structured supervisor.
 - e. Ensure the real independence of the Panamanian judicial system from the influence of the other powers of the State and strengthen it in technical, financial, accounting and audit terms, so that it is more effective in processing the cases and information requirements that arise.
 - f. Incorporate the Superintendence of the Securities Market into IOSCO immediately.
 - g. Develop a technological, high security platform, where the private and public entities store the information under their responsibility to collect, so that it is easily accessible to the authorities when, following legal processes, it becomes necessary to access it.
6. Exchange of information
- a. Panama must implement and comply with its recent adherence to the Multilateral Information Exchange Treaty and define those countries with which it will sign agreements automatically.⁹
 - b. Security and confidentiality of information: To effectively implement Law 51 of October 27, 2016 which establishes the legal framework within which Panama will provide information to third countries.
 - c. Strengthen the Directorate General of Revenue of the Ministry of Economy and Finance ("DGI"), as an entity responsible for effecting the exchange of information, through the allocation of financial resources and professional human capital, properly trained. The DGI must have a technical team whose mission is the continuous evaluation of the international standards and the

⁹ Note No.D.S.-MIRE-2016-30811 of July 14, 2016.

adaptation of the country to them, without undermining our economy of services.¹⁰

- d. In the short term, install and initiate operation of the technological tools that are necessary to measure the effectiveness and compliance with requests for information from third countries.

7. Regulation:

- a. Ensure that the exchange of information according to the international treaties signed is in accordance with the parameters established in the National Constitution.
- b. Establish the necessary regulation so that professionals who, in or from Panama, advise in the establishment, creation or implementation of structures used for fiscal planning (ie accountants, lawyers, and any other) and that in doing so do not comply with the obligation to know who is the final beneficiary of said structure, with the maintenance of the records and reports that the laws and regulations require, as well as knowledge of the activities to be carried out, are duly punished for non-compliance, whether with a fine, loss of license and execution of the corresponding bond.
- c. Develop and implement anti-corruption legislation that addresses acts performed by Panamanian nationals or economic groups established in Panama that directly or indirectly participate in the implementation of illegal activities in third countries.

The regulations must include the obligation to supervise and have strict control of the activities carried out by third parties on their behalf, franchisees, concessionaires or agents of any nature, whether in person or through legal entities, directly or indirectly.

¹⁰ We understand that the country has integrated an Interinstitutional Technical Workgroup on BEPS (GTTI-BEPS) which is an important step in the right direction.

8. Erosion of the tax base and transfer of profits ("BEPS")¹¹

- a. While this is an issue on which the G20 countries have not yet reached definitive agreements, and since it is in the national interest to continue to attract foreign investment through the establishment of companies, we recommend that all applicable regulations aim at attracting and retaining what has been defined as a substance, that is, those that attract capital, generate jobs of better quality, bring new technologies and production methods to the country, open new international markets, consume significant national inputs - energy, raw materials, supplies, support services - and generate systemic capacities that without their investment would not happen in the country.¹²
- b. To study the appropriateness of eliminating the possibility of booking offshore transactions as permitted by the tax regulations applicable to free zones (goods that do not circulate through national territory in any way) and the securities law. These type of operations do not create jobs or pay taxes in Panama, so they do not aggregate value.

9. Education:

- a. To promote the strengthening of the capacity of higher education institutions to train professionals in legal, accounting/audit and compliance matters consistent with the supervision and control requirements established by the changes recommended in this document.
- b. Initiate a structured process in partnership with the private sector, in particular with consulting, accounting, finance, insurance and auditing companies, to strengthen the professional, technical and ethical training of professionals in accounting, control and auditing in Panama's education system.

¹¹ BEPS refers to fiscal planning strategies that exploit gaps and inconsistencies in fiscal regulations to artificially shift the profit center to jurisdictions with zero or low taxation, and where there is actually little or no economic activity. Although some of the schemes used are illegal, most are not. This affects the fairness and integrity of tax systems as business that is performed internationally can use BEPS to gain a competitive advantage over operations that occur locally. It is important to bear in mind, in this regard, that in order to pass the test that operations have substance and that the regime is considered legitimate, other factors are evaluated: low or certain effective rate, ring-fencing, lack of transparency and lack of information exchange).

¹² Hong Kong and Singapore - countries particularly analyzed for similarities with the Panamanian services economy - have agreed to implement the basic BEPS package. The important thing about early, non-reactive decision making is that it allows you to make the required adjustments in time.

IV. CONCLUSIONS

The present report and its recommendations respond directly to the mandate and objectives received through Executive Decree No. 94 of April 29, 2016 and not to the international pressure of institutions and individuals who have other needs and agendas towards Panama or the international financial system. It is with this in mind that the parts and scope of the report must be read and understood.

The vocation of services and the advantages offered by Panama to position itself as a regional leader in the provision of value-added international services - with substance - is an issue not discussed, but the possibility of remaining as such is a poorly understood topic in its risks and requirements. The situation is actually quite simple: international operations require security, certainty and speed, and doubts about the transparency and weaknesses of the system affect the decision-making of potential investors.

The path the country is to follow regarding the situation it faces and the present recommendations are a decision that must be taken by the national authorities. Given the repercussions it might have, it should be treated as a State issue and not lightly, as it has been done in the last 15 years.

Panama must maintain at all times its sovereign right to exonerate activities that take place in national territory as long as they comply with the rules of substance to which we have referred, as well as with the reporting and accounting rules established for its adequate control. On the other hand, the sophistication of the tax provision for non-residents is a critical component of the overall quality of the offer to third parties, and any international agreement in the matter, ensuring transparency, control and, - where necessary and correct - the exchange of information must be carefully considered.

The Independent Committee considers that Panama should not enter into the debate on the classification of tax evasion as a crime in order to meet the demand of third countries, since as a subscriber of the United Nations Convention against Corruption (“UNDOC”) it already has an obligation to exchange information for reasons of tax evasion when it is classified as a crime or money laundering in the requesting country.

It will also be fundamental to develop the legal, institutional, programmatic, infrastructure and technological conditions and instances, as well as human capital formation that will

support the regulatory framework put in place, since the worst situation would be to create instances and expectations at the documentary level which the country will not have the capacity to back up in practice. In this sense, we recommend to be pragmatic and to schedule some changes and commitments in time, giving the necessary time for the various instances to adapt to the new demands and communicating that it will be so, since the sole intention is not a guarantee of compliance if it does not count on the human, technological and institutional resources to implement what is recommended and accepted.

We conclude by recommending to the Government of the Republic of Panama to assume as their own the commitments acquired and show in their communication and political signals to the community the desire to achieve a much more transparent environment in all areas of the country, always aiming towards a goal where any exchange of information must be carried out in compliance with current legal standards and international agreements, for the full protection of citizens and users of the system.

Finally, we call on the authorities to ensure that the signals that are shown to the international community are accompanied by a communication strategy consistent with the urgent and serious need to reduce the high levels of perceived opacity in Panama, since in the long term and, as regulations tighten in more developed and emerging nations, the country will find it more and more difficult to remain competitive as a destination for desirable investments.¹³

The moment has come. The country can no longer postpone decision-making in this field. The decision must be to act, firmly and with a view to the future, so that Panama maintains its position of economic leadership free of qualifications on its competitiveness in every sense.¹⁴

¹³ In Annex 3 the report of Roberto Artavia Loría, Foreign Commissioner is an important analysis of various indices that give rise to the perception of corruption and lack of transparency in every sense.

¹⁴ With great concern this Commission has received from Standard & Poor's its sovereign debt rating on November 29, 2016. For the first time, a rating agency makes a specific statement that demands to raise local regulations to the fulfillment of international standards: That the political institutions of the country are being developed and the relevant challenges in relation to transparency in the government and the regulation of its financial system restrict the qualification (“*The country's developing political institutions and relevant challenges regarding transparency in government and regulation of its financial system act as ratings constraints.*”)

Thanks

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