

TAPIA, LINARES Y ALFARO
Attorneys-at-Law

P.H. Capital Plaza, 15th Floor
Paseo Roberto Motta, Costa del Este
P.O. Box 0816-02984
Panama, Republic of Panama

Telephone +507 306-5000
Fax + 507 306-5005
E-Mail: talial@talial.com
www.talial.com

MEMORANDUM TO OUR CLIENTS

We hereby inform you of the approval of **Law 52 of October 27, 2016**, which establishes the obligation to keep accounting records for certain legal entities, and amended other laws. Said Law shall become effective as of **January 1, 2017**.

I. Obligation to maintain accounting records

As of **January 1, 2017**, all legal entities (*i.e. corporations, limited liability companies, or of any other commercial activities, as well as foundations of private interest*), that do not carry out operations that are perfected, consumed or have effects within the Republic of Panama, are obliged to keep accounting records and maintain their documentation of support **in the offices of its Resident Agent within the Republic of Panama, or in any other place within or outside the Republic of Panama**, as approved by their relevant administration bodies.

For the purpose of the Law, accounting records means the data that clearly and precisely indicate the commercial operations of the legal entities, their assets, liabilities and assets; and that enable to determine their financial position and the possibility of preparing their financial statements. The extensiveness of the accounting records will depend on the complexity and magnitude of the activity to which each legal entity is dedicated.

In the event that the legal entity maintains the accounting records and supporting documentation outside the Republic of Panama, it shall be obligated to provide them to the Resident Agent within no more than fifteen (15) business days from the date of notification of said request by the Competent Authority in Panama.

In order to comply with our obligation to maintain a record of the place where legal entities maintain their Accounting Records and Documentation of Support, it is indispensable that you provide us the following information: (1) The name of the legal entity; (2) The physical address where the Accounting Records and the Documentation of Support are located; and (3) The name of the person responsible for maintaining in custody the Accounting Records and the Documentation of Support.

If your legal entity does not maintain sufficient accounting records, we can assist you in complying with these provisions.

II. Obligation to keep records of shareholders

The Resident Agent is obliged to keep a copy of the stock registry of those corporations for which it acts in such capacity. Under this new provision, it is essential that we, as Resident Agents, be provided with a copy of the stock registry, duly certified as a true copy of the original by the President or Secretary.

III. Effects of non-payment of the Annual Franchise Tax

The non-payment by a legal entity of its Annual Franchise Tax in the period in which it is caused will have the effect of preventing the registration in the Public Registry of Panama of any corporate act that are submitted for registration and the issuance of certifications relating to such legal entity.

The General Directorate of Revenue of the Ministry of Economy and Finance may order the Public Registry to suspend the corporate rights of a legal entity that incurs arrears in the payment of its Annual Franchise Tax for a period of **three (3) consecutive years**.

Likewise, the Public Registry shall suspend the corporate rights to the legal entity who is delinquent in the payment of a duly executed fine or sanction imposed, after receipt of such order from the competent authority.

Once the suspension is registered in the Public Registry against the legal entity, the same will have a **term of two (2) years for its reactivation**. During that period, any administration body, shareholder, partner, Resident Agent or any interested third party may request its reactivation, after the payment of a fine of US \$ 1,000.00 for reactivation.

Once the previous term has expired without the reactivation of the legal entity, the Public Registry of Panama will proceed with the **definitive cancellation** and, as a consequence, said legal entity **will be deemed definitively dissolved**, with all the legal effects that this situation entails.

IV. Certification of Resident Agent

When the management bodies decide to change Resident Agent, it will be necessary to obtain from the current Resident Agent, a certification confirming that no fees are owed for the exercise of such position, and giving their consent to such change.

V. Modification to the Custody of Bearer Shares

Article 21 of Law 47 of 2013 has been amended in order to establish that **the political and economic rights inherent in the bearer share certificates who were not delivered to an authorized custodian are canceled**. Previously, the law provided that owners of bearer shares, whose certificate had not been delivered in custody after the transition period, could not exercise against the company any political and economic rights inherent to the shares.