

## Swift adoption of Bitcoin as legal tender will test El Salvador's regulatory capabilities, sources say

20 September 2021 | 15:00 BST

Earlier this month, El Salvador became the first country to adopt Bitcoin as legal tender. The move will test the small Central American country's regulatory capabilities in managing a digital currency originally designed to circumvent government controls, according to two industry sources.

El Salvador officially adopted Bitcoin as legal tender on 7 September —a mere 91 days after President Nayib Bukele announced his party Nuevas Ideas would present a bill to that effect during a Bitcoin developers [videoconference](#) broadcast live on *Twitter*, his favorite communication medium.

It took the country's unicameral Congress, which is controlled by the president's party, only five hours to approve the bill.

In contrast, other Latin American countries have been careful to introduce changes to their financial services industry. Mexico, for example, published open-banking standards in the summer of 2020 but does not expect a full rollout until next year, when testing phases are completed, [as reported](#).

The swiftness with which El Salvador adopted Bitcoin as legal tender even surprised the country's fintech community, said Erick Chacón, president of the local fintech solutions developers' industry group ASAFINTECH.

The lack of detail in the 16-article Bitcoin law forced local banks to rely on Bukele's tweets and national addresses to try and prepare for what was coming, Dionisio Machuca, legal VP at local Banco Agrícola, said on 29 June during an online seminar.

The law and its accompanying regulations entrusted El Salvador's financial regulator (SSF for its Spanish-language acronym) —with 64 employees and an annual budget of USD 29.4m— to regulate the use of Bitcoin, including making sure service providers implement anti-laundering programs, keep track of the digital currency they hold, thoroughly verify the identity of their clients.

The country's central bank, with 112 employees and an annual budget of USD 34.4m, will be responsible for managing a registry of Bitcoin service providers. The central bank launched a new [website](#) for Bitcoin service providers to register themselves.

Chacón expects many Bitcoin and related fintechs to seek registration to operate in El Salvador in the coming months. The new law requires little information from Bitcoin service providers,

PROPRIETARY

**Sector:** Financial Services  
**Topics:** Agencies, Cybersecurity, Foreign Investment, Policy Developments

**Grade:** Strong Evidence

### Companies

International Monetary Fund (IMF)  
Financial Conduct Authority  
Banco Agrícola  
Bitso

### Agencies

Government Of El Salvador

There are no files associated with this Intelligence

said Daniel Leiva, associate lawyer at Consortium Legal, a San Salvador-based law firm that advises Bitcoin startups.

The registration process, which is mainly done virtually, is designed to take no more than 15 days, he said. And yet, there could be regulatory and operational bottlenecks, he added.

For example, the government-operated digital wallet *Chivo* temporarily suspended operations on 7 September due to higher-than-expected demand, Bukele said on Twitter.

One company that has already taken advantage of El Salvador's move is Mexico City-based Bitso. The company provides custody and exchange services to Chivo. "We provide the back-end technology to ensure that Bitcoin to US dollar convertibility is met and that Salvadorans are able [to] access Bitcoin through easy, secure and fast transactions," a spokesperson said in a written statement.

Asked how it managed to secure the contract even before the central bank launched its online service provider registry, a spokesperson for Bitso said El Salvador's government reached out to the company looking for help building "their vision of Bitcoin" and was selected "amongst other service-providers, based on our service offering."

In a 6 September press release, the El Salvador's presidency said Chivo was developed by the government. Cristosal, a local human rights organization, filed a suit on 10 September that seeks to force the government to declare how much money it spent developing the digital wallet.

A spokesperson at the Central Bank referred questions to Bukele's press liaison, who did not respond to requests for comment.

### International money transfers

It is unclear how El Salvador's financial-services companies will interact with international peers as countries such as the US do not recognize Bitcoin as legal tender. Charles Randell, chair of the UK's Financial Conduct Authority, said earlier this month that digital currencies such as Bitcoin might be useful to improve the payments market but regulating them would require international cooperation and common standards.

The US Treasury Department, for its part, plans to issue fresh guidance to businesses on the risks associated with facilitating ransomware payments through digital currencies, the *Wall Street Journal* reported on 17 September. The action would represent the most significant attempt by President Joe Biden administration to undercut the digital finance ecosystem of traders, exchanges, and other elements that cybersecurity experts say have allowed ransomware attacks, the report added.

Whether El Salvadoran banks can make international wire transfers would depend on cryptocurrency regulation on the receiving country, said Ganesh Viswanath-Natra, assistant professor of finance at Warwick Business School.

Sending and receiving money from abroad is particularly important for El Salvador, whose population greatly depends on remittances. About 13% of the country's adults send or receive money from overseas, according to data from the Consultative Group to Assist the Poor, a World Bank's financial inclusion initiative.

Bitcoin's price volatility could also affect El Salvador's economy, said Fernando Argumedo, associate lawyer at Central Law, a San Salvador-based law firm that advises fintech companies. People's salaries, for instance, could be impaired as more business owners adopt Bitcoin to pay wages, he added.

On 15 September, when El Salvador celebrates its independence from Spain, people protesting against Bukele's administration burned a Chivo ATM.

Since the country adopted Bitcoin as legal tender, its price against the US dollar has decreased 9.3% from USD 52,682 to USD 47,762, according to Coinbase data.

To try and control Bitcoin's price volatility, El Salvador established a USD 150m trust in state-owned Bandesal. However, its rules of operation have yet to be published. Leiva from Consortium Legal, said he expects the rules of operation to be published next month.

In July, the International Monetary Fund criticized El Salvador's planned adoption of Bitcoin as legal tender because its volatility could expose the government's tax income to exchange rate risks.

SSF and El Salvador's banking association (Abansa) did not respond to requests for comment.

by Leonardo Peralta in Mexico City

---

© 2021 Mergermarket Group. All rights reserved.

*To be used for the internal business of the assigned users only. Sharing, distributing or forwarding the entirety or any part of this article in any form to anyone that does not have access under your agreement is strictly prohibited and doing so violates your contract and is considered a breach of copyright. Any unauthorised recipient or distributor of this article is liable to Mergermarket for unauthorised use and copyright breach.*