



## Na Mídia

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### **Brazil's sports betting law brings legal certainty to investors, expected to foster M&A**

- Ministry of Finance to issue five-year licenses for max BRL 30m grant
- Companies must be headquartered in Brazil, have 20% Brazilian shareholder
- Legal provision expected to foster JVs, M&A

Brazil's December 2023 law regulating sports betting and online gaming provides legal certainty to investors and operators, three lawyers have told this news service.

**Demarest senior associate lawyer Monique Guzzo, Mattos Filho partner Fabio Kujawski and BMA partner José Guilherme Berman have all concurred about the overall impact of the law on the market.**

**Additionally, the legal requirement that companies must have a Brazilian shareholder to obtain an operating license, while subject to further clarification in subsequent regulations, is expected to foster M&A in Brazil, according to Guzzo and Rodrigo Figueiredo Nascimento, a partner at Mattos Filho.**

The law establishes requirements for companies to operate in the country, mandates the adoption of security and integrity mechanisms and stipulates taxes and non-compliance fines.

The Ministry of Finance will issue five-year licenses for companies that pay a maximum grant of BRL 30m (USD 6m) and that meet several broadly-defined criteria, including being headquartered in Brazil; having at least one partner with expertise and experience in gaming, betting or lotteries; meeting technical and cybersecurity requirements; and having a Brazilian shareholder with at least a 20% stake, according to the law.

Companies already operating in Brazil will be given a period of at least six months to adjust to the new legal provisions, the law said.

The Ministry will issue 12 decrees throughout the year pertaining to the law, including on the period during which economic agents will be allowed to submit requests for licenses, according to a 6 February press release.

Brazil has had a betting market since 2018, but the sector has not been subject to specific regulations or taxation, the release added.

Legal certainty

For companies looking to operate in Brazil, the new law means that they will have to abide by Brazilian regulations, be

**headquartered in the country and pay taxes, Guzzo said.**

**The compliance requirements of the law provide legal certainty to investors and are essential to preserving the integrity of the betting industry, Guzzo stated. “Not only do the compliance requirements mitigate legal risks, they also promote a reliable and ethical environment for investors and bettors, strengthening the credibility of the Brazilian sports betting market,” she added.**

The new law sets up controls that will provide legal certainty both for companies and investors looking for regulated markets, Kujawski said.

The compliance requirements are “welcome, as they intend to ensure that betting can be exploited without contaminating the fairness of sports competitions,” Berman said. They also aim to prevent sports betting from being used for fraudulent purposes such as money laundering, and they display a legitimate concern with bettors’ mental health, he added.

While the law was an “important step” for investors, concerns remain about issues that the law does not clearly address, such as “the dynamics of withholding taxes on prizes,” said André Gel, president of the Brazilian Institute of Responsible Gambling (IBJR) and a managing partner in Brazil at Swedish gaming company Betsson.

M&A

One of the eligibility criteria for companies seeking a sports betting operating license is to have a Brazilian shareholder with at least a 20% stake, according to the law. For a foreign company looking to operate in Brazil, this would mean setting up a Brazil-based subsidiary or acquiring a stake in a Brazil-based company, with the requisite 20% Brazilian shareholder in either case, Berman and Nascimento confirmed.

The law does not prohibit the sports betting company from being a Brazil-based subsidiary of a foreign company, so long as the subsidiary has the required Brazilian shareholder with at least a 20% stake, Berman said. “There is also no impediment for foreign companies to acquire stakes in Brazilian companies, so long as they respect the minimum stake required by law for the Brazilian shareholder,” Berman added.

This requirement “will naturally foster the constitution of joint ventures and M&A transactions, since foreign companies will be required to partner with local companies or investors to operate in the country,” Nascimento said.

**The requirement has “raised questions and discussions, especially among foreign clients preparing to enter the Brazilian betting market,” Guzzo said. One of the issues that the Ministry of Finance will need to clarify is whether the Brazilian shareholder with a minimum 20% stake must be an individual or whether it could be a legal entity directly or indirectly controlled by a Brazilian individual, she stated.**

Brazilian companies that need capital to afford the BRL 30m grant should be open to receiving investments, and all foreign

**companies with 100% foreign shareholders could be deemed potential investors, Guzzo noted.**

Gel said he expects M&A activity to pick up next year. Compliance requirements should be in the spotlight in the second half of the year, he noted.

Companies seeking licenses

In October 2023, the Ministry of Finance issued a decree asking companies interested in obtaining a license to submit a “prior expression of interest”, promising them priority treatment on their forthcoming license requests.

A total of 134 companies responded, including foreign companies that already have operations in Brazil (such as Betfair) and companies not yet operating in the country (such as Draftkings), according to a 3 January report by Brazilian website *Games Magazine Brasil*.

"We are excited to see Brazil pass online gaming legislation, and as one of over 100 companies who submitted non-binding expressions of interest, we are continuing to explore the potential of expanding into Brazil in the future," said Griffin Finan, senior vice president and deputy general counsel at DraftKings, in a written statement.

Betfair declined to comment. The Ministry of Finance did not respond to requests for comment.

by Camila Pavanelli de Lorenzi in São Paulo