

GAMBLING REGULATION IN BRAZIL - LEGISLATIVE PROCESS UPDATE
(June 30, 2017)

The following informative briefing has been drafted to provide you with an update of the legislative process in Brazil regarding legalization of gaming offering. For the sake of clarification, it must be noted that, according to Brazilian lawmaking and parliamentary procedure, any Bill of Law “sponsored” by one of the two Houses (Senate or Congress) in a certain commission must be approved (or sent back to the relevant Commission) by the plenary. Consequently, as you will see, there are two Bills of Law running almost parallel at the moment in both Houses. A comparison between the two is included below. For this month’s updates please refer to items 12 and 17/18, in red.

I - THE LEGISLATIVE PROCESS TO DATE

1. The Brazilian Congress has been discussing the legalization (and regulation) of gambling activities in Brazil since 2015. During the conversion of the Provisional Measure nº 671/2015 into Law 13.155, of August 4, 2015, fixed-odds sports betting was approved by the Congress and vetoed by the former President Dilma Roussef under the justification that “*the creation of the fixed-odds lottery demands a broader regulation to assure better economic and legal security and adequate levels of fraud and money evasion control. Besides, the law didn’t contain any responsible gaming measures*”.

2. After vetoing the article that was meant to create fixed-odds sports betting, back in September 14, 2015 the former President held a meeting with congress leaders to assess the feasibility getting gaming offering approved by both houses. Subsequently, the President of the Senate introduced Bill of Law 186/14 from the Senate in the Special Commission for National Development (“**Commission of the Senate**”). A few days later, another special commission (“**Commission of the Deputies**”) was created in the Chamber of Deputies to draft the Brazilian Gaming Regulatory Framework, based on another project, the Bill of Law 442/1991.

3. On December 9, 2015, the Commission of the Senate approved Bill of Law 186/14. After appeal by some members of the Senate, the Bill 186/2014 was sent to the Senate’s plenary to be scheduled for vote. Meanwhile, the Commission of the Deputies continued working on Bill 442/1991.

4. After extensive discussion, on August 30, 2016, the Commission of the Deputies approved the report on the new draft of Bill 442/1991, which was sent to the Chamber of Deputies' plenary to be scheduled for vote. Also in August, the Bill of Law 186/2014 returned from the plenary to the Commission of the Senate and its draft was replaced by a new one, presented by Senator Fernando Bezerra, its new rapporteur.

5. Since then, the rapporteur has presented several versions of the draft, the latest from November 4, 2016. On November 9, the Commission of the Senate finally approved the Bill of Law 186/14, and on December 14 a request from Senator Magno Malta was approved and now the Bill of Law is to be analyzed by the Constitution and Justice Commission of the Senate.

6. On December 13, our partner Luiz Felipe Maia was invited by the General Commission of the Chamber of Deputies to speak to the Deputies about sports betting regulation¹

7. Since December of last year, the potential regulation of the industry has brought some attention from the media. Our local partner Luiz Felipe Maia was interviewed by Folha de São Paulo², the largest newspaper in the country, by TV Bandeirantes³ and by CBN News radio station⁴. On the downside, TV Globo, the largest and most influential TV network in the country will have a compulsive player as one of the main character of their next soap opera. We understand this will give the industry a good opportunity to explain responsible gaming initiatives as one of the advantages of a regulated market.

8. During ICE Totally Gaming Conference in London, our partner Luiz Felipe Maia spoke about the status of the regulation process, while Mr. Alexandre Manoel, from the finance ministry's economic development unit, SEAE, confirmed that officials were crafting a Bill of Law to be presented by the government during the first half of the year, to regulate sports-betting. Maia offered renewed criticism of proposals to tax player winnings heavily, suggesting that the bulk of Brazilian gaming taxes should instead be paid by operators themselves. He also warned that handing Caixa a monopoly over all online gambling "makes absolutely no sense" as players would continue to gravitate to offshore sites offering better odds.

9. The first Bill of Law to be approved in the floor of one of the houses will have to be approved by the other house. If amended, it will need approval by the house of origin before being subject to the President's sanction.

¹ The recording is available at <http://www2.camara.leg.br/atividade-legislativa/webcamara/arquivos/videoArquivo?codSessao=58660>

² <http://www1.folha.uol.com.br/mercado/2017/01/1846114-expatriados-do-bingo-aguardam-volta-do-jogo-para-retornar-ao-pais.shtml>

³ <https://youtu.be/MZ4hxYQvvqE>

⁴ <http://cbn.globoradio.globo.com/editorias/economia/2017/01/07/CERCA-DE-R-15-BILHOES-DEVEM-REFORCAR-COFRES-PUBLICOS-SE-JOGOS-DE-AZAR-FOREM-LEGALIZADO.htm>

10. Brazil is undergoing its most critical political crisis since the creation of the Republic. Almost one third of Brazil's senators (24 out of 81) and 42 Deputados are targeted by probes ordered by Supreme Court Justice Edson Fachin in connection with the plea bargain statements heard from former executives of Odebrecht construction company, as part of the "Car Wash" corruption scandal. This includes the current and the former president of the Senate, Eunício Oliveira and Renan Calheiros, the current president of the Chamber, Deputado Rodrigo Maia, and Senators Ciro Nogueira, Blairo Maggi, Fernando Bezerra and Benedito de Lira (respectively author, former rapporteurs and current rapporteur of the Bill of Law 186/2014).

11. Despite this very complicated political situation, the government intends to approve the Labor and the Pension Reforms still in the first semester of 2017, and they are concentrating all efforts to this purpose. As result, controversial matters such as gambling will be left for discussion only after the end of vote of the reforms, expected for July.

12. The Ministry of Finance intends to issue the bid for privatization of LOTEX, the instant lottery company owned by Caixa, until the end of the year. According to latest news published by the newspaper Valor, the value of the license is far below the amount expected by the Government. The concession for 25 years would have been appraised at about R\$ 1 billion, while the expectation was about R\$ 2.2 billion. It is still uncertain how this may affect the privatization process.

13. It is still very likely that until the end of the year a bill of law specific for sports betting will be presented by the government. The same applies to casinos. The Ministry of Tourism is working on a draft of bill of law only for casinos, and big casino companies are meeting with government officials in order to support that initiative.

14. It is a fact that sports betting and casinos do not have the same negative public perception as bingos, slot machines and "jogo do bicho" (the local "animal game" lottery) have in Brazil. In exclusively political terms, it would be much easier for the government to approve on those two gaming verticals instead of trying to push the current bill of law, that comprise all verticals.

15. Casinos have the appeal of creating jobs and growing tourism. They are also easier to inspect and control than widespread small bingo halls. Sports Betting are also easy to control, since most of their operation is online, and the revenue stream (and, therefore, the taxes) will come immediately, since most of the major international operators already have a Brazilian-resident customer base.

16. Some key issues will have to be dealt with by any piece of legislation. There is a very high concern about money laundering, responsible gaming, tax evasion and corruption. The solutions already exist and must be adapted to the Brazilian reality. One good example is the use of Caixa, the federal bank in

charge of the lottery, to centralize payment accounts for the sports betting industry. This solution would give the government the level of information and control they believe they should have, plus the revenues from those payment services and, at the same time, would be a very good solution for the industry, that would count on more than 13,000 points of sale and a very solid tradition that would bring security to the new public.

17. On June 29, 2017, Senator Ciro Nogueira presented the Bill of Law 213/2017, which prohibits operations with credit or debit cards or with electronic money, for the purpose of participating in online games of chance hosted by offshore websites, as follows:

“Art. 1. Operations in the national territory with credit or debit cards or with electronic currency, for the purpose of participating in online games of chance hosted by offshore websites, are prohibited.

Art. 2. Article 9 of Law No. 12,865, of October 9, 2013, shall become effective with the addition of the following paragraphs 7 and 8:

“Art. 9 °

§7° The Central Bank of Brazil, respecting the guidelines Established by the National Monetary Council, shall determine rules for the implementation of control mechanisms aimed at preventing financial institutions issuers of credit cards or debit card, as well as any other payment institution, from authorizing operations with credit or debit card or electronic currency involving the participation in online games of chance hosted by offshore websites

§8° The Central Bank of Brazil, respecting the guidelines established by the National Monetary Council, shall determine rules for the immediate cancellation of operations that may fall in the cases set forth by the § 7 of this article, being forbidden any transfer of funds between players and gaming operators.”

Art. 3 This Law shall enter into force on the date of its publication.”

18. If approved and converted into Law, this Bill may become a problem for all offshore operator with clients in Brazil.

19. Meanwhile, the situation in the State of Rio Grande do Sul, in the south of Brazil remains the same, with several small operations opening and closing every day. This is due to a court decision has stated that gambling is not prohibited in that state, because the prohibition set for the in article 50 of the Misdemeanor Act of 1941 would be unconstitutional. The public attorney has appealed from that decision and now the case is pending judgement by the Federal Supreme Court⁵, where it has been granted “general repercussion” effects, meaning the decision of this case will be binding to all other similar cases in the country.

20. Until this appeal is not judged, the effects of the prior decision from the Rio Grande do Sul court remain in force. As result, many bingo halls are opening in the state, without any regulation. This may create some political pressure on the subject for the regulation, but depending on how these operators behave, it may create the opposite effect.

II - COMPARATIVE CHART

	Bill of Law 442/1991	Bill of Law 186/2014
Origin	Chamber of Deputies	Senate
Status	Approved by the Special Commission	Approved by the Special Commission
Next steps	Voting in the Chamber to be scheduled	Pending approval by the CCJ
Modalities	<ul style="list-style-type: none"> • Casinos • Bingos • Fixed-odds sports betting • VLTs • Online Gaming • Lotteries • Jogo do Bicho 	<ul style="list-style-type: none"> • Federal and state lotteries • Casinos • Bingos • Fixed-odds sports betting • Online Gaming • Jogo do Bicho • Sweepstakes
Licenses	<ul style="list-style-type: none"> • Casinos: public bid for concession - 30-year term, renewable for equal terms • Bingos: authorization for 20 years, renewable for one equal term • Jogo do bicho: BRL 5, MM minimum paid-up capital. Unlimited time license. • Lotteries: States may have bids for concession of lottery services with 20-year term. • Online Gaming: not defined. • VLT: BRL 20 MM minimum paid-up 	<ul style="list-style-type: none"> • Caixa and its subsidiaries will be authorized to operate all gaming modalities with exception to Jogo do Bicho • Private operators will have to bid for concessions for all gaming modalities, with exception to Jogo do Bicho. • Jogo do Bicho operators just have to be registered at the State level • Concessions will be granted for up to 25 years, renewable for

⁵ Recurso Extraordinário 966.177 RG/RS

	capital. Type of license not defined.	one equal term upon payment.
Requirements	<ul style="list-style-type: none"> • Operator must be a company incorporated under the laws of Brazil, with headquarters and management in the country • Technical capacity • Fiscal regularity • Financial and economic integrity • Final individual shareholders must be identified • Shareholders, directors and managers shall not have a criminal record • Gaming incorporations shall not be shareholders, managers or directors 	<ul style="list-style-type: none"> • Operator must be a company incorporated under the laws of Brazil, with headquarters and management in the country • Technical capacity • Financial integrity • Fiscal regularity • Final individual shareholders must be identified • Shareholders, officers and managers cannot have been convicted for crimes in the past 8 years. • Caixa Econômica Federal is authorized to operate all gaming modalities, directly or by its subsidiaries. • All gaming licenses, with exception to jogo do bicho, will be under the concession model, after a bid for license. • The invitation for bid will set forth the term of the concession, location, minimum paid-up capital and other requirements. • Special registration at the Secretaria da Receita Federal
Casinos	<ul style="list-style-type: none"> • 1 Casino in States with population up to 15 (fifteen) million; 2 Casinos in States with population between 15 (fifteen) and 25 (twenty five) million; and 3 Casinos in States with population is larger than 25 (twenty five) million. • Only 1 license per State for each economic group and up to 5 licenses in the National territory. • Minimum size and number of rooms requirements based on the population of the State. • Bid for licenses, valid for 30 years, renewable for equal terms. • Slot machines must have a minimum payout of 80%. 	<ul style="list-style-type: none"> • 2/5 of the casinos must be located in the North, Northeast and Center-west regions. • Casinos can be located in cities determined by the National Plan of Tourism, in the jockey clubs locates in cities with more than 300k inhabitants
Bingos	<ul style="list-style-type: none"> • Allowed at bingo halls, jockey clubs and soccer stadiums. • Minimum size and paid-up capital requirements based on the population of the city. • Only videobingo machines are allowed, with a minimum payout of 80%. Slots are not permitted. • Up to 500 machines per bingo hall and 	<ul style="list-style-type: none"> • Authorized only in cities with population over 200k, with 1 bingo hall per 200k inhabitants. • Only videobingo machines are allowed. Slots are not permitted. • Maximum market concentration of 10% per

	<p>300 in soccer stadiums and jockey clubs.</p> <ul style="list-style-type: none"> Licenses valid for 20 years, renewable for equal terms 	economic group
Fixed-odds Sports Betting	<ul style="list-style-type: none"> Licensing subject to further regulation Central Server must be in Brazil 	<ul style="list-style-type: none"> Authorized. Details subject to further regulation.
VLTs	<ul style="list-style-type: none"> Called BR1 machines Minimum payout of 80% Minimum paid-up capital of R\$ 20m Minimum of 2,000 machines in stock Maximum 10 machines per agency or 5 machines in other venues. 	<ul style="list-style-type: none"> Not applicable
Online Gaming	<ul style="list-style-type: none"> Licensing subject to further regulation Central Server must be in Brazil 	<ul style="list-style-type: none"> Only Caixa Econômica Federal and its subsidiaries can operate online gaming.
Lotteries	<ul style="list-style-type: none"> Only Federal and State-owned lotteries are authorized. 	<ul style="list-style-type: none"> Not applicable
Jogo do Bicho	<ul style="list-style-type: none"> Minimum paid up capital requirement. States will authorize and control 	<ul style="list-style-type: none"> Subject to further regulation
Poker	<ul style="list-style-type: none"> Classified as a game of skill. Not subject to the law 	<ul style="list-style-type: none"> Not applicable
AML	<ul style="list-style-type: none"> All operations over BRL 10k must be identified. 	<ul style="list-style-type: none"> All operations must be identified.
Taxation	<ul style="list-style-type: none"> PIS/COFINS social contributions: 3.65% on GGR Ordinary corporate taxes ($\pm 34\%$ of the net profit) 	<ul style="list-style-type: none"> PIS/COFINS social contributions: 9.25% on GGR Increased corporate taxes ($\pm 45\%$ of the net profit) Inspection fee ($\pm 0.5\%$ of payout) Services Tax (2% - 5% on GGR)
Tax on Player's Winnings	<ul style="list-style-type: none"> 15% withholding tax on actual gains at the time of the withdrawal or payment. 	<ul style="list-style-type: none"> 30% withholding tax on net prizes at the time of the withdrawal or payment, which must be made within up to 72 hours.
Responsible Gaming	<ul style="list-style-type: none"> Obligation to create a responsible gaming plan National Registration of Problem Gamblers 	<ul style="list-style-type: none"> Subject to further regulation
Regulatory Agency	<ul style="list-style-type: none"> The Federal Government must to enact another law creating the agency 	<ul style="list-style-type: none"> Not included. The control, regulation and inspection will be performed by the Ministry of Finance
