
Reports

BRAZIL - MARKET REPORT





The devil you know

Brazil

With legalised sports betting imminent the gambling market in Brazil is about to see one of its most significant changes in years.

Companies are already increasingly present via sponsorship deals with top clubs and leagues as they jostle for attention in what is expected to be an extremely competitive market.

The Brazilian government could finally green light casinos and expand the offer of online gambling along with other types of games. At the same time increasing pressure is coming from the courts to overturn Brazil's Criminal Contravention Act, which made gambling a crime as far back as 1941.

However, any changes to gaming law reform will depend on events now unfolding due in large part to Brazil's failed COVID-19 response. Beyond the horrendous loss of life, the crisis will play a decisive role in the upcoming election and shape government policy for years to come. In the short term, President Jair Bolsonaro and his allies will need to weigh up the political cost of permitting casinos and other forms of gambling against the urgent need to raise revenue.

The pandemic has already brought with it the worst economic slump in decades. COVID-19 hit as Brazil was still recovering from its 2014-16 recession and Brazil's economy shrank by as much as 4.1 per cent in 2020. Nearly 14 million people were unemployed in Brazil at the end of 2020. Brazil's economic activity surged in February, but the second wave means that economists have been revising down their 2021 growth forecasts for Brazil. Meanwhile, the cost of the pandemic relief aid package designed to help the poorest sectors of society is skyrocketing. Government debt has now risen to about 90 per cent of gross domestic product.

With a death toll of over 400,000 President Jair Bolsonaro's handling of COVID-19 has been nothing short of disastrous. Whether it was criminal will now be determined by a parliamentary inquiry conducted by 11 of the country's 81 senators. This was after the Supreme Court called upon the Senate to probe the government's handling of the pandemic. Although the parliamentary commission is not a judging body, it has the power to gather evidence to make the case for impeachment.

In March 2020, Bolsonaro told Brazilians to "stop whining" about the country's deaths from the virus. While deaths were in the hundreds in April 2020, Bolsonaro suggested fasting and prayer, so that "Brazil can free itself from this evil as soon as possible."

In the same month, as numbers continued to rise the ex-paratrooper and evangelical dismissed it as a 'mild flu.' As this 'mild flu' began to kill thousands President Bolsonaro, arguing that the collateral damage to the economy would be worse than the effects of the virus itself, refusing to impose lockdowns, promote social distancing or even wear a mask. Indeed, he openly challenged the advice of health officials, and clashed with state governors and mayors who imposed lockdowns. Like Donald Trump, he also began to promote ineffective treatments, such as anti-malarial drugs.

In May 2020, Bolsonaro said that Brazil would achieve herd-immunity. A new and more contagious COVID-19 variant (P.1) was discovered in Manaus in early 2021. The health system was not prepared to handle such a large volume of cases. Only in March, with Brazil recording the third highest death rate in the world, did he finally turn his focus to the

Any changes to gambling policy hinge greatly on Bolsonaro's future and this in turn also depends on the evangelical caucus. Evangelism has been on the rise for years (a third of Brazilians now identify as evangelicals) and it was Bolsonaro's ability to tap into this support base which helped him get elected. Evangelical leaders have repeatedly come out against any liberalisation of the market and even warned that Bolsonaro's support base would crumble if casinos are given the go ahead under his administration.

nationwide vaccination drive and signed into law three new measures designed to speed up the purchase of vaccines.

Naturally Bolsonaro's response to the pandemic will play a crucial role in the upcoming election. Bolsonaro won the last election in a landslide and was widely tipped to win a second term in office in elections scheduled to take place next year. Understandably now on the back foot and in the centre of a humanitarian crisis, his popularity rating has plummeted.

Not only that but he will in all likelihood be up against a formidable political foe: former president Luiz Inácio Lula da Silva. Lula Da Silva was initially elected in 2002 and re-elected in 2006. The leftist leader was excluded from the 2018 election because of corruption charges, but he was recently cleared by Brazil's Supreme Court. Lula Da Silva has yet to say if he will run in 2022, but has already gone on the offensive and attacked Bolsonaro's handling of the crisis.

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Despite this, Bolsonaro responded positively to legalising gambling in casinos during a meeting with Deputy Newton Cardoso Jr, President of the Tourism Commission of the Chamber of Deputies in August 2019, arguing that ultimately it should be down to each state to set up its own gambling laws. In addition, Bolsonaro is moving ahead with the privatisation of CAIXA betting products, sports betting licences should be issued soon under his watch and he appears to support the integrated casino resort model.



THE CURRENT MARKET

Brazilian legislation defines any game involving a bet as a crime according to Article 50 of the Criminal Contravention Act. Under this law, all games of chance are prohibited and considered a criminal offence in Brazil. Lotteries and horse race are the only forms of gambling permitted. However, this is very limited as there are only four racetracks and around 130 horse race

betting shops for a population of 211 million.

The Brazilian Congress has been opposed to online gambling, but Brazilians have turned to the grey market in droves during lockdown. Estimates vary as to the size of the offshore gambling market, but at least 400 operators are currently targeting the market. Today it is estimated that about 8.7 million Brazilians partake in some form of online gambling.



A survey carried out by the Instituto Brasileiro Jogo Legal (IJL) discovered that Bet365 received 82 million online visits from within Brazil in September last year alone. SportingBet had 12 million in the same period. Brazil has about 450 websites specialising in sports betting, which offer advertisements and affiliation possibilities.

According to estimates the online gambling market in Brazil has the potential to generate as much as US\$2.2bn per year after being regulated.

Sports betting was legalised over two years ago, but rules have yet to be put in place and the government is still to decide on how many licences it will hand out and under what terms. During this period offshore operators have become increasingly present via sponsorship deals. Meanwhile, illegal sports betting is on the rise. Sports betting is now increasingly available via computerised electronic terminals on offer by those who run the illegal street numbers game jogo de bicho (The Animal Game). A survey carried out by the Instituto Brasileiro Jogo Legal (IJL) discovered that Bet365 received 82 million online visits from within Brazil in September last year alone. SportingBet had 12 million in the same period. Brazil has about 450 websites specialising in sports betting, which offer advertisements and affiliation possibilities.

Lotteries are hugely popular. Caixa Econômica Federal, known locally as Caixa, is the biggest public bank in Latin America and Brazil's biggest mortgage provider. Caixa is a 100 per cent publicly owned company. It was granted the control of lotteries in 1961. All other lottery licences granted to the private sector were ended in the same year. Decree-Law No. 204 of 27

February 1967 prohibited the creation of new state lotteries and allowed only for the operation of lotteries that had already existed at that time. Until recently state lotteries had to comply with the gaming standards set out by Caixa, and were not permitted to create new gaming products.

Today, Caixa manages nine lotteries including the Mega-Sena, one the largest lotteries in the world. There are around 13,000 lottery shops in over 5,000 cities and towns and there are around 50,000 Caixa lottery shop terminals. According to the Secretariat of Evaluation, Planning, Energy and Lottery (SECAP), Caixa's lottery revenue increased by 22.7 per cent in

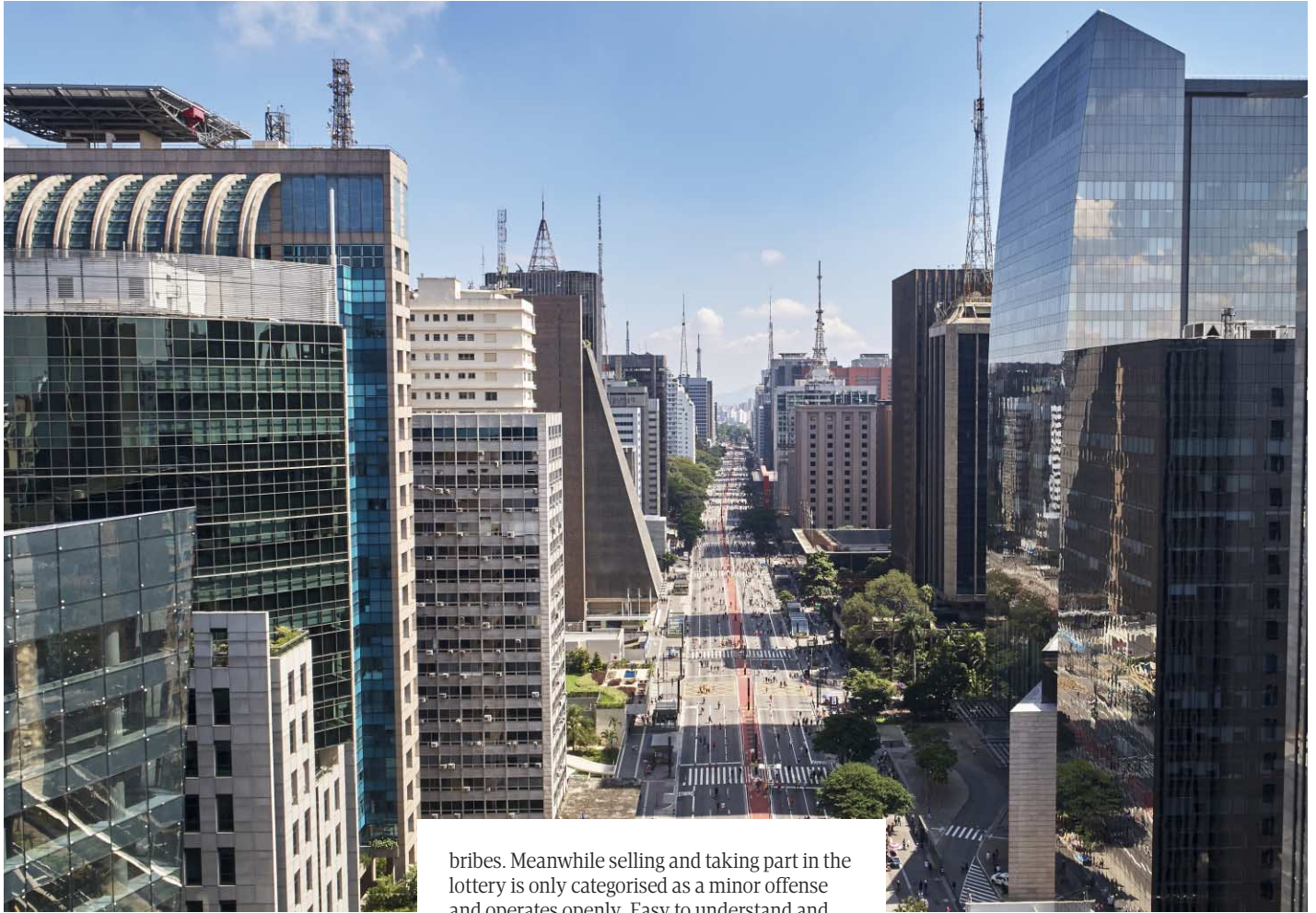
Brazil between January and September 2019. During this period Brazilians bet R\$12.11bn (US\$ 2.87bn), up 22.7 per cent compared to the previous year. Caixa recorded US\$3.1bn in revenues in 2020 – a record. Mega-Sena reported the highest sales, totalling 40.4 per cent of the year's revenue US\$1.25bn.

BINGO

Bingo will play an important role in how gambling is regulated in the future. The gaming ban was lifted for a time for traditional bingo in 1993 as a means to financially support sports clubs, which received a share of the profits. Legalisation was an immediate success and led to bingo halls springing up quickly all over the country. The law required bingo halls to be established as large-scale businesses, with a minimum occupancy of 500 seats.

In 1997, EGTs were given the green light in slot machine parlours attached to bingo halls. The traditional bingo halls could be quite lavish attracting a higher income clientele. Over time, in look and feel, bingo halls came to look more and more like casinos, although table gaming was not permitted.

Over 900 bingo halls were soon operational nationwide with the vast majority of them located in Brazil's most wealthy states. Its



success was short-lived due to inadequate government control. In 2000, it was discovered that bingo hall owners were trying to illegally bribe government officials to allow them to house more gaming machines on their premises. The federal government closed down entry to the bingo market and licences were blocked from being renewed. At the end of 2002, all federal bingo licences expired. Later a number of bingo halls in Brazil were able to remain open by individual judicial court orders.

In 2004 a scandal broke involving a gambling boss who had contacts with an aide to the president's chief of staff. President Lula tried to ban bingo halls outright in order to ward off a congressional probe into the accusations. 30,000 bingo hall employees took to the streets in protest but to no avail. All the same a small number of bingo halls in Brazil were able to remain open by individual judicial court orders. However, in 2007 the Supreme Court ruled for once and for all that states could not issue laws for regulating bingo halls.

THE ANIMAL GAME

Also key to understanding the market is The Animal Game (jogo do bicho). The largest illegal lottery in the world since the 1970's and 80's the game began innocuously enough originating as a raffle at a zoo in Rio de Janeiro in 1892. A numbers game where animals represent numbers it has been prohibited by federal law since 1946 apart from the state of Paraíba. Run by organised crime tickets can be bought on street corners throughout Brazil, yet law enforcement turns a blind eye in return for

bribes. Meanwhile selling and taking part in the lottery is only categorised as a minor offense and operates openly. Easy to understand and play the game is very much interwoven into everyday life and is very much part of Brazilian culture. It is estimated that the game generates between US\$350 to US\$800m a year with around 20 million people playing the game every day.

STATE RUN LOTTERIES AND THE SUPREME COURT

The biggest shake up to the lottery sector is now imminent. In September 2020, the Supreme Court of Brazil ruled that the federal government's lottery monopoly was unconstitutional, paving the way for states to develop state lotteries for each of Brazil's 26 states and one federal district as long as they comply with federal regulations. This means that current operators can extend their offerings while states will begin to roll out their own lottery products within their own state borders.

The ruling came after the state of Rio de Janeiro took the federal government to the Supreme Court of Brazil (STF) when the federal

government directed the state to shut its lottery operations after the lottery began to offer new games. Attorney General of the State of Rio de Janeiro argued that due to the closure of the Rio de Janeiro State Lottery (Loterj) in 2017, they would lose more than \$3.5m per year. The STF is the court of last resort of Brazil, and its rulings cannot be appealed.

The STF decision could also open up the sports betting market as well. Online and land based sportsbetting was permitted by the federal government in December 2018 via Law No. 13,758/18. Sportsbetting was categorised as a lottery. Consequently all states could possibly operate sports betting within their territories.

State governors and other lawmakers are already moving ahead with plans to offer sports betting alongside other plans to launch and expand their own lottery products. In April State Deputy Alexandre Knoploch introduced Bill 3885/21 which would give Loterj the right to operate fixed-odds betting on sporting events

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held in the state of Rio de Janeiro. Sports betting would be available both online and via lottery points of sale. Other states could follow. Loteria Mineira is planning to introduce new types of games, including instant lotteries and sports betting in the state of Minas Gerais. The new rules approved by Governor Romeu Zema will also allow the Loteria Mineira (LEMG) to operate new lottery products including passive lottery games, a numerical lottery, sports lottery games and instants. The LEMG announced that Intralot, IGT and Scientific Games (in a joint bid), and Thorsborg do Brasil Consultoria em Tecnologia Ltda, had been authorised to take part in the bidding process. Meanwhile sportsbetting was incorporated into new lottery laws in the state so that it encompasses federal sports betting regulation. Published in the Official Gazette the regulations authorise the lottery to operate fixed-odds betting on sporting events both online and via retail lottery points of sale.

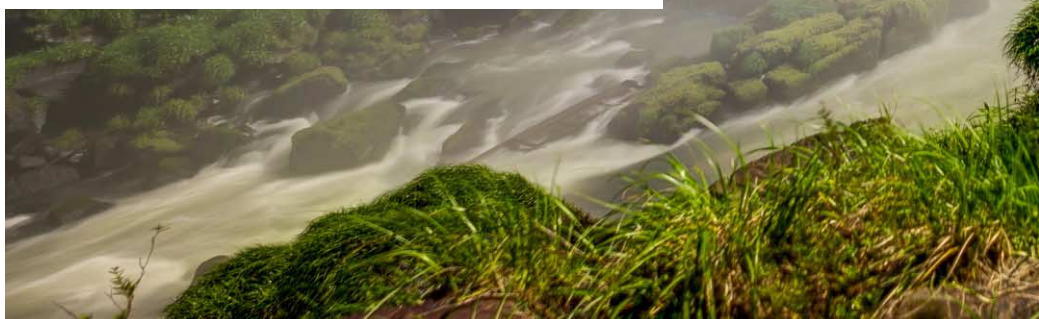
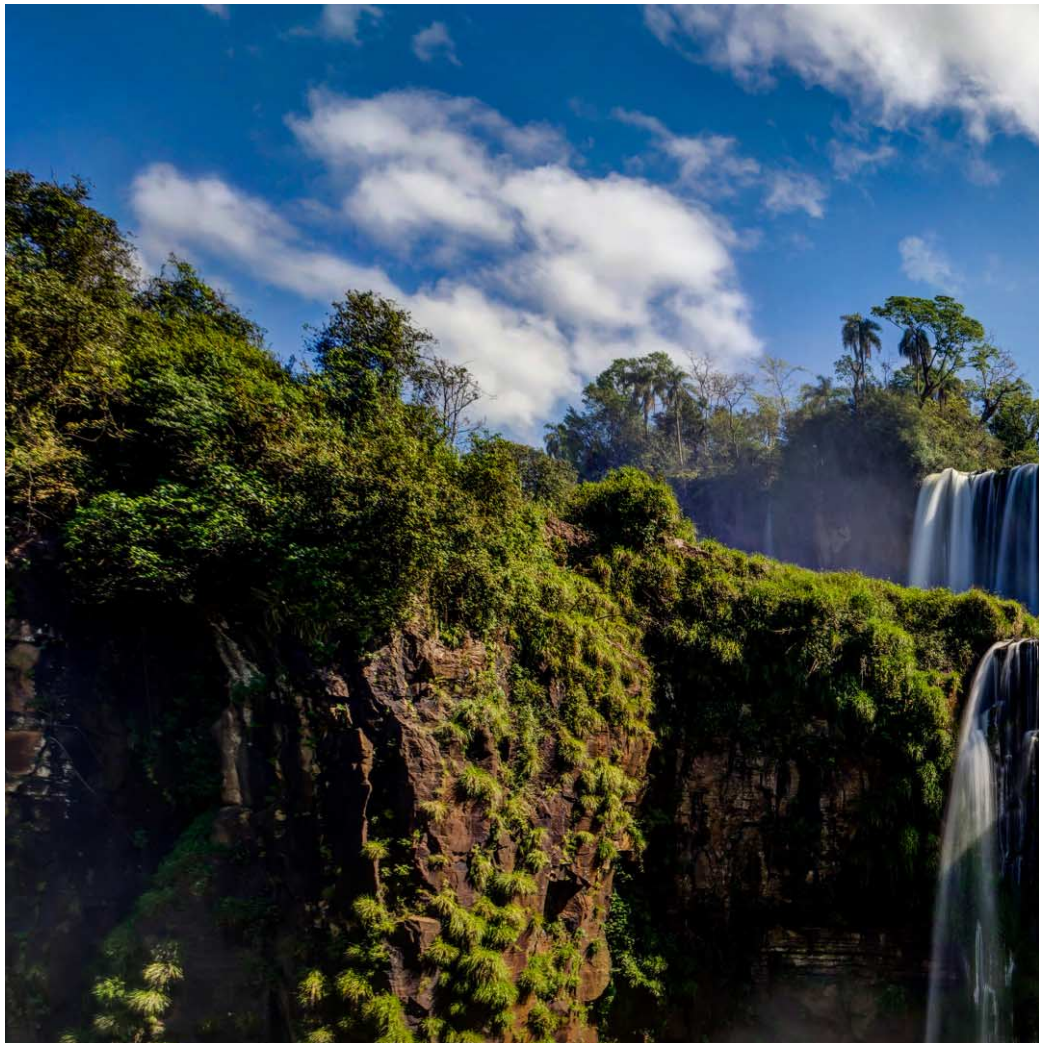
In February 2021 Governor João Azevêdo signed State Decree No. 41,037, which expands the Paraíba State Lottery (Lotep) in the wake of the Supreme Court decision. Other individual states are moving ahead with their own plans to offer their own lotteries. In the state of Tocantins Governor Mauro Carlesse gave his approval for private operators to prepare feasibility studies

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for a newly proposed state lottery. Private operators would be allowed to partner with the state to offer the lottery while resources generated by the lottery would be used to finance social welfare programs and provide funding for culture, sports, health and education.

THE PRIVATISATION OF CAIXA

Other major changes are on the way for the lottery sector due to a much larger sell off of state assets. In 2015, the government took the first steps in liberalising its gaming market by permitting instant lotteries, both electronic and online. The Brazilian Development Bank (BNDES) a federal public company associated with the Ministry of Development, Industry and Trade and the main financing agent for development in Brazil oversaw the privatisation of CAIXA's instant lottery arm. Public tenders for selecting the operator lasted years and were abandoned several times due to a lack of interest.



In 2019, once BNDES decided to relax the rules of the licensing process a consortium Consórcio Estrela Instantânea formed by SGI and IGT won the bid for Lotex. It was expected to be fully operational by the end of 2020, but was delayed because of COVID-19. The consortium withdrew from its contract in October 2020 announcing that the decision had been taken as a result of a failure to establish a distribution agreement with CAIXA Federal: a deal that both companies believed was integral to the success of the

business model. In addition in a joint statement the company cited the STF's decision to allow states to offer their own lotteries as one of the reasons behind their move. Despite this drawback the government will continue to privatise the lottery. The divestment of state owned assets was one of Bolsonaro's main campaign promises during the 2018 election. The government is moving ahead with plans to privatise power holding firm Eletrobras, postal and telegraph service Correios (ECT) and



A bill put forward by Deputy Eduardo Bismarck PL 5319/2019 sought to amend the Act, to authorise gambling in leisure resorts and hotels authorised by the Federal Executive Branch. The text presented by the congressman directly changes the text of article 50 and would lift the gambling ban.

THE CRIMINAL CONTRAVENTION ACT

A number of attempts have been made to overturn Article 50 of the Criminal Contravention Act both in the courts and in Congress. This would in effect end the state's monopoly over gambling.

In November 2019, a bill put forward by Deputy Eduardo Bismarck PL 5319/2019 sought to amend the Act, to authorise gambling in leisure resorts and hotels authorised by the Federal Executive Branch. The text presented by the congressman directly changes the text of article 50 and would lift the gambling ban for "leisure resorts and casino hotels authorised by a regulatory body designated by the Federal Executive Power."

In his justification for changes to the law, Bismarck argued that gambling in Brazil is

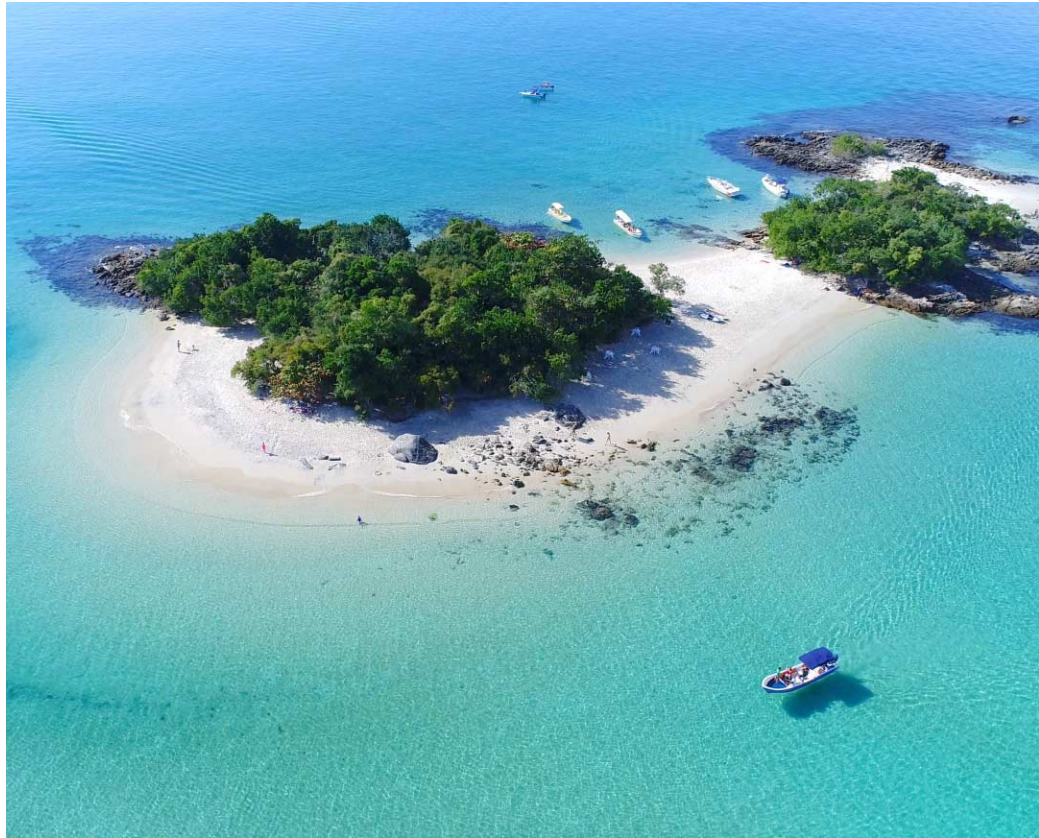
widely practiced, and the fact that it is illegal does not prevent the activity from occurring. As a result, Brazilians would have a safe regulated space in order to gamble if current rules were changed. In addition, regulating the industry would be beneficial to society as it would raise much needed income for the government.

In March 2020, Deputy João Carlos Bacelar Batista, a long time supporter of a liberalised market, put forward an amendment to

broadcasting company EBC. In February 2019 President of the CAIXA Pedro Guimarães, announced that the bank intended to sell all of the assets that are not part of the bank's main activity. According to Guimarães, four subsidiaries of the bank would be sold in the areas of lotteries, insurance, cards and asset management. Caixa is now aiming to raise approximately \$917m by divesting part of its stake in an IPO of insurance holding Caixa Seguridade – the insurance unit of the bank.

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Magistrates for the local Criminals Appeals Panel ruled that gaming did not constitute a criminal offence because the 1941 law, which outlawed gambling as part of Brazil's Criminal Contravention Act, violated principles laid out in the 1988 Constitution. Bingo hall owners were acquitted.

Provisional Measure 923/2020, approved by Bolsonaro. The text modified Law No. 5.768 which dates back to 1971, and regulates prize draws on national open television channels. Although the amendment was not approved, this and other measures, especially in the courts, adds more pressure on the government to update gambling regulation.

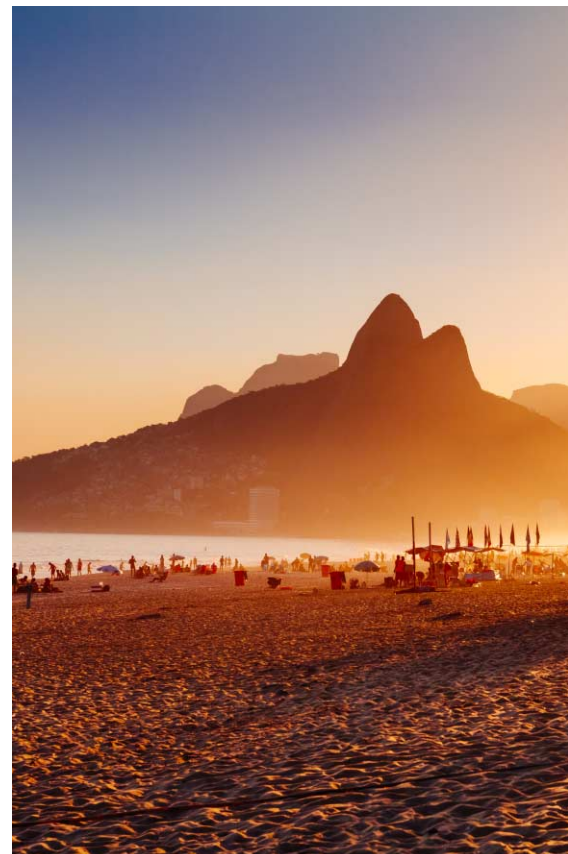
Additionally proposed changes to the law were submitted to the STF by the Partido Humanista da Solidariedade (Humanist Party of Solidarity) in January 2019 and aim to nullify laws which make the private operation of gambling illegal. According to a party statement, gaming laws covered by Article 50 and decree Law No 9215 of 1946 (which cover morality and good customs), go against the fundamental right of equality provided for in article 5 of the Federal Constitution. The Brazilian constitution was rewritten in 1988 after civilian rule returned to Brazil and sought to guarantee individual rights.

In April 2019, Bolsonaro said that the ruling on whether gambling should be legalised should be in the hands of the legislature as opposed to the courts. All the same, the issue is under consideration because of a case submitted to the STF, which centres around bingo. In 2017, a number of bingo halls in Porto Alegre, the capital of the Brazilian state of Rio Grande do Sul, reopened after local state magistrates ruled



in their favour arguing that the 1941 law violates principles laid out in the 1988 Constitution.

Magistrates for the local Criminal Appeals Panel ruled that gaming did not constitute a criminal offence because the 1941 law, which outlawed gambling as part of Brazil's Criminal Contravention Act, violated principles laid out in the 1988 Constitution. Bingo hall owners were acquitted and the state Public Prosecution Service appealed the acquittals to the STF.



The STF then had to decide whether the discussion on banning gambling, by the Criminal Prohibitions Act of 1941, had what is known according to local legal terms "general repercussions." The concept of general repercussion is intended to ensure that only questions that are truly relevant to Brazilian society are heard by the court, as its primary duty is to protect and uphold the Federal Constitution. This was after the rapporteur for the case, Minister Luiz Fux, decided to put the



case before the court for discussion arguing that the issue meets with this requirement. Consideration of this issue should have taken place in April, but it has been delayed as the court did not have time to consider the matter. Unlike in Congress the issue will be judged solely only on its legal merits. The court's decision could have potentially huge ramifications. If the court decides that the decree is unconstitutional, gambling will not be a misdemeanour anymore. A new decree could

In February 2020, SECAP launched a third consultation on fixed-odds sports betting. Most of the discussion so far has been over the number of licenses which could be handed out. The government is heading towards a new concession regulatory model.

regulate it or each state could use the decision to draw up its own gambling regulations.

Speaking to the Brazilian Senate News Agency Senator Angelo Coronel, who is in favour of the liberation of the market, emphasised the possible significance of the STF's decision.

"If it is a favourable decision, it opens the way for Congress to regulate gambling. We will finally adapt to the rest of the planet, we will not continue to be an exception for not having legalised games. The government will have access to a new source of funds through sector taxation, which can be used to finance social policies."

CHANGES TO SPORTS BETTING RULES

A major shift is on the way with the long awaited launch of sports betting in Brazil. Online and land-based sports betting was

permitted by the federal government in December 2018 via Law No. 13,758/18. Sports betting was categorised as a lottery and is covered by Articles 29 to 35, which would be regulated within a new framework that would be presented by the government by decree.

The law only covers sports betting in generalised terms. Indeed the bill, Provisional Measure 846/18, deals mainly with how lottery funds are distributed giving more priority to National Security. A much larger proportion of resources operated by CAIXA will be earmarked for public security while the bill seeks to raise additional income for the government by green lighting sports betting and gives the Ministry of Finance just two years to get sports betting up and running (although this could be extended for a further two years).

Far more thorough regulations need to be established and the government has consulted with stakeholders extensively throughout the process. Ultimately, the conditions established via licence agreements combined with newly drafted regulations will tackle the aspects not currently covered in the regulatory Decree. Major points which for now remain unclear include penalties for non compliance, advertising rules, player protection measures and anti money laundering measures.

In February 2020, SECAP launched a third consultation on fixed-odds sports betting. Most of the discussion so far has been over the number of licences that could be handed out. The government is heading towards a new concession regulatory model. Arguably this would give the government more control and facilitate oversight over the industry. The tax rate could stand at the very high end namely a three per cent turnover tax, but there is evidence that the government could move towards the GGR taxation model.

The background of the entire advertisement is a dark blue grid pattern. In the top right corner, there is a stylized graphic of a lightning bolt. On the right side, there is a large, glowing blue arc that resembles a planet's horizon or a comet's tail. The Pronet Gaming logo is located at the top left, featuring the word "PRONET" in blue and "GAMING" in white, with a small blue and white icon between them. Below the logo, the tagline "TRUSTED . TAILORED . DELIVERED" is written in white.

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The process was delayed due to COVID-19. However, significant progress has been made. In June 2020, Brazil's Council of the Investment Partnerships Program (PPI) included sports betting in its recovery programme in order to mitigate the negative consequences caused by the pandemic. Crucially, the meeting was held in the presence of President Bolsonaro and Economy Minister, Paulo Guedes, with sports betting high on the agenda. In August, President Bolsonaro signed Decree 10,467 ordering BNDES to work with the Ministry of the Economy to oversee the launch of sports betting. In August 2020, President Bolsonaro further signed Decree 10,467 ordering BNDES to work with the Ministry of the Economy to oversee the launch of sports betting.

In February, BNDES published a "Request for Information" calling on consultants and expert organisations to contribute to how sports betting will be structured. Via this request BNDES aims to contract technical services to structure the sports betting laws.

There is still a lot of work to be done before regulation is in place and licences are finally granted. Crucially, states are already beginning to allow for sports betting under a wider expansion of their own lotteries meaning that as each day that passes the value of federally sanctioned sports betting licences could diminish. In addition, the STF decision could open up the market before sports betting is officially launched. In December 2020, Waldir Eustáquio Marques Jr. the Under Secretary of Prizes and Draws of the Ministry of Economy,

In December 2020, Waldir Eustáquio Marques Jr., the Under Secretary of Prizes and Draws of the Ministry of Economy, said that regulation would be in place by July 2021. However, the government is unlikely to meet this deadline as Requests for Proposals (RFPs) had not yet been sent out by The Brazilian Development Bank.

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LEGISLATIVE PROPOSALS

Currently there are two bills, both of which would allow for a major expansion of the gaming industry: one in the Senate and the other in the House of Deputies. These bills have been tabled for debate for years and like many pro-gaming bills in other jurisdictions in the region, such as Mexico, have become stalled in a legislative quagmire. Indeed, Bill 442/1991 (PL 442/91) in the Chamber of Deputies replaces and

is in part an amalgamation of as many as 20 other gambling related projects, all of which have been discussed since 1991. Now on the Plenary's Agenda the bill permits casinos as part of the creation of integrated resorts. Each state would have up to three casino establishments, depending on the state's population. It would also allow for traditional bingo and video-bingo in casinos, bingo halls, jockey clubs, and football stadiums. Meanwhile, slot machines would only be allowed in casinos according to the bill.

Senate Bill No. 186/2014 would also allow for casinos in integrated resorts and is wider in scope. In all 35 resort casinos would be permitted with at least one per state while some states would be permitted to have as many as three. The animal game, casinos, bingo halls,

online gambling and betting would be permitted throughout Brazil, but slot machines outside of casinos are not covered by the bill.

Besides these two bills a number of other proposals have been put forward, some of which have been attached to the bill in the lower house. Overall, new proposals have been aimed at allowing for the establishment of casino provided they are combined as part of integrated resorts in order to boost tourism.





An increasing number of sportsbetting companies are already making their presence felt in the market. In March online sportsbook and casino brand LVbet, announced that Douglas Costa, the Brazilian international midfielder, would be its brand ambassador for Brazil.

allow casinos in integrated resorts. However Irajá successfully blocked the move arguing that his bill covered the benefits of integrated casinos in the wider context of tourism policy whereas Bill 2648/2019 established the benefits of regulating the entire gaming sector.

GROWING PRESENCE OF GAMING IN MEDIA

New rules will amount to a huge windfall for Brazilian football clubs many of which face financial ruin. Football themed lotteries have been used to help bail out badly managed clubs for years. All the same the Series A league is around US\$825 million in debt. According to Law No. 13,756, Brazilian football clubs which sign their rights to use their brand will be entitled to 3 per cent of the volume collected via

sports betting with 2 per cent bets made in physical locations and 1 per cent online.

An increasing number of sportsbetting companies are already making their presence felt in the market. In March online sportsbook and casino brand LVbet, announced that Douglas Costa, the Brazilian international midfielder, would be its brand ambassador for Brazil. Ronaldinho is Betcris's brand ambassador in Brazil having signed on for the brand last October.

Even though it is still yet to be regulated sports betting companies now sponsor around 60 per cent of clubs in the top two football divisions. Sports betting companies continue to sign agreements with top players and clubs. In

In May, the merger of two bills expected as a means to accelerate a possible legislation of casinos was blocked and will be debated separately. Back in September, a senate advisory committee approved a request by Senator Roberto Rocha, who, had requested the joint processing of his gambling bill (Bill 2648/2019) so that it would be merged with a bill put forward by Senator Irajá (Bill 4495/2020). According to Senator Rocha, the texts of both bills were similar as they aimed to

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January Betano became a jersey sponsor of Serie A football team Atletico Mineiro. Bitcoin Bookmaker Sportsbet.io, a brand that currently support top Brazilian football club Flamengo, signed a master contract for two years with the knockout competition in Brazilian football The Copa do Brazil for the coming seasons. In February 2021 betmotion signed a 12-month period sponsorship deal with Brazil's Fluminense FC and top female player Cristiane Rozeira de Souza Silva. Sports betting sponsorship is already extending to other sports as well. For example in November 2020 Betmotion signed a deal to become an official partner of Brazil's National Basketball League for the 2020-21 season.

AGREEMENTS REACHED

In addition a number of key agreements are being reached ahead of regulation. In November Betcris launched its new Brazil-facing website, br.betcris.com. Betcris later updated its payment options to include the Pix service an alternative that will facilitate deposits. Pix is provided by the Central Bank of Brazil and went live in November 2020. Daily fantasy sports games are also on the way via Scout Gaming which signed a deal with Betsson. In September 2020 Betsson Suaposta was renamed Betsson in the third and final phase of the rebranding project, which was coordinated by Betsson Group in partnership with the Jockey Club of Rio Grande do Sul. In addition casino and sportsbook operator group Soft2bet entered Brazil after the country moved to speed up the launch of its regulated sports betting market. Soft2Bet's YoYo Casino and

to calls from the tourism board to allow for integrated casinos and resorts is adding increasing pressure on lawmakers to change gaming law. In a pattern which we may see repeating itself in other jurisdictions around the world, lawmakers in Brazil could well liberalise the market further not because they want to but they can't afford not to.

In fact this is already happening. The courts are giving more freedom to states to offer their own products individually while lottery betting is being privatised via BNDES. Sports betting will be live next year. Consequently what we are seeing is the liberalisation of the market via specific laws, and privatisation. This piecemeal approach makes liberalisation easier to swallow for lawmakers who need to raise revenue and

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CampoBet Casino, which are part of the operator's multi-brand portfolio are now live in Brazil. Further announcements will be made as operators vie for space and position themselves more strongly in the market.

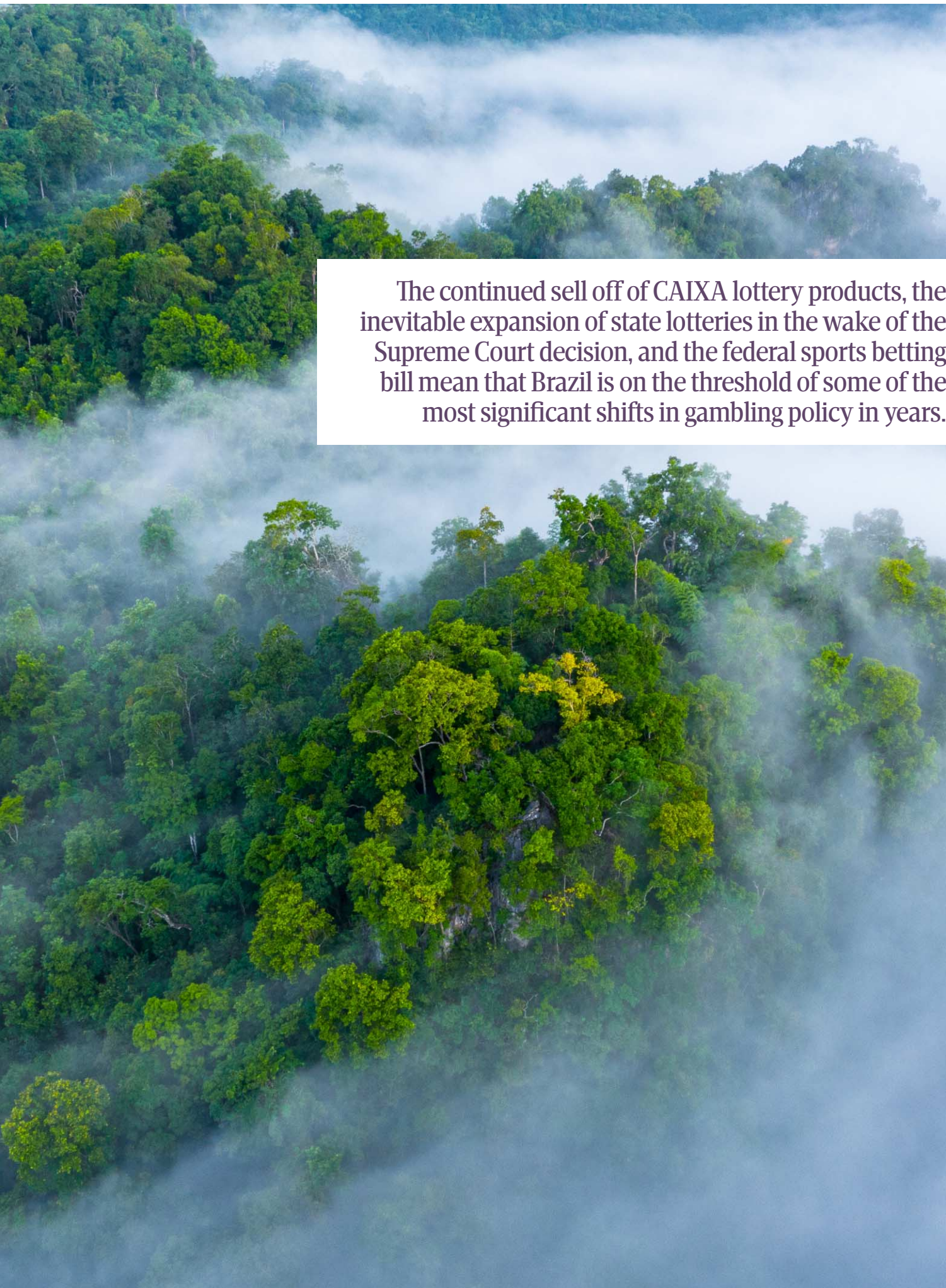
WILL BRAZIL ALLOW FOR A FURTHER EXPANSION?

The continued sell off of CAIXA lottery products, the inevitable expansion of state lotteries in the wake of the Supreme Court decision, and the federal sports betting bill mean that Brazil is on the threshold of some of the most significant shifts in gambling policy in years. In addition the opening up of the casino market appears more likely than ever especially given the number of pro gaming bills on the table. These in addition

lets them avoid much of the political cost of dealing with such a controversial topic head on.

In order to delve into the finer details of the regulatory changes and answer these question further we talked to Neil Montgomery Managing Partner of Montgomery & Associados. Mr. Montgomery talked us through some of the more complex legal issues and discussed some of the wider the implications of the STF decision on lotteries. Indeed he was the first Brazilian lawyer to raise the possibility of states offering their own sports betting products in light of the STF decision. We discussed the most crucial topics right now such as the type and number of sports betting licenses that will be available and whether Brazil will allow for casinos in the future (see next page).





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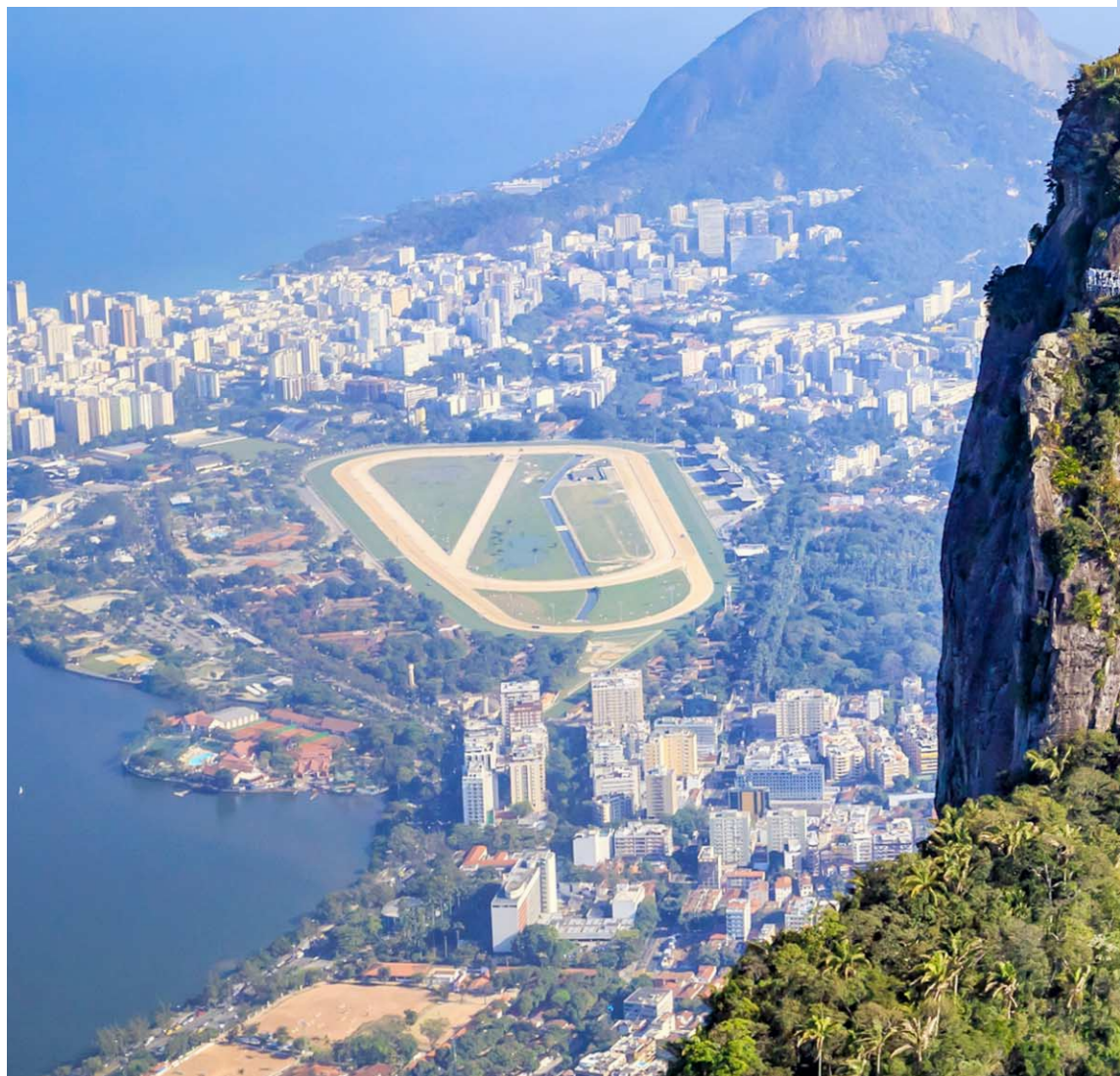
Alex Leese,
CEO, Pronet Gaming

Alex Leese, CEO of Pronet Gaming, is an industry veteran with over 12 years of experience in executive roles within the online gaming sector. He joined Pronet Gaming in Summer 2019 to spearhead the company's commercial expansion into Africa, Asia and LATAM. Under his leadership, the firm has substantially raised its profile, securing a string of new deals with local top-tier sportsbook and casino operators in those regions and widening its product portfolio to provide a tailored solution to all clients.

Immediately prior to his appointment at Pronet Gaming, Leese ran the international arm of William Hill, leading multiple market entries into newly regulated jurisdictions in LATAM as well as managing their existing portfolio. Before this appointment, Leese was Managing Director of Offside Gaming, which he joined after five years at Sportingbet/ GVC Group plc in various managerial positions across all European markets.

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Brazil: a wealth of opportunity if the market realises its potential



Pronet Gaming CEO, Alex Leese, surveys the scene in Brazil ahead of the much-anticipated regulation of the market.

The continual rise of Latin America as a global economic powerhouse is predicted to become particularly apparent from the middle of this century.

By 2050, investment bank Goldman Sachs predicts that the region will have taken a giant step in becoming a leading player in the global market, with Brazil and Mexico becoming the seventh and eighth largest worldwide economies respectively behind China, the US, India, Japan, Germany and the UK in its review of emerging economies.

Naturally, the combination of significant economic potential and a highly engaged, sports-mad population makes Brazil a particularly attractive proposition for our industry ahead of the anticipated opening-up of its regulated market in 2022.

The potential is clear, but how can operators gain a foothold in the market ahead of licences being distributed? The first point to make is that forward planning and successful market entry relies upon the forging of relationships. Latin America does not rely

on formal procurement processes per se, but places much more emphasis on personal ties that can be fostered. This is why it is crucial to have the right local partner – someone who can open doors at media agencies, football clubs, sports associations and even with local governors. While some tier one operators may be reluctant to give away a percentage of their business to a local partner, it is a vital step on the path to success. The absence of regulation has not prevented many foreign operators from already engaging in football club sponsorships and television advertising in Brazil. The scale of these football clubs is enormous; Flamengo has 40 million supporters for example, and if these brands can engage that fanbase, then there is a huge opportunity there.

On the subject of products, I have read a lot of statements that the approach must be 'tropicalised' to cater for the tastes of customers in Latin America. I feel that this is a very patronising concept. We cannot forget that a lot of successful brands have been operating in Brazil's grey market for many years, achieving excellent results through the utilisation of a



western-style sportsbook and a huge range of casino products. It is true that the ordering of a sportsbook may need to be changed – with the showcasing of different leagues for example – and the addition of video bingo and local payment service providers is important. This is the same for any market, though. Esports is also a vertical with mass-market appeal, with one of the best-loved titles in the region being CS:GO. We have found that among fans of this title, offering a customisable approach to skins and enhanced visual assets including weaponry helps to drive conversion. Such items are now so popular they have real-world value and can be wagered within the world of esports betting, which we expect will grow to be very popular in Brazil.

It's all about localisation, not tropicalisation, and among the most important aspects within this process is the branding and marketing, selecting the right ambassadors and the right sponsorships.

Ultimately, everything hangs on the regulation and there have been a few U-turns so far. First, the authorisation model in keeping with Spain and Colombia appeared to be favoured by Brazil's authorities, then the concession model of up to 20 licences was put forward as a solution. It remains to

be seen which path Brazil will ultimately go down, though we expect to find out at some point this summer. If it is to be the concession route, then it is inevitable that some brands will miss out and will lose the investment they have made to date.

At Pronet Gaming, our presence across Latin America continues to grow and we are already present in Brazil, Mexico, Argentina and Peru. The opportunities are plentiful, particularly when helping existing retail brands take their operations online. We are also engaged in projects with lotteries, media organisations and sporting bodies in a region that we consider to be hugely exciting.

It has been a journey that has been eye-opening too regarding the perception that the big European operators will naturally get the first seats at the table. In fact, we are regularly in discussions with Asian and African operators looking to enter Latin America utilising our tailored solution.

Brazil could, as many have suggested, be the biggest market in Latin America. It is also true that in the ongoing absence of regulation, this potential is unrealised. We await the latest market developments with keen interest.

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The right tax structure could create a land of opportunity



Neil Montgomery,
Founding and Managing Partner of
Montgomery & Associados

Neil Montgomery is the Founding and Managing Partner of Brazilian law firm Montgomery & Associados (www.montgomery.adv.br), at which he heads, amongst other practice areas, the law firm's Minds Sports, Draws, Gaming, Betting and Lottery Practice Group. The firm, which pioneers the innovative business model of Lean Full Service – LFS®, is headquartered in São Paulo and has a presence in Rio de Janeiro and London. It is the only Brazilian full service law firm with a dedicated team specializing in gaming and betting. He is a dual national (Brazilian / British). He is a General Member for Brazil at the IMGL – International Masters of Gaming Law, a published author and a regular speaker at international gaming and betting events (including ICE). He has worked as a lawyer in London and São Paulo and specialises on advising multinational companies in investing and doing business in Brazil and Brazilian companies expanding their businesses overseas.

As far as the number of fixed odds sports betting licences being made available by the federal government are concerned, initial rumours signalled potentially 30 licences, but such number gradually increased, and speculation had it that the number could be between 50 and 100. However, such a number is still insufficient considering that studies have ascertained that currently about 450 to 500 online foreign sports books access the Brazilian market.

Bolsonaro hardly ever talks about gambling, but do you think that the government will be forced to allow for an expansion of the market in order to generate tax revenue? Or do you think that his evangelical base will make any kind of expansion impossible?

Nowadays, the evangelical base has conducted fierce opposition against legalisation. Notwithstanding, since the legalisation of sports betting at the end of 2018, momentum has been gained over the years and it now seems that the legalisation of other gaming



Neil Montgomery has advised foreign clients on all aspects of Brazilian law and has accompanied and contributed to the development of the legalisation and regulation of gaming in Brazil. Neil looks ahead to the regulations for Law No. 13,756/2018 being issued and to the support his team can provide to foreign sports books seeking to establish their presence in Brazil and obtain a licence to take part in the local market.

What effect has Covid had on delaying gambling laws in Brazil?

COVID-19 has delayed the regulatory process and has shown how Brazil desperately needs to legalise and regulate all forms of games of chance. This also implies rolling out a tax structure (based on GGR and not turnover) that is sufficiently attractive to have as many operators as possible look at Brazil as a land of opportunity, which has the potential of being within the three largest markets in the world. There are rumours that GGR-based tax legislation be rolled out sooner than later.

verticals is more a question of time rather than anything else, especially in times where the federal and state governments are desperately looking for new sources of tax revenue.

Beyond the instant lottery division, Lotex, the government is looking to sell off the fixed-odds betting arm of the lottery of CAIXA. Could you tell us about that? Do you think it will be more successful than the selling off of Lotex, which underwent several delays and has failed so far?

As far as the number of fixed odds sports betting licences being made available by the federal government are concerned, initial rumours signalled potentially 30 licences, but such number gradually increased, and speculation had it that the number could be between 50 and 100. However, such a number is still insufficient considering that studies have ascertained that currently about 450 to 500 online foreign sports books access the Brazilian market. This is why I have always been favourable and advised SECAP, in the contributions submitted by my firm to the public consultation rounds promoted by such a body, that the most appropriate business model for Brazil should be that of authorisation (particularly for online licences), where the government is required to grant a licence if the pre-determined legal and financial requirements are satisfied by each operator seeking a licence.

While such model appeared in the first draft decree made available by SECAP, it was later replaced by the concession model in the latest draft. I am still hopeful that the federal government may revert to the authorization model, especially since the recent RFI No. 06/2021 released by the Brazilian National Social



It is important to note that following the Brazilian Supreme Court (STF) decision at the end of 2020 breaking the Federal Union's monopoly over the exploitation of lotteries, many Brazilian states (including Maranhão, Espírito Santo, Rio de Janeiro, Minas Gerais, Paraíba, Ceará and Rio Grande do Sul) as well as the Federal District, are either reactivating their own state legislations or moving forward to enact their own legislation to be in a position to exploit state lotteries (which must follow the types of lottery also existing at a federal level).

and Economic Development Bank (BNDES), which is to spearhead the process of appraising the market for fixed odds sports betting, specifically refers to both business models and will be responsible, with the financial, consulting and legal advisors it is to hire, to determine which will suit Brazil best. With Requests for Proposals (RFPs) not yet having been sent by the BNDES to the 38 applicants that have been selected to continue in this bidding process, it is now probable, given such delay, that the former promise made by

SECAP in that regulations would be passed by July 2021, is not going to be honoured.

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If the judgment moves forward and Justices rule in favour of the State of Rio Grande do Sul, this could be the turning point in the legalisation of all forms of games of chance in Brazil that foreign operators have been waiting for decades. There is currently speculation as to whether the Brazilian Congress will move quicker than the STF and approve the Bills of Law currently underway, which aim to legalize all forms of gaming and betting in Brazil prior to the judgment session, which has now been postponed to the second semester.

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In the context of the foregoing, since fixed odds sports betting was deemed by the Brazilian legislator as a form of lottery, the above-mentioned decision, in principle, provides an opportunity for licenses for the exploitation of fixed odds sports betting to be granted also at state level. SECAP is well aware of this and will probably try to concentrate licenses being granted to online operators only at the federal level. We will have to wait and see how this develops in the months to come.

Another event which could have certainly messed things up further this semester was going to be the judgment session, by the STF, on 7th April 2021, of the claim arising in the State of Rio Grande do Sul.

If indeed the judgment moves forward and Justices rule in favour of the State of Rio Grande do Sul, this could be the turning point in the legalisation of all forms of games of chance in Brazil that all foreign operators have been waiting for decades. There is currently speculation as to whether the Brazilian Congress will move quicker than the STF and approve the Bills of Law currently underway at such power which aim to legalise all forms of gaming and betting in Brazil prior to the judgment session, which has now been

postponed to the second semester because the STF President – Luiz Fux – did not want to rule on such a sensitive issue in the midst of the worst phase of the Covid-19 pandemic in Brazil.

What is the significance of the Supreme Court decision to allow states to offer their own lotteries? Do you think that individual states will just start launching sports betting via private operators in their own states?

The STF decision allowing states to offer their own lotteries is a breakthrough for the sports betting and lottery industries. I was the first Brazilian lawyer to raise the possibility of states offering their own sports betting products. This is because the STF decision clearly states that states can offer all forms of lottery that exist at federal level. Since sports betting now exists at federal level, even though it has still not been regulated, in principle, states could either exploit such a product or grant licenses to private operators to do so within their own territories. This will certainly create friction with SECAP, especially in respect of online fixed odds sports betting.



When and under what terms do you think sportsbetting will be given the green light?

Brazil is the largest country not yet fully having legalised gaming broadly. The hypocritical approach adopted by authorities has taken its toll in the loss of taxes and jobs that could already have been generated by a regulated industry, especially in times of the Covid-19 pandemic, during which period such needed resources would be vital for financing the fight against the virus. This is a problem for the country. The only way forward should be the widespread legalisation and regulation of games of chance of all sorts. This is why I have always defended, when it comes to fixed odds sports betting, for example, for the government to adopt the "authorisation" business model rather than the "concession" model. We will have to see what comes out of the BNDES studies aiming to establish the legal framework for fixed odds sports betting in Brazil, but I sincerely hope that the federal government will see that the "authorisation" model, in which all operators satisfying certain legal and financial requirements are granted a licence (without any

We will have to see what comes out of the BNDES studies aiming to establish the legal framework for fixed odds sports betting in Brazil, but I sincerely hope that the federal government will see that the "authorisation" model, in which all operators satisfying certain legal and financial requirements are granted a license (without any limitation on the number of licenses being granted), is to be much more beneficial to Brazil and to the market than the "concession" model that is more recently being supported by the Brazilian Executive.

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What are your expectations of the market overall? Do you think that Brazil could one day allow for casinos and online casino games?

I believe that if indeed the BNDES studies and conducted in a swift manner and the regulations are finally laid down for fixed odds sports betting in the next few months, we should see the first licenses being made available as early as the first half of 2022.

Unless the Bills of Law underway at Congress that aim to legalise all forms of land based and online games of chance are approved and converted into law this year of the STF indeed rules on the constitutionality of article 50 of the Criminal Contraventions Law in the second semester, the next vertical the federal government seems to have an eye on is casinos, especially in the context of integrated casino resorts, to develop tourism throughout Brazil.

That being said, I do believe that in the next five years we may indeed see the installation of traditional land based casinos again in Brazil as well as online casino games.