

The experts' point of view



 Banking and
Financial Services

After the spread of players in recent years, the financial sector is being pushed towards consolidation

New rules and expanded powers of the Central Bank drive the financial market towards consolidation

Exclusive interview with our partners on the panorama of the sector

Business Barometer: opportunities and points of attention in the market

Lefosse

TABLE OF CONTENTS

03

INTRODUCTION

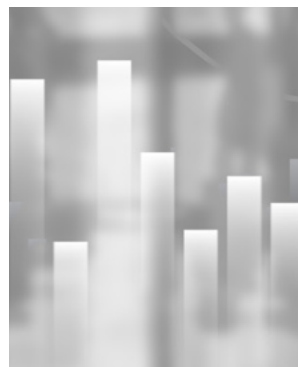
The main prospects for the financial services sector in Brazil for those who want to stay ahead in the market.



07

INTERVIEW

What do our experts have to say about the main innovations in the sector?



04

COVER STORY

After the spread of players in recent years, the financial sector is pushed towards consolidation in 2024.

21

BUSINESS BAROMETER

Stay ahead in the market: check out the opportunities and points of attention in the financial services sector.



INTRODUCTION

The main prospects for the financial services sector in Brazil for those who want to stay ahead in the market.

The magazine from **The experts' point of view: Banking and Financial Services** offers a complete overview of the sector, with analysis and insights from our experts on the transactional, regulatory and tax fronts. They put into context the consolidation of the financial market in Brazil, the emergence of new markets and the expected consequences of the tax reform.

In the **cover story**, partners **Renata Cardoso, Kenneth Ferreira, Dante Zanotti** and **Emmanuel Abrantes** explain the reasons that have led the Brazilian financial sector to the consolidation and emergence of new markets, such as cryptocurrencies and the tokenization of financial assets.

In a **full interview with our partners**, we discuss the transactional outlook for the coming months, the impacts of recent regulations, such as the Legal Framework for Guarantees, and planned regulations, such as those for the digital assets, Banking-as-a-Service (BaaS) and betting markets. Our experts also explore the recent changes in tax legislation and the points of attention for the sector with the implementation of EC 132/2023.

In the **business barometer**, you'll find the main opportunities and points of attention in the financial services sector so you can prepare for what is to come.

Enjoy your reading!



After the spread of players in recent years, the financial sector is being pushed towards consolidation

New rules and expanded powers for the Central Bank lead the financial market towards consolidation

The financial market is likely to undergo consolidation trends over the next two years. Mergers and acquisitions are on the horizon, especially for fintechs and payment companies. According to the Lefosse partners, regulatory and economic factors point in this direction, which opens up a range of business opportunities in the sector.

“The market is being forced into consolidation,” says Kenneth Ferreira, a partner in the Banking and Finance practice.

One of the reasons for this, explains Renata Cardoso, a partner at the same practice, is the recent entry into force of the rules imposed by the Central Bank (BCB) with a capital requirement for payment institutions, which is proportional to the size and complexity of the regulated entity.





COVER STORY

“The Central Bank identifies that some players are not doing well from the point of view of economic, operational and solvency capacity. This can create opportunities, and is linked to the fact that the process of obtaining a license is extremely lengthy,” she says.

According to Kenneth, the consolidation movement is also linked to the Central Bank’s regulatory capacity, which in recent years has become more competent with the emergence of new industries and the spread of new players, whose activities must be supervised by the Central Bank. “The regulator’s concern is to keep up the good work, even with limited resources,” he says.

One of the regulations expected for the year is that of the cryptocurrency market, following the publication of the Digital Assets Law (14.478/2022), which, according to the partners, will require compatibility on the issue of asset custody and maintaining the principle of segregating the assets of brokers and clients.

“It’s a new market, which requires greater caution, but which generates a number of opportunities. We are working to bring in new players to set up market infrastructure, i.e. trading platforms, custodians and brokers for these assets. And on top of that, we do product modeling - which is where our head really is,” says Renata.



The cryptocurrency market is new and therefore requires greater caution, but it also generates a number of opportunities.”

Renata Cardoso



See the Central Bank resolutions that have helped consolidate the market:

BCB Resolution No. 197;

BCB Resolution No. 198;

BCB Resolution No. 199;

BCB Resolution No. 200;

BCB Resolution No. 201; and

BCB Resolution No. 202.



COVER STORY

In the area of financial products, the partners highlight the potential for the formation of the asset tokenization market in the financial and capital markets in order to simplify traditional market structures, as well as a possible change in structures widely used in the market due to the future regulation of Banking-as-a-Service (BaaS) and the recent amendment to the Usury Law.

On the tax front, discussions on the regulation of the consumption tax reform promise challenges for the financial services sector, which has been placed under a special tax regime - outside the general IBS and CBS rules. One of the battles will be to design the rules to be applied considering the diverse range of segments that have been covered by the differentiated regime, explains Dante Zanotti, a partner in the Tax practice.

The expert points out that other relevant issues for the sector are on the table, such as the possibility of taxing financial income and credit operations carried out by Credit Rights Investment Funds (Fidcs). "This last point could cause a great deal of discomfort in the funds market," he says.

Ahead, the sector must also wait for the federal government to present a proposal to reform income taxation. According to Zanotti, the Executive Branch should propose the extinction of the payment of Interest on Own Capital (JCP) and reinstitute taxation on the distribution of dividends.

"These are changes that must be accompanied by a reduction in the tax burden applicable to legal entities. We need to understand how the government is going to deal with this for the banking sector, which already has very high tax rates," he says.

The positive highlight, according to Zanotti, is the prospect of a compilation of the rules

for taxing financial products - currently laid down in sparse, old laws that are out of step with the regulations of the Securities and Exchange Commission (CVM). This scenario, he says, ends up preventing products from being placed on the market. "The compilation creates an opportunity to make tax treatment more uniform, correct asymmetries and unlock many of the products," he points out.



The compilation of the rules for taxing financial products creates an opportunity to make tax treatment more uniform, correct asymmetries and unlock many of the products."

Dante Zanotti



INTERVIEW

What do our experts say about the main developments in the financial sector?

In the following interview, partners **Renata Cardoso** and **Kenneth Ferreira**, from the Banking and Finance practice, and **Dante Zanotti** and **Emmanuel Abrantes**, from the Tax practice, share their analysis of the sector's current outlook. They discuss the transactional outlook for the coming months, the impacts of recent and planned regulations, as well as exploring recent changes in tax legislation.



What are the prospects for M&As in the financial sector in the coming months? What factors tend to stimulate new business and consolidations between banks, fintechs and payment institutions?

Renata Cardoso: The M&As will happen due to a combination of factors. There is a more immediate one, which is the need for capital for payment institutions, since the new regulatory capital regulations have come into force for payment institutions and the conglomerates they lead or are part of. This is generating concern in the market about the sufficiency of resources, looking at them in isolation.

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IMPACTS OF THE REGULATION OF THE BETTING MARKET ON THE FINANCIAL SECTOR

REGULATORY OVERVIEW OF THE DIGITAL ASSET MARKET

EFFECTS OF THE LEGAL FRAMEWORK FOR GUARANTEES ON THE SECTOR

IMPACT OF RECENT CHANGES IN TAX LEGISLATION

POINTS OF ATTENTION WITH THE REGULATION OF EC 132/2023

Renata Cardoso

Banking and Finance
Partner

INTERVIEW

Obviously, teaming up with someone can address a need to increase capital without having to inject money yourself.

There is another issue that the Central Bank has already signaled. It identifies that within the market there are some players who are not doing well from the point of view of economic, operational and solvency capacity. In decrees and decisions, the Central Bank has ordered the liquidation of certain players. This can create opportunities and is linked to the fact that the process of obtaining a license is extremely time-consuming.

When you consider the time spent obtaining a license, setting up technology and hiring people, sometimes making an acquisition of a player that needs a new shareholder or liquidity to give it a boost and reformulate the business is more efficient for the financial and payment system than canceling the license and a new player having to apply for a new one. We may see more of this movement over the next two years.



The Central Bank has ordered the liquidation of certain players. This can create opportunities, and is linked to the fact that the process of obtaining a license is extremely lengthy.”

Renata Cardoso

The last two years have already seen a need for consolidation due to market, macroeconomic and microeconomic issues. It makes perfect sense to bring together a fintech that is purely a card issuer with another that is purely a credit fintech, because it ends up boosting several of the products in one, instead of each one having to set up its own business and become a more robust company. There's a lot of opportunity in that.

The banking sector is, among the private sectors, the one that invests the most in technology, both in Brazil and worldwide. It's a technology market, which includes systems, cybersecurity, data science, artificial intelligence and innovations. Open Finance and Pix are there to prove it. But more than that, it is also in this sector that many of the opportunities for mergers and acquisitions occur.

Kenneth Ferreira: Another important thing for M&A is that it addresses a question of the limit of the Central Bank's regulatory capacity. We had the banks, then came the payment institutions (IPs). The Central Bank has postponed the deadline for IPs to be authorized - previously it was mandatory depending on the volume. This decision came about because the Central Bank has limited capacity to regulate so many people, in addition to having to approve the changes of control in the M&As. Then the fintechs came and, more recently, the crypto companies. Not to mention the need to use authorized payment institutions in the betting market.

The Central Bank is concerned that, even with limited resources, it should continue to be able to provide a good service to the markets, which it has been doing, and scale up this work to other industries.



INTERVIEW

There is also another market observed by the Central Bank, which goes more unnoticed, and that is market infrastructures. These are the stock exchanges, asset, receivables and derivatives registry offices. All of them are regulated, but with many players who, with a few exceptions, have a very small share of the market. Perhaps we'll see a consolidation of this too.



The Central Bank is concerned that, even with limited resources, it should continue to be able to provide a good service to the markets and scale up this work to other industries.”

Kenneth Ferreira

What do you see as the trend in operations and products this year?

Renata Cardoso: The market is still racking its brains over how to tokenize financial and other assets to try to simplify somewhat the structures of financial products and solutions, which are excessively complex and expensive. There is a huge simplification of structure when you open up the possibility of issuing a token instead of a traditional fund share to sell exposure in a portfolio of assets. There is potentially a simplification of documents and players involved in the operation.

All current market regulations presuppose that a series of regulated entities provide security for the system, from issuance to custody and settlement.

The big challenge is to offer this product at the level of security that investors need, in an extremely innovative product, and, eventually, by renouncing regulatory gatekeepers. To make a token, from a technology point of view, we don't need a custodian, a bookkeeper and a trustee, but what is the limit? This is the current discussion in Brazil and around the world, and we are trying to contribute to the regulators so that we have regulatory predictability and so that we can apply this technology to replace some traditional structures.



**Kenneth
Ferreira**

**Banking and Finance
Partner**



INTERVIEW



The big challenge is to offer this product with the level of security that investors need, in an extremely innovative product, and eventually to give up on the regulatory gatekeepers.”

Renata Cardoso

There is potential for a new market to form, which is more than a “rip-off” - we’re not going to stop making one to make another. The idea is to apply technology to open up a new market and explore it from another perspective. But it obviously has to be done in a way that guarantees security for investors, especially individuals and retail investors.

And all of this is connected to the Digital Assets Law (Law 14.478/2022). Brazil has taken the lead in this market by legislating on the subject and few countries have done so. This is also due to a cultural component because we know that Brazilians are very connected to social networks and technology and the Central Bank has captured this culture.

Also in 2024, we should have a new public consultation by the Central Bank to regulate digital assets, which should ultimately provide the market with regulations on the infrastructure and rules for obtaining a license and operating in the market. We must also look at the CVM [Securities and Exchange Commission] sphere in relation to offering these digital assets to the general public.

There are already limited operations in the securities market involving tokens, but there is still a great difficulty in doing this in a more comprehensive way, and we have already been working on the issue.

This issue is also closely linked to the carbon market. The big players have been positioning themselves to better understand this market, they want to think about ways of structuring carbon operations for clients using tokens and preparing to do their own operations, setting up proprietary desks to deal with these assets and connecting to the ESG [environmental, social and corporate governance] business front.



INTERVIEW



With the Digital Assets Law [Law 14.478/2022], Brazil has taken the lead in this market. Few countries have done this.”

Renata Cardoso

Emmanuel Abrantes: Brazil is a huge market for digital assets, crypto and tokenization, both for companies starting up here and for foreign companies that want to establish a business in the country. We've been working on a number of fronts and thinking about how these startups have developed with a strong focus on technology and not on organizational culture. They started out in an office in some country and now operate globally and move billions of dollars in resources. Now, with market regulations, they are faced with the challenge of becoming companies - from the point of view of corporate management and taxation. They have a culture of entrepreneurship, but they often fall short when it comes to structure. We have seen this dilemma in the office and we are guiding these companies in the formation of businesses and teams, both those that want to develop structurally in the country and those that intend to enter Brazil.

Ferreira: In the financial services sector, the product area is highly subject to regulation. Wherever regulation takes us, that's where we'll see more products. In addition to the topics already covered, there will be regulations on the resolution (insolvency and bankruptcy) of financial institutions. There are currently laws all over the place with different regimes.

Following the standards of the OCDE [Organization for Economic Cooperation and Development], the Central Bank should unify the rules. What happens when there is a resolution of a financial institution that is not complying with regulatory capital - does it liquidate, sell? It will be an area where we will see new things in terms of regulation.



**Emmanuel
Abrantes**

Tax Partner



Following OCDE standards, the Central Bank should unify the rules on the resolution (insolvency and bankruptcy) of financial institutions.”

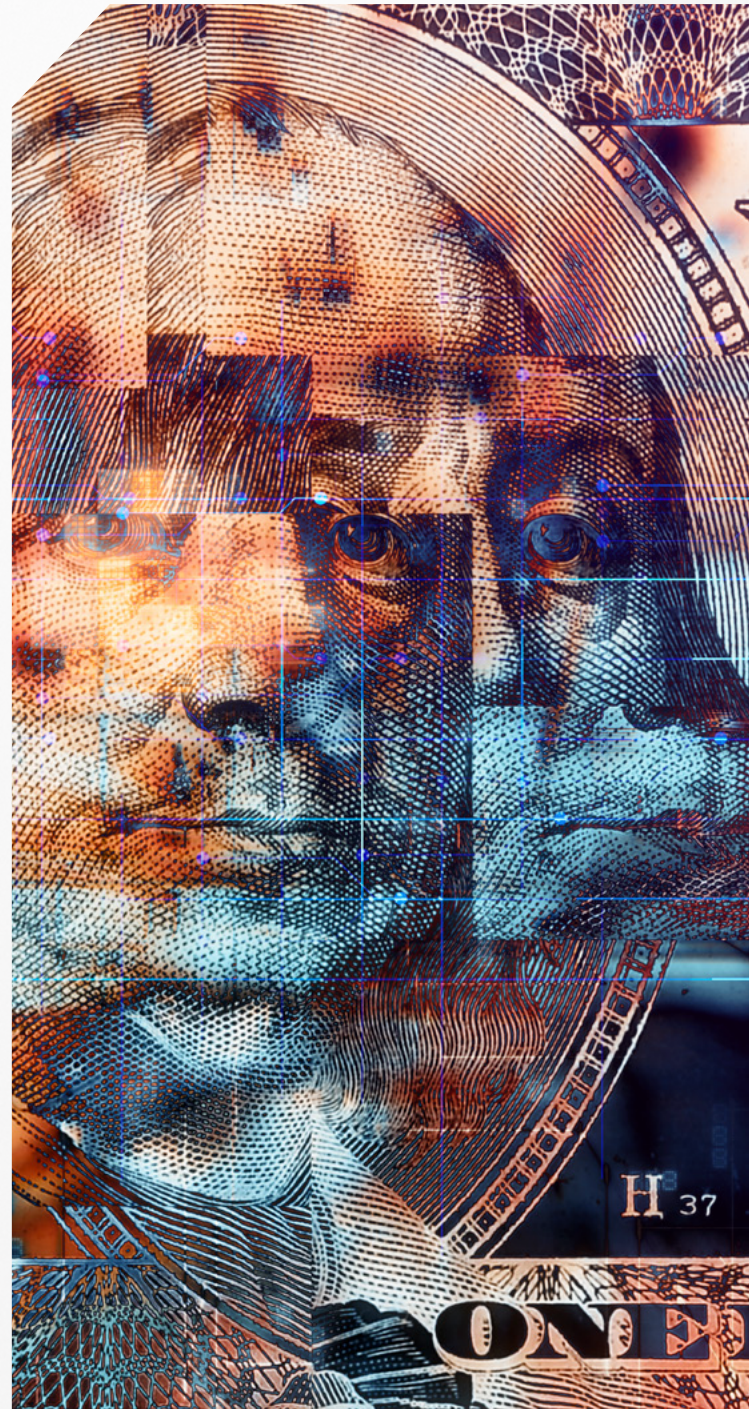
Kenneth Ferreira

INTERVIEW

On the subject of betting, how does the financial and payments market fare in the context of the Ministry of Finance's regulation of this activity?

Ferreira: The Ministry of Finance's regulations state that in order to make payments on the fixed-odds market, it is necessary to be a company regulated by the Central Bank. A payment company that works - it has an account, makes credit and debit - but is not authorized by the Central Bank (including for reasons of volume), will not be able to provide a payment service related to betting. There will be a demand for this product, which is derived from the Ministry of Finance's rule, and which will affect companies in the financial sector.

Cardoso: What remains for the Central Bank, in the short term, is the supervision of payment transactions in this market, operated by regulated entities. The regulator's main concern is preventing money laundering, identifying clients and the origin of funds. There is a very important discussion of supervision, of making sure that this market develops with the minimum standard of banking and payment operations within the national territory. For this reason, a CNPJ in Brazil is required, because it must process payments with an entity that is under the umbrella of the Central Bank. I see this as well-structured and interconnected with a greater objective of preserving the integrity of the system and serving end users.



Regulation needs to ensure that the betting market develops to the minimum standard of banking and payment operations on national territory.”

Kenneth Ferreira

INTERVIEW

The Central Bank recently concluded its subsidizing of the regulation of the digital asset market based on the Legal Framework for Cryptocurrencies (Law 14.478/2022). What, in your view, should be the essential points of this regulation?

Cardoso: We took part in providing subsidies for some players in this Public Consultation. The Central Bank has a homework assignment to understand what infrastructure solution we will have for the Brazilian digital asset market. This issue is connected to the technology agenda that the current administration wants to leave for the next one, from the point of view of the market's development prospects over the next few years.

The Public Consultation process for the regulation of digital assets was different from usual. When the Central Bank comes up with a draft for agents to comment on, it's very clear that it has an opinion on that subject. The fact that it selected a list of topics to comment on left this Public Consultation with a very different dynamic, which was in fact to explore custody theses. In this case, for example, where the answer is more difficult, it received a series of approaches on how it works in other countries. This is very rich from a collection point of view.

The solution that Brazil adopts will have to be aligned, at the very least, with the existing standard for other regulated entities. The level of care and requirements of a regulated entity is rightly very high in Brazil compared to other jurisdictions. And being a new market, it requires greater caution.

The Central Bank will have to tackle the issue of custody in order to make the concept of a technology, which is naturally decentralized, compatible with a concept that worldwide has been based on centralization and direct contact with the asset.

In addition, it is very challenging for the system to live with a lack of segregation of assets between the infrastructure provider and the client. It's a basic principle of the Brazilian market. There is a history of breaches that have proven that mixing client assets with those of the broker does not work.



The solution that Brazil adopts for the regulation of the digital asset market will have to be aligned, at the very least, with the existing standard for other regulated entities.”

Renata Cardoso

Is it expected that this issue will be addressed by law or can the Central Bank deal with it in the regulation of Law 14.478/2022?

Cardoso: This is an issue connected to a point in the Bankruptcy Law [Law 11.101/2005], which is a federal law that applies in a subsidiary way to the resolution regime of the financial and payment system. Thus, a simple regulation by the Central Bank won't solve the problem. It imposes a requirement but generates a challenge in the future decision that the Judicial branch will have to make in a real case of bankruptcy of a digital asset exchange.

INTERVIEW

The Legal Framework for Guarantees (Law 14.711) was sanctioned at the end of October 2023. What can creditors expect in terms of the effects of the law?

Cardoso: The credit market is excited and has already been updating its contracts to reflect the new provisions of the Legal Framework for Guarantees. The Framework brought in institutes aimed at modernizing and making executions more efficient. It's not a revolution. These are one-off changes that allow us to be a little more rational about the process. It is not possible to favor an excessive delay in taking a guarantee. There have been historical complaints about real interest rates in Brazil, but this has a number of components, including the recovery of credit.

In a normal situation where credit has been granted on good terms - the bank has handed over the money, the customer has not paid - there is an asset that is the object of the guarantee to be taken to execution to reimburse the bank and it is important that this happens on a fair basis for all sides. If there are no more issues to be discussed in relation to the elements of that right, it needs to be exhausted and the asset sold. The Legal Framework brought in a number of these elements, modernizing institutes that had not been touched for decades in the Civil Code.

From the borrower's point of view, there are a number of benefits too. Today, one of the major bottlenecks in taking out credit is the lack of assets to put up as guarantee. The law now allows for a better rationalization of the use of property. It is then possible to give the same asset as guarantee for more than one loan. As the loan is paid off and the guarantee amount is released, the owner can use the surplus to take out a new loan - sometimes cheaper than the previous one.



Today, one of the major bottlenecks in taking out credit is the lack of assets to put up as guarantee. With the Legal Framework for Guarantees, it's possible to give the same asset as guarantee for more than one loan."

Renata Cardoso



INTERVIEW

Ferreira: The Framework changes the paradigm for granting credit from the moment it has a better structure for enforcing guarantees, an easier way to set up and enforce guarantees. We will now depend on the Judicial branch. It's a slow process, but we're prepared for it.

Do you foresee potential problems generated by any provision of the law?

Cardoso: There are several areas of interpretation in the law and a series of concepts that perhaps deserve better development by the market. We are used to dealing with degrees of mortgage guarantees. We had already contractually tested many of the solutions that are now provided for in the law. There is a pioneering spirit to what we do that drives the market and the legislative process. When we finally have a new law that reflects practical concepts that we were already operationalizing, it's up to us, in the same way, to put together a strategy to fill in the gaps in the law so that this is consolidated over the next few years.

We anticipate that dealing with the issue of concurrence of creditors may also be a challenge under the new law, especially in the case of fiduciary guarantees, as well as other minor points of the law that may, on a day-to-day basis, generate discussions.

The Federal Supreme Court (STF) is hearing two direct actions of unconstitutionality challenging the Framework. These are actions by associations of magistrates and justice officials. It remains to be seen whether or not they will succeed, since they discuss the fact that part of the jurisdiction that used to lie with the Judicial branch has been transferred to the notary offices. If the case is one of exhaustion of a right over which there is no dispute, it probably makes sense to let the judiciary devote itself to other matters more relevant to society, especially considering that its operation involves an expensive structure.

In my experience, the work that notaries have done in the real estate market, in consolidating the fiduciary alienation of real estate, is an excellent precedent for us to believe that what will happen in relation to other types of asset will be at least equivalent to the service we have seen. But there is a need for the notary offices to be better equipped because they have gained competence and the services need to be delivered with a quality compatible with what the market expects.

What are the impacts of recent changes in tax legislation on the financial sector?

Dante Zanotti: Tax reform is a topic that has been hot since 2022, and we expect it to continue until the end of 2024. Some things have already been approved. Some in a more macro way, such as the reform of the IBS and CBS. Others were more specific and had been in the government's pipeline for some time. And there are rumors of potential new tax changes affecting the financial market.

The first reform came in mid-2023 with the change in transfer pricing rules [Law 14.596/2023]. It was something that Brazil was completely out of the pipeline of what was happening in the world. There has now been a complete alignment. The new framework of transfer pricing regulations turns out to be very important for the financial market. There are intercompany operations carried out by banks, especially those with an international structure. These operations need to be reviewed on the basis of the new concept of transfer pricing, which leaves the framework of formulas aside and starts to take into account concrete economic situations and the structures that clients adopt. But I see more relevant impacts for companies that use a technology-based structure within the financial market - means of payment companies and fintechs that develop their business using intellectual property abroad here in Brazil.



INTERVIEW

These are directly impacted and are already revisiting their structures and mapping the risks, as well as the tax impacts, to see if they are suited to a global model and, above all, to what the Federal Revenue Office might consider from a Brazilian perspective.



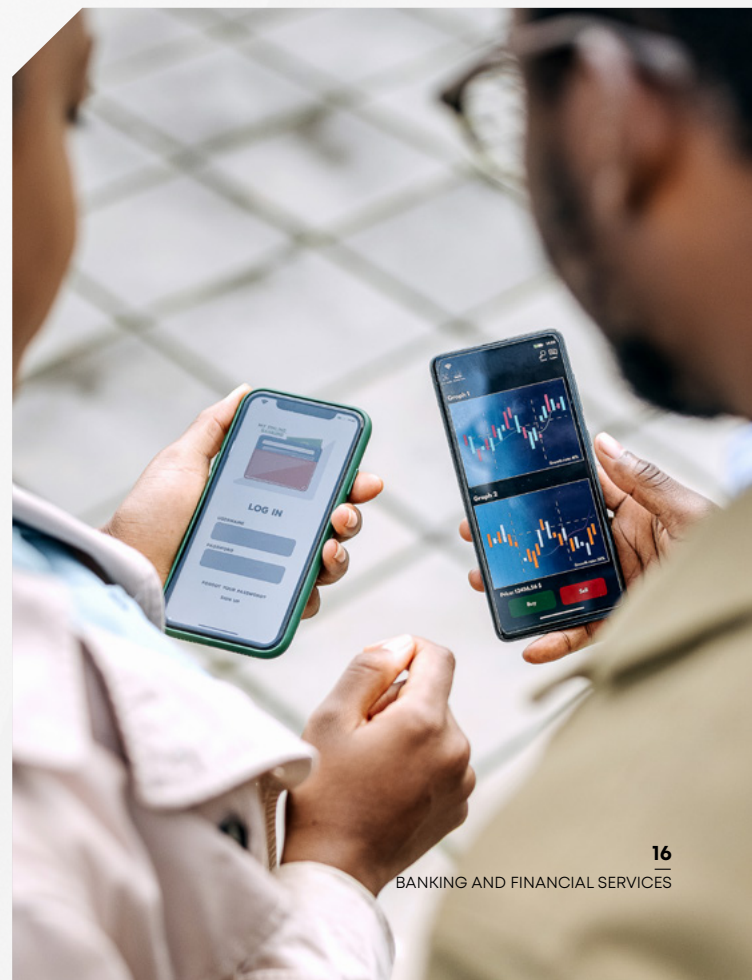
Intercompany operations have been reviewed on the basis of the new transfer pricing concept, taking into account specific economic situations and the structures adopted by clients.”

Dante Zanotti

The reform of funds and taxation of offshore companies [Law 14.754/2023] also had a major impact on the financial market. On the funds side, we have moved away from structures in which there were indefinite deferrals of taxation for investors in exclusive funds to an alignment in which there is now taxation under the “come-cotas” system*, and temporary taxation in relation to investment in certain types of fund. Additionally, there was a reform of certain tax concepts applicable to funds, which made investors look at the products on offer to assess whether it was still suitable for them vis-à-vis the benefit to be obtained.

The very concept of a Receivables Investment Fund (FIDC), for example, has changed. Today, it is the most restrictive in terms of the assets that can be invested so that deferral treatment is preserved. The concept of a Private Equity Investment Fund (FIP) - something widely used in the financial market, especially for investors who are not resident in Brazil - has also suffered a significant impact and the beneficial tax treatment of this structure has become more focused on certain circumstances and private equity investors. And other types of fund, such as Real Estate Investment Funds (FII), which despite having preserved tax treatment, also need to be observed in how they fit into the investment structures by banks and managers in order to be treated efficiently.

*You can find out more about this in the specialized [magazine](#) "[Investment Funds](#)".



INTERVIEW


On the funds side, we've moved away from structures with indefinite deferrals to taxation under the 'come-cotas' system."

Dante Zanotti



**Dante
Zanotti**

**Tax Partner
Banking and Finance Specialist**

What lies ahead in the tax area?

Zanotti: Income tax reform, which is very important, especially for financial institutions. They are currently taxed at very high rates. Banks pay around 45% IRPJ and CSLL. Others, 40%. There is an exemption on the distribution of dividends. In this scenario, banks usually benefit greatly from the payment of JCP [Interest on Own Capital], which brings an arbitrage between what they pay in Withholding Income Tax (IRRF) on the distribution of JCP and what is deductible.

The idea behind the reform is that the government wants to try once again to extinguish the payment of JCP. And it wants to reinstate the payment of IR at source on profit distributions. This makes sense in a context where global tax administrations have been following this path. By not taxing dividends, Brazil would be an outsider. But at the same time, these changes come in the context of a reduction in the burden applicable to legal entities.

We need to understand how the government is going to deal with this within the banking sector, which has such high tax rates. And how will it possibly provide for this rate reduction in such a way that it doesn't cause an excessive burden for financial institutions to be taxed on their profits and then on the distribution of dividends and, furthermore, losing any JCP tax benefit.

Finally, the government has reported that it intends to compile legislation on the taxation of financial products into a new law. Currently, the taxation of financial products is a mess. Some of it is in super-old laws; some of it is in new laws. The laws are not connected to each other and the concepts are sometimes confusing.

INTERVIEW

There is a mismatch between financial products as they are issued by the CVM and as they are treated by the tax legislator.

Because of the uncertainty that the tax treatment brings to the legal entities that are responsible for paying the tax, products end up being held back. The compilation creates an opportunity to make tax treatment more uniform, correct asymmetries and unlock many of the products.

What points are sensitive for the sector in the debates on the regulation of EC 132/2023, which laid the foundations for a new system of taxation on consumption?

Abrantes: The tax reform brought about a major change in the taxation perspective of the financial sector along with the rest of the market in general. The amendment brought in a specific regime for financial services.

We're talking about taxation on consumption. In international experience, the rule is that consumption tax is not levied on financial services, because it is very difficult to measure the added value of financial services. As a rule, they are subject to income tax and other taxes that measure the profit on the operation. It turns out that this was not the decision Brazil took.



In international experience, the rule is that consumption tax is not levied on financial services. But in Brazil, it was decided to tax financial services by IBS and CBS, but in a differentiated regime.”

Emmanuel Abrantes

It was decided to tax financial services by IBS and CBS, but in a differentiated regime.

Many activities have been included as financial services. For example, TVM [securities portfolio] operations are included, which is a brokerage service; and payment arrangements, which have banners, processors and various other elements that make up the payment arrangement regime and which is not a financial institution. The concept of financial services, for the purposes of the reform, is much broader than the public's general notion of what a financial service itself is.

Hence the first complexity, which is to segregate all these services into subgroups. The reform regulations are discussing how to deal with these sub-schemes individually, taking into account the specific characteristics of each one. It's a very technical and complex debate. These are sectors with various specificities and a national scope, which makes it difficult to systematize.



INTERVIEW



The concept of financial services, for the purposes of the reform, is much broader than the public's general notion of what a financial service itself is."

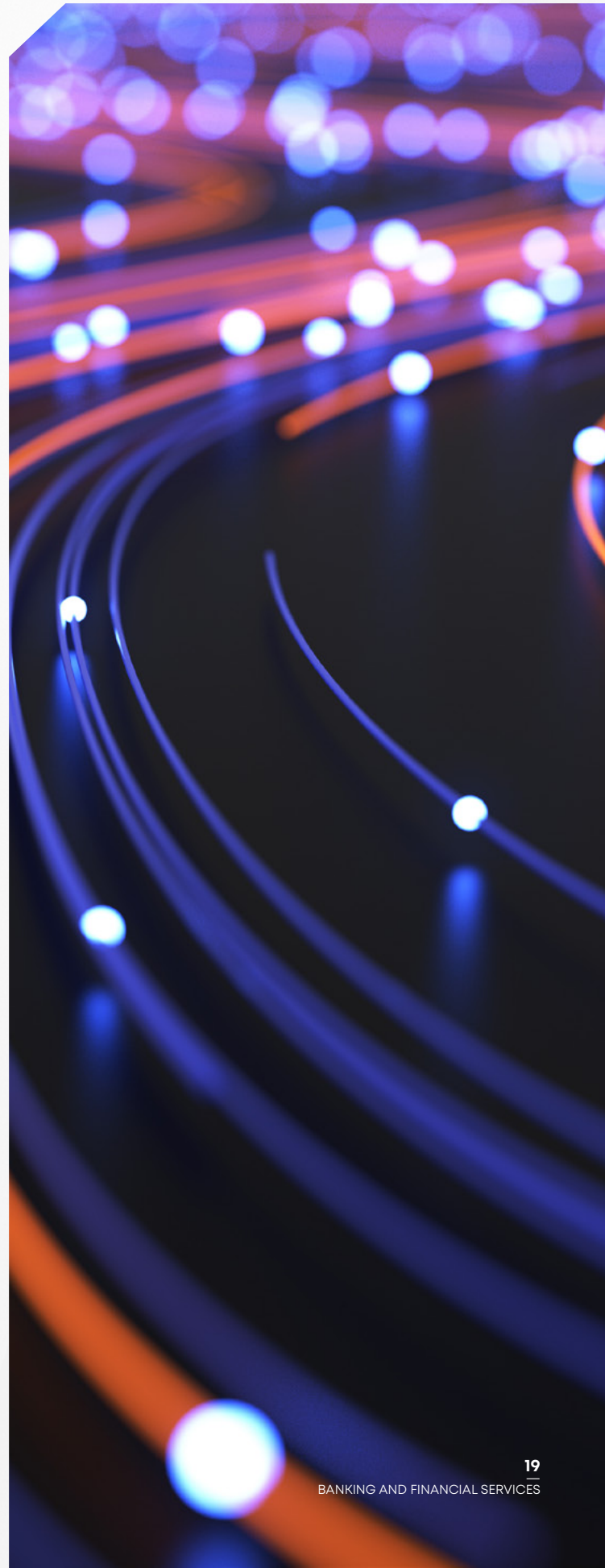
Emmanuel Abrantes

In addition, there are other thematic discussions within these regimes, such as whether financial revenues should be taxed or how to tax what is currently one of the main revenues, which is the spread. And this bearing in mind that we are talking about a consumption tax which, in principle, should tax consumption activities and not credit.

Also up for debate is whether the tax reform should include funds that grant credit. The Ministry of Finance's intention is to levy IBS and CBS on credit operations carried out by FIDCs, which could cause great discomfort in the fund market.

The Ministry of Finance has submitted a supplementary bill to Congress to regulate the reform. There are also drafts circulating in the Chamber. I took part in the debates as coordinator of the financial services group in the Chamber.

The discussions will be more complex than those on the PEC, which involved more political arrangements than debates on tax techniques. Now the details are being discussed.





INTERVIEW

Is the expectation to vote on the complementary law by the end of the year?

Abrantes: There is no deadline. The first impact of the tax reform will be felt in 2026, when the first test collection begins. It will be 1%, added together, of IBS and CBS. In 2027, the first major replacement will come, because PIS and Cofins will be abolished and CBS will begin. Then comes a transitional regime until 2032. In 2033, the full term begins.

In principle, 2025 is a possible window for regulation. But as the government has other tax reform agendas, such as income tax, it is likely that there will be an effort to get these regulations approved this year. In the second half of the year, this may be one of the main agendas in the Congress.

Zanotti: This is a very difficult and difficult part of the CBS and IBS reform, because there are different players with different needs, and we have seen that the concerns are very disparate between what would be the ideal regime for each of these sectors. There is debate about the rate, the formation of the calculation base and the right to a credit. There's also the point where the tax will be collected.

Perhaps the process will take longer because of the requirements and particularities that have to be incorporated into a single complementary law. This affects the sector in a broad way because it is a reform that covers players who are somewhat taken by surprise as we see discussions to apply IBS and CBS even to operations that are carried out with investment funds. It's quite a significant change for the sector.



Stay ahead in the market: check out the opportunities and points of attention in the financial services sector



Opportunities

- _ Market consolidation movement;
- _ Tokenization of financial assets;
- _ Traction in the Banking-as-a-Service product following regulation by the Central Bank;
- _ Unlocking financial products by compiling tax rules.



Points of attention

- _ Central Bank regulation of the Virtual Assets Act;
- _ Discussions on the details of the rules for tax reform on consumption, with provision for taxing operations carried out with investment funds;
- _ Expectation of a tax reform bill on income to be presented by the Executive, with a possible proposal to end JCP and tax dividends;
- _ Application of the Legal Framework of Guarantees by the Judicial branch.



ABOUT LEFOSSE

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Lefosse is a full-service law firm of excellence, with experience and a track record in emblematic cases in the most varied segments. Our partners and lawyers have in-depth knowledge of our clients' contexts, which makes us an innovative, dynamic and multidisciplinary ally for your business challenges.

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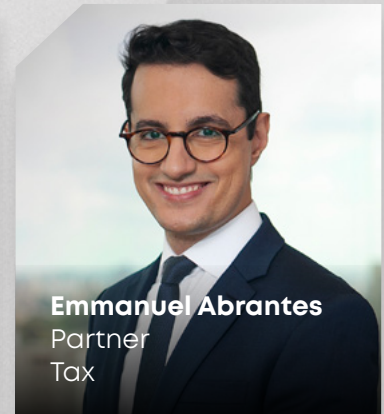


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