

NATIONAL RISK ASSESSMENT

Brazil 2021

Working Group for National Risk Assessment of Money Laundering, the Financing of Terrorism and the Financing of the Proliferation of Weapons of Mass Destruction



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1 Introduction

1.1 Preamble

Brazil accounts for the greatest portion of wealth in Latin America and is the ninth largest GDP in the world.¹ In territorial extension, Brazil is the largest country in the region, the fifth largest country in the world and also ranks sixth in terms of population size. Its economic power and its impressive physical features, sharing borders with most of the South American countries, qualifies Brazil as a regional economic power, which, on the other hand, increases the threats posed by criminals and their networks. Among the crimes to which its economy is exposed are money laundering (ML), the financing of terrorism (FT), and the financing of the proliferation of weapons of mass destruction (FP).

In this peculiar time of Covid-19 pandemic, it has been verified, just like in other parts of the world, an increase of risks of certain criminal activities, either arising from bank frauds or schemes of embezzlement of public funds for the acquisition of medical supplies and equipment for the fight against the coronavirus.

In this challenging moment, Brazil concludes its first AML/CFT National Risk Assessment, which stemmed from a robust and systematic methodology. The effort certifies the commitment and dedication of Brazilian government bodies with the prevention and combat against ML/FT/FP, and takes an important step in the consolidation of a Risk-Based Approach (RBA), one of the

¹ Source: World Bank. Available at <https://data.worldbank.org> Access on April 4, 2021.

most important recommendations of the Financial Action Task Force on Money Laundering and Terrorist Financing (FATF).

The RBA entails a risk-management process for dealing with money laundering, the financing of terrorism and the financing of the proliferation of weapons of mass destruction (AML/CFTP) resulting from the identification and acknowledgement of risks, their assessment and finally the elaboration of strategies to manage and mitigate them. From the results obtained in this NRA, the financial and non-financial supervisors, the private sector and the investigation and prosecution bodies will update their own risk-based approach tools and contribute to mitigate the risks identified and evaluated herein, based on their own action strategies.

Brazil, a FATF² member since 1999, has been guided by the AML/CFTP best practices. For that matter, Brazil has achieved significant advances in recent years. New RBA rules adopted by the financial and non-financial sectors have coordinated the country with the AML/CFTP international recommendations. The approval and enactment of specific legislation which meets the requirements of the United Nations Security Council Resolution have strengthened Brazil's international cooperation actions. The increase in the use of technology has enabled the expansion of supervision and *analytics*, including in the private sector. These are only a few of the measures, among others presented in this NRA, which will contribute to coordinate and promote the work of several public and private institutions committed to AML/CFTP measures.

1.2 AML/CFTP National Coordination Mechanism (ENCCLA)

Brazilian AML/CFT background shows that the first step to tackle the problem was the creation of an effective legal and institutional AML/CFT framework, which featured money laundering and terrorist financing as a crime, in addition to providing preventive measures in administrative and criminal areas, according to international recommendations and the significant risks identified nationally.

Moreover, for the continuous and progressive consolidation of the fight against ML/FTP and their predicate offenses in Brazil, one of the most important elements has been the cooperation among competent bodies and entities regarding the detection, prevention, and sanction of the referred to offenses, which allows the exchange of information and experience of the most relevant risks and vulnerabilities faced by the country at the national level, in addition to concrete actions to tackle them. In this sense, it is important to point out that since 2003 Brazil has established a robust mechanism for coordination and assessment of risks and vulnerabilities in the public and private sectors aiming to counter corruption and money laundering: the National Strategy to Combat Corruption and Money Laundering (ENCCLA).

ENCCLA resulted from the understanding that, in order to counter corruption and ML/FTP-related threats, the several relevant bodies should work together to find concrete and practical solutions to enable the progressive improvement of the system, based on the coordination among the relevant stakeholders responsible for the public policies intended to combat these criminal activities. Although the methodology used at ENCCLA over its 18 years of activity did not aim to assess the risk of money laundering, financing of terrorism and corruption in the country completely and exhaustively, the Strategy fostered a continuous process to identify and review the major risks associated with these crimes in the country, especially stemming from debates and consensus building among relevant public bodies and entities which deal with this matter.

ENCCLA serves as an inter-institutional coordination forum made up of over eighty institutions of the three branches of government (Executive, Legislative and Judicial) and the

² Inter-governmental organization whose purpose is to develop a AML/CFTP global strategy.

Public Prosecution Office also in the federal, state, and, in some cases, municipal levels. In brief, ENCCLA consists of the major Brazilian institutions which directly deal with the countering of corruption and money laundering. ENCCLA's coordination is shared among several public institutions, and the Executive Secretariat is provided by the Department of Assets Recovery and International Legal Cooperation (DRCI) under the Ministry of Justice and Public Security's National Secretariat of Justice. Strategic decisions, follow-up, guidance, and first legal opinions on the approval of the actions and their results are under the responsibility of a group consisting of twenty-two public institutions, named Integrated Management Cabinet (GGI).³

ENCCLA also relies on the cooperation of the private sector, particularly when the sector submits new proposals for actions and when civil society organizations, upon invitation, take part in the work group discussions. In addition, all activities carried out and outcomes obtained by ENCCLA are communicated by means of an institutional e-mail,⁴ with open access to the public in general.

Organized around three axes – prevention, detection and sanction –, the representatives of the different institutions participating in ENCCLA gather in working groups throughout the year to discuss and find solutions for the gaps in the system, identifying threats and vulnerabilities – either structural or emerging – in order to search for actions to help mitigate the deficiencies and optimize the coordinated action of the several entities.

In sum, every year members define the priorities (choose the proposals which will become concrete actions to be executed the following year), review and communicate the work done and the outcomes achieved. Besides, resolutions regarding the proposals to be worked on and the approval of the outcomes obtained derive from consensus among participants. Despite done in a holistic way, ENCCLA's activity methodology raised even greater awareness among public institutions of the problems and most importantly the commitment to building solutions.

The major outcomes resulting from this kind of institutional articulation consist of implementation measures of public policies by means of legislative proposals; improvement of administrative structures; preparation of publications and training/qualification programs; communication and implantation of good practices in the public service, among other measures.

It is important to feature the role ENCCLA plays in the domestic debates and in the implementation of the recommendations made by international organizations in charge of countering corruption and money laundering. Considering the obligations assumed by Brazil, which many times spans over the activities of various stakeholders, ENCCLA sets up as the appropriate integration and institutional articulation environment to follow up each segment of the government's actions regarding the implementation of international recommendations.

In this point, it is necessary to point out that the relevant role ENCCLA plays is acknowledged in the international scenario. Two occasions when the Brazilian national strategy was invited to present its work methodology and some results are worth highlighting: the 32nd Meeting of the MESICIC Committee of Experts, held at the Organization of American States headquarters from the 11th to the 14th of March, 2019, in Washington D.C., the United States of America; the G20 Anti-Corruption Working Group (ACWG) Meeting, from the 3rd to the 5th of February, 2020, in Riyadh, Saudi Arabia.

Accordingly, ENCCLA unfolds as a collective construction whose decisions are based on consensus, carried out with broad participation of experts from different areas in the public and private sectors and citizens who on a daily basis experience the problems caused by the crimes of corruption and money laundering, while also observing the international experiences. This institutional articulation allows for a comprehensive overview of the problem and provides results

3 <http://enccla.camara.leg.br/quem-somos/gestao>

4 <http://enccla.camara.leg.br/resultados>

which encompass countless fields: first, how to avoid its occurrence (prevention); next, to identify possible deviations (detection); and finally, seek the appropriate sanction against offenders and compensate for the damage caused to all (punishment).

Over its 18 years of activities, ENCCLA reached, in 2020, the mark of three hundred actions carried out. Each action usually results in more than one concrete outcome. The discussions and the institutional high-level commitment in these actions also yield a number of indirect results which inspire structural improvements and other initiatives in each and every public institution.⁵ In this way, even though it is not possible to list each and every one of the results obtained in the Brazilian AML/CFTP system which result from ENCCLA, here is a brief summary of some of the results directly obtained by it:

- Creation of the National Qualification and Training Program for the combat against Corruption and Money Laundering (PNLD) – Since it was created in 2004, over 20 thousand civil servants have been trained in the program;
- Creation of the National Financial System Customers' Registry (CCS);
- Creation, dissemination and constant improvement of the Bank Transfer System (SIMBA). This system enabled a huge qualitative leap in money laundering investigations;
- Improvement of tools for the disposal of seized assets, enabling the approximation between the National Council of Justice (CNJ in its acronym in Portuguese) and the Ministry of Justice (MJ in its acronym in Portuguese);
- Creation of the National Network of Technology Laboratories against Money Laundering, currently in operation in approximately 60 public bodies, in every state of the Federation, setting up a network for the sharing technical experiences and solutions for the detection of money laundering, corruption and other related crimes, from the analysis and treatment of large amounts of data;
- Discussion and draft of the text enabling the enactment of Law No. 13.810, of March 8, 2019, which provided for the enforcement of sanctions imposed by United Nations Security Council resolutions, including the freezing of assets of individuals and legal entities, and the national designation of individuals under investigation or charged with terrorism, terrorism financing or acts related to terrorism.

In order to exemplify the type of work done at ENCCLA, Annex 1 highlights some of the main actions carried out in the scope of ENCCLA since its inception.

1.3 Typology

By gathering information on *Typologies*, a macro-process envisaged in the methodology created for the preparation of this NRA, it is intended to raise awareness for the risks of abuse of economic sectors for the perpetration of crimes related to money laundering and the financing of terrorism. The typology document, named *Cases and Cases – Collection of ML/FTP typologies, Special Edition, National Risk Assessment, 2021* (attached document), presents an updated research on ML/FTP typologies already identified in the country, and prepared with the collaboration of several institutions.

The typologies make the report more robust as they identify “how” – i.e. in what ways, structures, formats and arrangements – ML/FTP threats have carried out their actions in the country, which sectors and which control systems are probably being affected. Thus, during the

⁵ For instance, ENCCLA inspired the creation of specialized police departments on the combat against financial crimes in the Brazilian Federal Police Department and the organization of the National Group for the Combat against Criminal Organizations, at the state-level public prosecution offices, fostering the specialization of Brazilian authorities in the fight against organized crime.

whole analysis, it was sought to demonstrate, by means of the typologies, in what way the issues addressed could occur in practice, whether it be by means of the identified vulnerabilities, by the necessity to improve the combat capability, or by acknowledging the *modus operandi* related to a threat.

The research on the most relevant ML/FTP typologies already identified in the country has become a tool with great potential to be used by all competent authorities, by the public and private sectors, in the implementation of more effective and specific controls in their AML/CFTP systems, particularly regarding the monitoring and the establishment of alerts and red flags for ML/FTP activities.



2 Methodology

As a FATF member, Brazil has sought to continuously align with FATF recommendations and guidance, acknowledged as the AML/CFTP international standard. In its last review of the Recommendations (2012), FATF set an important landmark in the way ML/FTP should be prevented and countered, acknowledging the so-called “risk-based approach” whereby countries should identify, assess and understand the risks of money laundering, the financing of terrorism, and the financing of proliferation of weapons of mass destruction to which they are exposed, and subsequently adopt, according to the risks identified, proportionate and appropriate measures to mitigate them.

In this regard, Brazil has developed its 1st NRA, for which it was created a specific methodology, which consists of a systematic survey of threats, vulnerabilities and the Brazilian ML/FTP prevention and combat capabilities.

The 2021 NRA is the outcome of the analysis carried out to identify, assess and understand the ML/FTP risks in the country. It consists of an important national tool to support measures taken by entities and competent authorities in AML/CFTP field.

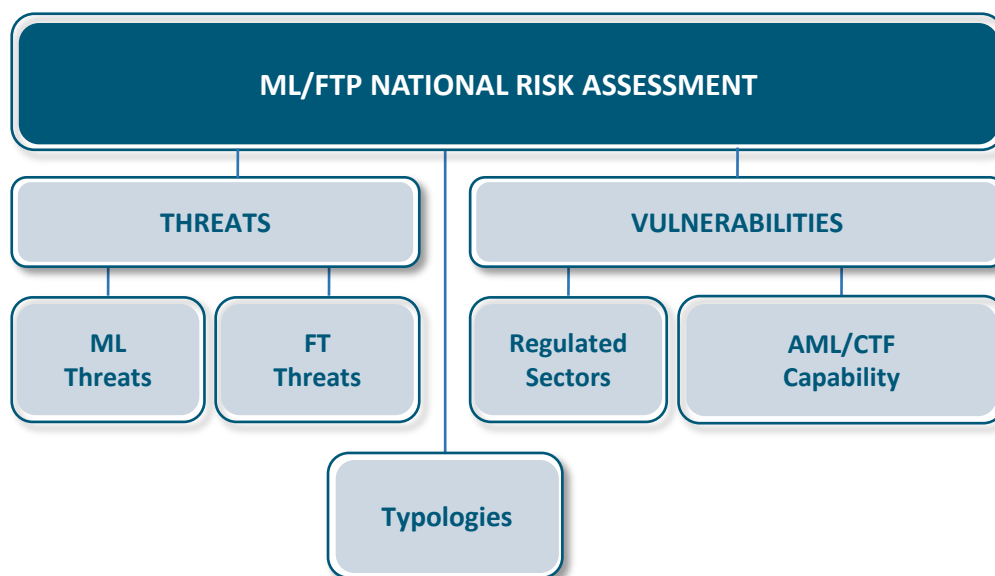
The NRA required the development of a substantial methodological framework. Therefore, COAF’s President enacted the Directive No. 1.258, of January, 15, 2020, which established the Special Team whose purpose was to finalize the development of formal proposals of a methodology and a work plan to be used in the NRA elaboration process. Directive No. 12.625, of June, 18, 2020, approved the result of its work, that is the Risk Assessment National Methodology, the conceptual foundation for the development of this report and the enclosed publication.

The NRA was then prepared by the Working Group for the National Risk Assessment of Money Laundering the Financing of Terrorism and the Financing of Proliferation of Weapons of Mass Destruction (WGNRA), established by the Decree No. 10.270, of March 6, 2020, and comprised by representatives of the Council for Financial Activities Control (COAF), which coordinates the group, of the Central Bank of Brazil (BCB) and of the Ministry of Justice and Public Security (MJSP).

NRA methodology consists of a conceptual foundation and the criteria used by the WGNRA for the analysis of the identification, assessment and understanding of the ML/FTP risks in Brazil. The methodology is composed of processes, tools, questionnaires, parameters and consolidation criteria, information flow structures, role structures and accountability. In addition, several intermediary documents have been produced for the understanding, explanation and construction per se of the whole risk assessment from the ML/FTP viewpoint. A more detailed version of the methodology is available on Coaf's website⁶ and also annexed to this NRA.

Five major groups of processes, called macro-processes, guided the work, as illustrated in Figure 1 and detailed thereafter.

Figure 1 – Analytical structure of the National Risk Assessment



Key concepts are used throughout the NRA, as defined in the methodological summary. Four of these terms deserve special note:

- Threats: person or group of people or activity with the potential to cause harm to the state, society or economy, i.e. elements beyond the control of authorities or economic sectors.
- Vulnerabilities: shortcomings or weaknesses in the regulatory, preventive and repressive systems which can be exploited by the threat.
- Impact: harm caused when **a threat exploits a vulnerability**, resulting in financial loss or reputational damage in the business environment
- Risk: **a function of the factors threats and vulnerabilities**, being its impact the factor responsible for defining the priority for mitigation of one particular risk in detriment to another.

6 <https://www.gov.br/coaf/pt-br>

The first step in the NRA consisted of the identification of threats, starting from two macro-processes shown in Figure I: (1) ML Threats and (2) FT Threats. The first macroprocess refers to the identification, assessment and understanding of the ML threats to which the country is exposed. In this macro-process, the threats must be understood primarily as predicate offenses, and the actors and the criminal organizations – i.e. “what” or “who” – are more frequent in the country and may cause more harm to the state, the society or the economy.

In this stage, public bodies involved with the topic were invited to share their ideas about a preliminary list of ML threats and assess each one of them according to five criteria: sophistication level (difficulty to detect), level of capabilities (structure), level of geographical range, level of financial profit and level of incidence. From the data collected, the WGNRA approved a ranking of threats included in the NRA, as detailed in Chapter 3.

Threats related to FT refer to the identification, assessment and understanding of such threats, defined as a person or group of persons (natural or legal), object or activity with potential to cause harm by raising, moving, storing or using funds and other assets, whether from legitimate or illegitimate sources, for terrorist purposes or for the financing of individuals and or terrorist organizations. For the purposes of a better understanding and evaluation of the phenomenon, this macro-process was divided into three groups: (1) Terrorist Organizations or National Liberation Movements (TOs – threat); (2) other actors engaged with terrorism (threat actors); and (3) activities used by the two former groups to facilitate their funding (threat activities).

Similarly to the ML threat macro-process, the major authorities with formal competence to act on the prevention and the combat against the FT (particularly the Brazilian Intelligence Agency – Abin, the Federal Police – PF and Coaf) were invited to assess each of the groups from pre-determined lists and criteria. For Terrorist Organizations or National Liberation Movements, five criteria were considered: global presence; probability to perpetrate FT actions in Brazil; FT capability in Brazil, social harm of the FT actions and activity of the respective actor. Finally, for Group 3, i.e. the activities used by the two former groups to enable their funding (threat activity), it was considered the activities used to raise, move, store or use funds for terrorist purposes in Brazil. Based on a preliminary list, the competent authorities were asked about evidence of activities. After receiving all the information and consolidating the notes received from different institutions, the WGNRA deliberated, in the final report, the threats which should be prioritized.

The third NRA macro-process, named Typologies, as previously described, seeks to reinforce the analyses made in the Assessment, identifying “how”, i.e. by which means, structures, formats and arrangements ML/FTP threats have used to carry out their operations in the country and which sectors and control systems may be affected.

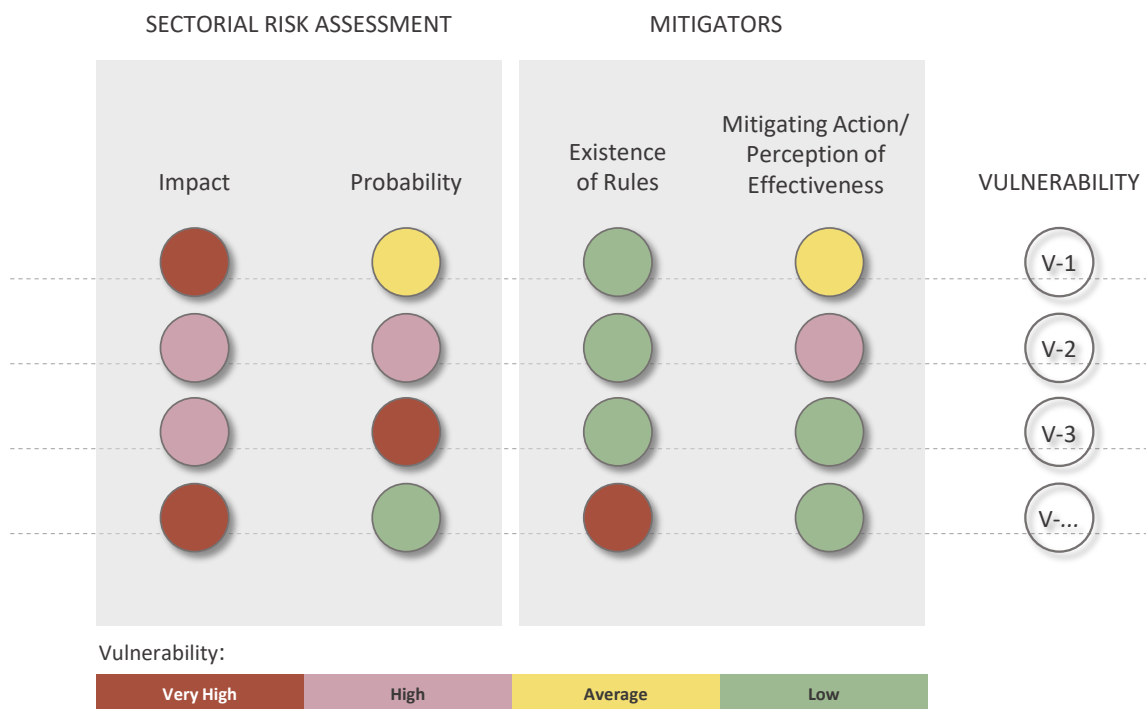
Based on a list of 62 previously identified typologies, several institutions in the AML/CFTP system have been invited to contribute with other operation methods, which are possible, relevant and recurring, but still not identified. The final product of this macro-process, in addition to its use for the purposes of the NRA, was published with Coaf in a document titled *Cases and Cases – Collection of ML/FTP typologies, Special Edition, National Risk Assessment, 2021*, aiming to promote the dissemination and raise awareness in the AML/CFTP community.

The two last macro-processes are related to vulnerabilities of the regulated sectors and the AML/CFTP capability in the country. The first one aimed at identifying possible failures or shortcomings in the regulated sectors’ AML/CFTP systems which can be abused by the threats, entailing risks to the system. It is worth mentioning that, in this stage, the objective is to identify “where”, that is to say in which sectors, products or services the threats act or may act, taking advantage or causing some harm to the country.

During the preparation of their Sectorial Risk Assessments (SRAs), each supervisor was encouraged to identify, taking into consideration the generic threat “proceeds of illicit origin”, the major risk events in the corresponding supervised sector, measuring the impact and the likelihood

of occurrence for the purposes of ML/FT.⁷ Given the results, each risk event was confronted with its likely mitigators, the existence of legislation and the mitigating actions by the supervisor, remaining therefore its possible vulnerabilities. For each of these four criteria, following the parameters determined, a grade from 1 to 4 was attributed, and the final result was the indication of a possible vulnerability “Very High”, “High”, “Average” and “Low”.

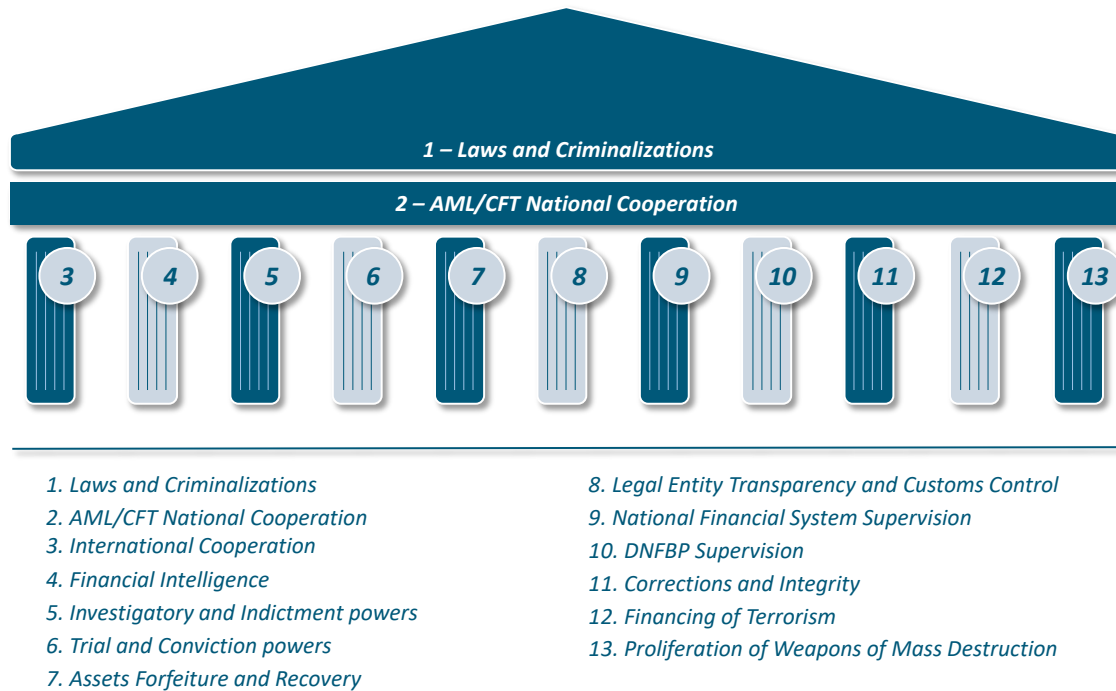
Figure 2 – Sectorial vulnerabilities assessment



The AML/CFTP capabilities macro-process examines the structure of the preventive and enforcement system in the country to counter the threats already existing and the ones which may arise. In order to accomplish this, based on the FATF forty Recommendations and eleven Immediate Outcomes, it was created a structure of “pillars” which enables the assessment of a AML/CFTP system, considering the need and the importance of the aspects related to the soundness, integrity, quality of the legal and legislative framework, institutional powers and procedures implemented, and the effectiveness of the system in relation to the expected outcomes. The vulnerabilities of a country regarding its AML/CFTP capabilities may derive from deficiencies in the legal framework, the absence of a strategy or public policy or the inefficient performance of bodies and entities. Accordingly, considering the several areas which should be evaluated, the assessments were separated into pillars, presented in the structure below.

⁷ For further information on the methodology indicated for the preparation of the SRAs, please refer to the methodological compendium.

Figure 3 – Structure of the methodology developed by Coaf to assess AML/CFTP capabilities



The AML/CFTP capability macro-process assessed not only technical compliance, i.e. the specific requirements of each pillar, but also the aspects related to the effectiveness in the prevention and combat against ML/FTP.

Once the queries were finalized, the thirty institutions consulted were supposed to address these questions based on their experience on the topic, awarding a grade between 0,0 and 1,0, whereby 0,0 corresponds to non-compliance and 1,0 means compliance with excellence, according to the table below.

Figure 4 – Values for assessment of the questions

0	0,1	0,2	0,3	0,4	0,5	0,6	0,7	0,8	0,9	1
Non-existent	Practically non-existent	Very Low	Low	Low Average	Average	High Average	High	Very High	Close to excellence	Excellent


In addition to forwarding the queries according to the competences of each evaluating institution, the questions were also classified into topics. Hence the questions were assessed using specific grades (which can be grouped into topics), which were grouped into scores by pillars, as illustrated below.

Figure 5 – Assessment Structure of Milestones



Considering the number of questions made to develop an appropriate evaluation, it was necessary to rank some questions in relation to others regarding their relevance. In this regard, the methodology comprises the possibility of awarding representativity scores per question, when assessing the topics, and per topics, when assessing the pillar.

In conclusion, after consolidating and prioritizing the scores in each macro-process, the WGNRA consolidated the assessments which comprise this NRA. For further information on the methodology used, see the National Risk Assessment Methodology full document, annexed to this NRA.



3 Money Laundering National Threats

The national collection of data on ML threats sought to assess the predicate offenses featuring greater representativeness in raising illicit proceeds likely to be used in money laundering operations, and also the major actors responsible for the crime in the country.

In order to prepare this segment, a methodology was used to investigate the descriptive and exploratory nature which sought to identify money laundering threats, using quantitative and qualitative data gathered with the participation of several public institutions, from supervisory, control, intelligence, investigation, persecution and judicial trial bodies. Based on the sources consulted and the information gathering, it was indicated the crimes, individuals, groups of individuals, objects and/or activities with enough potential to cause harm to the system.

Initially, 23 more relevant threats were identified to be assessed based on the following aspects, referred to in the methodology section:

- Sophistication: difficulty to detect the threat and its apparent lawfulness;
- Capacity: structure complexity;
- Coverage: geographical area coverage;
- Proceeds: level of financial profits;
- Incidence: aggravating factor over the sum of the four items above, considering the higher or the lower incidence of the given threat.

The sum of the first four variables (4 to 16) aggravated by the incidence (125%, 150%, 175% and 200%) resulted in the following gradation:

Figure 6 – Levels of threat



The results of the survey on threats were separated, and the following national threat ranking – prioritized from high to very high – was the following:

Figure 7 – National threat ranking

THREATS	ASSESSMENT
Corruption	Very High
Drug trafficking	
Organized Crime Syndicate – PCC – Primeiro Comando da Capital	
Financial crimes	
Tax evasion	
Organized Crime Syndicate – Red Command – CV	High
Illegal extraction of natural and mineral resources	
Piracy/smuggling and embezzlement	

In addition, all major ML threats were weighted in a national aggregate indicator in order to classify the national exposure to the crime of money laundering. Such data aggregation derived from the following weighting coefficient:

Figura 8 – Peso por nível de ameaça

THREAT LEVEL	WEIGHT
Very High Threat	4
High Threat	3
Average Threat	2
Low Threat	1

Thus, the consolidated national exposure in relation to the crime of money laundering, taking into account the threats collected in the National Risk Assessment, was considered **high**.

ML Threat: High
(Consolidated National Score)

Next, the present document describes the main elements identified in relation to some of these prioritized threats.

3.1 Corruption

Corruption appears to be the most harmful type of predicate offense in the country. This threat is repeatedly perpetrated with the association of many actors, individuals and legal entities – in some cases, foreign companies –, public officials of all branches of the Republic, suppliers of goods and services, businessmen, and any party interested in entering into an agreement with the State. This vast functional capillarity of corruption offense often has a clear definition of roles, whether between individuals, legal entities, or both, forming criminal networks which are difficult to identify.

In general, at the local level, it is common to find situations with a low level of sophistication, such as the direct transfer of funds from the corruptor to the person being corrupted. On the other hand, in situations analyzed in major operations, it was identified cases with the highest level of sophistication, commingling big companies' licit and illicit funds, as well as the incorporation of complex legal arrangements in the country and abroad. In notorious cases, it was identified the participation of professional money launderers, using over 3.000 accounts in Brazil and overseas, many of which owned by front companies or front men (figureheads).

By using the reports submitted to Coaf as a first parameter, corruption appears as the most common category of suspicious information received and exchanged through the Egmont network in Brazil, with thousands of suspicious transactions reported every year, as shown in the table below.

Table 1 – Reports received with suspicion of corruption

Category	2015	2016	2017	2018	2019
Number of reports ⁸	1,658	2,125	2,968	4,453	5,355
Amounts of the reports ⁹	5,185,905,771	6,585,565,919	10,551,517,490	20,833,864,355	20,979,104,437
Entries in the CGRP (report analysis risk database) ¹⁰	906	929	1.090	594	624
Information of exchange requests (SEI-Cs) received	990	1,043	1,494	2,134	1,830

Source: Coaf

8 The methodology for identification of crimes started from the creation of a glossary of common terms related to certain crimes. Then, this glossary was used, through SAS tool, to identify in the text of reports of the suspected transactions and Coaf's Exchange of Information System (SEI-C) requests the words or phrases indicating suspicion of crimes. Regarding the reports, glossary words or terms were identified only in 2% of the total received between 2015 and 2019. This is justified by the fact that the reporting entity is not required to indicate the suspicion of predicate offence at the moment of the reporting. As the same *modus operandi* (use of front companies, structuring of cash transactions, use of fraudulent foreign trade exchange operations, among others) is used to launder funds of different crimes, seldom do the reporting entities have enough information to detect the illicit act which originated the funds operated in an unusual way. Usually, when there is information on the suspicion identified by the reporting entity, such suspicion is associated with the existence of adverse media on individuals mentioned in the reports. However, most of the reports including terms which indicated suspicion of crime were "defensive" reports, that is those reports whose analysis were made in reaction to news in the media. This does not mean, however, that the reporting entities were not able to detect unusual activities, though it was not possible to associate them necessarily, in an initial moment, with the likely predicate offence.

9 Regarding the amounts transacted shown in the tables, it is important to clarify that the amount is calculated based on the "total amount" of the report. In most of the suspicious operation reports, this total amount corresponds to the sum of credits and debits in a certain account, but it can also indicate, for example, the amount of a proposal of transaction which was not completed. Also, the total amount of the transactions does not necessarily become the object of the suspicion by the reporting entity, but may be commingled with transactions considered legitimate. Thus, the referred to amounts may have some relevance for the comparison among suspicions, but they do not intend to indicate the real amount of proceeds obtained with the perpetration of the illicit acts mentioned. In addition, it is noteworthy that the amounts were obtained considering a variation ranging from -3,0 and 3,0 standard deviation in order to avoid outliers. Therefore, these amounts do not reflect the sum of all the reports referring to the identified crimes. For the calculation of these amounts, 562 reports whose amounts appeared exorbitant (likely data entry errors) were overlooked.

10 The second way to obtain statistical data for illicit activities suspicions was from the marks in the risk management matrix of the Risk and Priority Management Database (CGRP, in Portuguese) in cases opened after the analysis of the reports. Only cases with financial intelligence reports (FIRs) concluded and disseminated to the competent authorities between 2015 and 2019 were considered. In the analysis, both risk factors associated with the suspicion of crime and typologies already identified were considered. As marking items in the risk management is mandatory for cases opened based on the analysis of the reports, the suspicions indicated by the analysts were scrutinized in all cases of such type.

A reference study sponsored by São Paulo Industry Federation, in 2010, indicated that corruption may reach up to 2,3% of the GDP, exceeding 100 billion reais.¹¹ In the years following the referred to studies, we continued to observe major cases and operations, so the total amount of illicit proceeds originated from corruption could be even higher.

From a historical perspective, the national fight against corruption has come a long way, particularly after the promulgation of the 1988 Constitution. Over the last years, several preventive and coercive measures were taken to combat corruption and money laundering. As described in item 1.2 of this NRA, many of these measures have been discussed and promoted at Enccla, for instance, in terms of qualification, the expansion of the National Qualification and Training Program for the combat against Corruption and Money Laundering (PNLD), which has trained over 20 thousand public officials in all regions of the country since 2003.

In the investigative scope, police authorities have worked over the years to instill the culture of defunding crime, as the launch of a police raid includes in its *modus operandi* the previous inventory, in the course of the investigation, of assets and property which might belong to the persons of interest acquired through illicit activity.

Additionally, within the purview of the Public Prosecution Office, the National Council of the Public Prosecution Office (CNMP, in Portuguese) enacted the Resolution No. 181, of August 7, 2017, in which it acknowledges property prosecution as a measure aimed at “locating any advantage derived or obtained directly or indirectly from a criminal offense or any equivalent licit goods and assets”, in addition to providing for the steps to initiate a proceeding.¹²

In recent years, the scenario has demonstrated the effectiveness of this course of action and the efforts made, featuring seizure and repatriation of assets originated from the crime of corruption of relevant figures. Statistics regarding police operations and search and seizure warrants executed in criminal investigations of corruption carried out by the Brazilian Federal Police (PF, in Portuguese) are the following:

Table 2 – Criminal Investigations of Corruption

	2018	2019	2020
Police Operations	285	307	310
Search and Seizure Warrants	2,663	2,852	2,770

Source: PF

Based on data extracted from the PF database, from 2016 until October of 2020, it was possible to obtain the following estimated amounts seized/frozen in operations involving crimes of corruption and embezzlement of public funds.

11 Corruption Report: economic costs and proposals to combat – Fiesp, March 2010.

12 <https://www.cnmp.mp.br/portal/images/Resolucoes/Resolucao-181-1.pdf>

Table 3 – Amounts of assets seized or frozen in operations involving crimes of corruption and embezzlement of public funds

Values/goods seized in operations against corruption and embezzlement of public funds	
Year	Amount in R\$
2016	3,542,000,000
2017	3,706,000,000
2018	1,807,000,000
2019	2,131,000,000
2020 (up to Oct)	4,412,000,000

Source: PF

In the historical series from 2016 to 2020 (the last 5 years), it was verified that the average of goods/values seized during criminal investigations which involved such offenses was over R\$3 billion.

Regarding the typologies identified by the Federal Public Prosecution (MPF, in Portuguese), there is a great diversity of corruption conducts involving the public good. The more complex and important cases involved public authorities, high-ranking public officials, operators, intermediaries, corrupting companies, offshore companies headquartered in tax havens, in addition to a network of ‘doleiros’, black market dollar dealers, who are responsible for illegally transacting huge amounts of money originating from corruption.

Moreover, it was observed the existence of some typologies involving the purchase of political support and the assignment of political appointees to positions in state-owned companies aiming to rig biddings and allow the embezzlement of public funds. As these actions appear licit, the criminal activity is harder to detect.

It was also detected the frequent use of schemes used by ML operators and typologies related to ‘dólar-cabo’ (i.e. informal international transfers of funds), foreign trade-based money laundering, the purchase of fiat currency (particularly from money transport companies and lottery retailers, in addition to the purchase of checks) and front companies to obtain undue advantage. Some of the most recurrent practices were compiled in the typologies annex.¹³

It is important to point out, at last, the breakthroughs brought about by the Anticorruption Law (Law No. 12.846, of August 1, 2013), which establishes civil and administrative liability of legal persons for wrongful acts committed against national or foreign public administrations; for wrongful acts provided in this law and carried out in the interest of or for the benefit of the entities, whether exclusive or not. In addition, the liability of the legal person does not exclude the individual liability of its managers and administrators or any other natural person who has been the perpetrator, co-perpetrator or participant in the wrongful act.

In the context of use of non-criminal proceedings, it is important to highlight the institutional competence of public attorneys to work on the referred to proceedings as long as the predicate offenses for money laundering crimes had been perpetrated against the Federal Public Administration.¹⁴ In recent years, over 206 administrative misconduct proceedings have been initiated at the Attorney General’s Office (AGU), including the Attorney General for Federal Agencies Office, and they sought to recover over 3 billion reais. So far, 56 assets-freezing injunctions have been granted which altogether amount to over 1 billion reais.

¹³ The abovementioned typologies can be found in the *Cases and Cases, Collection of AMLCFT Typologies, Special Edition, National Risk Assessment, 2021* as follows: 2.4 State Corruption Associated to Fiscal Fraude through Shell Companies; 2.6 Municipal Corruption through Public Work Tenders; 2.23 Capital Flight through the Parallel Financial System (*dólar-cabo*); 2.60 Drug Trafficking Proceeds transferred abroad through Black Market Money Changers (*doleiros*) 2.87 Money Laundering through Foreign Trade involving the payment of services, among others.

¹⁴ It is important to stress that, in addition to the Attorney General’s Office (AGU, in Portuguese), the Public Prosecutor’s Office (MPF) is also a legitimate body to institute a Misconduct Proceeding.

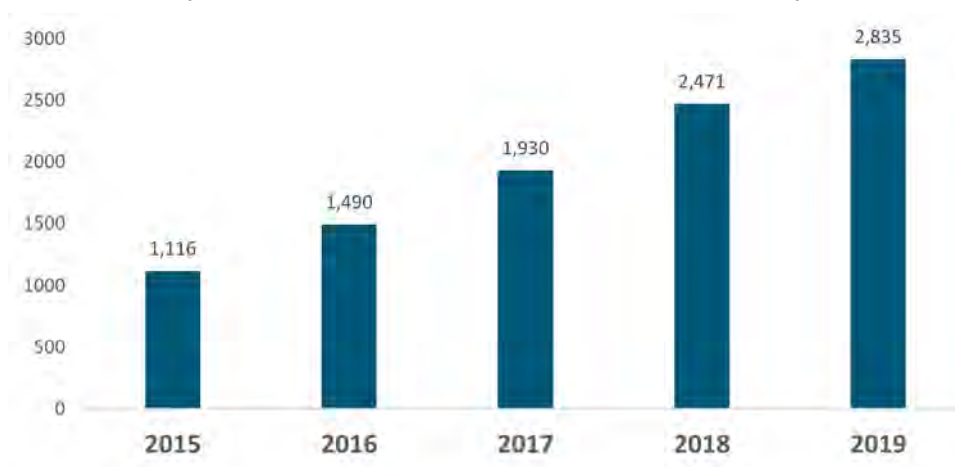
Still regarding non-criminal measures, with updated information as of August, 2020, the Brazilian Office of the Comptroller General (CGU), together with AGU, had signed twelve leniency agreements – 22 other agreements are under way – with companies under investigation for the wrongful acts provided in the law. The amounts which the companies are supposed to pay refer to fines, compensation for damages and refund of the amounts which had resulted illicit enrichment. The recovery of the funds to the public treasury has reached the impressive figure of R\$13,67 billions.

At the administrative level, according to information consolidated by CGU, over the period of 17 years 480 investigations have already been launched, 62 of these investigations only in 2020. The total amount of the damage determined is over R\$5,3 billions.¹⁵

The Brazilian Judicial branch has prioritized and obtained important results regarding the conviction of public and private officials for activities related to corruption.

According to data obtained from the National Council of Justice (CNJ) database, from 2015 to 2019, 9,842 court decisions were issued: 32,43% of them were convictions; 8,24% were acquittals, 20,07% of them with extinction of liability, and 10,64% with extinction of liability by prescription.

Graph 1 – Historical series of sentences issued for crimes of corruption



Source: CNJ

3.2 Drug Trafficking

Drug trafficking remains as one of the most common predicate offenses of ML in Brazil. It is a crime with high incidence rates and the main cause of incarceration.

Brazil shares around 15,719 km of land borders with ten countries among which are some of the main cocaine producers in the world. According to UNODC's *World Drug Report 2019*, about 70 per cent of the area under coca bush cultivation in 2017 was located in Colombia, 20 per cent in Peru and 10 per cent in Bolivia, countries bordering Brazil. According to the report, Brazil and the other Southern Cone countries are still used as trafficking routes to Europe.

Likewise, the *World Drug Report 2020* indicated that drug use around the world has been on the rise in terms of both overall numbers and the proportion of the world's population that uses drugs. In 2009, the estimated 210 million users represented 4.8 per cent of global population aged 15-64, compared with the estimated 269 million users in 2018, or 5,4 per cent of the population.

¹⁵ CGU provides a map where it describes the measures adopted in municipalities in Brazil at <https://www.gov.br/cgu/pt-br/assuntos/operacoes-especiais>

Furthermore, precisely because of the fact that a large part of the drugs sold in the country, particularly marijuana and cocaine, is produced abroad, a high volume of incoming and outgoing remittances among the several countries involved was verified.

A study by Oswaldo Cruz Foundation published in 2017 suggests that 10 per cent of the Brazilian population uses or has already used illicit drugs, which indicates the level of the threat in the country since the illegal market is supposedly responsible for meeting the demands of over 20 million people. As it is considered an interstate criminal activity, whereby circulation and distribution spread all over Brazil, these numbers end up reflecting upon all units of the Federation, to a greater or lesser extent.

By and large, based on the recent account of police operations related to the combat against drug trafficking, the assessment that this threat has a national incidence is corroborated, and it becomes more specialized in some regions, depending on the modes of transportation used (air, water or land transport). Drug trafficking frequently materializes by means of complex and organized structures (either as a predicate offense or the ensuing money laundering), and generates substantial financial resources, often reinvested in the structure and criminal logistics.

Regarding the public policy formulation implementation, the Decree No. 9.761, of April 11, 2019, approved the National Policy on Drugs, a document which provides general definitions and the guidelines for the planning and the actions of the federal public administration, particularly the National Secretariat for Drug Care and Prevention of the Ministry of Citizenship and the National Secretariat for Drug Policies of the Ministry of Justice and Public Security.

Organizations dedicated to drug trafficking feature a huge outreach and structure, and are comprised of several parallel groups performing specific activities related to the contact with foreign suppliers, the transportation into and around national territory, the distribution channels in the consumer market, and afterwards the shipment to other continents and the laundering of funds. Owing to this, the activities of the more complex law enforcement agencies become crucial with the extensive use of international cooperation, either among counterparts to exchange intelligence information or to obtain evidence by means of mutual legal assistance.

Drug trafficking is the second most reported crime to ground the exchange of information sent to Coaf (15% of the total received), the fourth illicit activity informed on Suspicious Operations Reports (SORs) and was associated with 1.016 entries on reports analyzed in the risk management database. In reports where the reporting entity included words and phrases related to the suspicion of drug trafficking, the total amount transacted was almost two billion reais in the period comprised between 2015 and 2019 (R\$1.934.120.902,46).

Tabela 4 – Comunicações recebidas com suspeitas de tráfico de drogas

Category	2015	2016	2017	2018	2019
Number of reports	138	181	187	217	292
Amounts of the reports	246,157,069	202,075,813	191,776,945	481,244,993	812,866,081
Entries in report analysis in the CGRP	286	211	224	187	123
Information exchange requests (SEI-Cs) received	449	486	807	1,088	1,351

Source: Coaf

Analyses conducted by investigative bodies demonstrate that the different stages of money laundering for drug trafficking show different levels of sophistication. The placement of drug trafficking proceeds into the financial system is apparently easy to detect, based on well-known red flags. According to analyses carried out, it was verified that the widespread use of companies

with evident characteristics of shell companies, and the use of cash transactions¹⁶ originated in different regions of the country, including for the purchase of assets.

The complexity reflected in the score given for this threat is particularly caused by the challenge to identify the beneficial owner of the funds associated with drug trafficking. In cases analyzed, it was verified the increasing use of networks of professional money launderers and the illegal remittance of funds abroad.

Regarding the drug trafficking perpetrated by crime syndicates, it was noted the establishment of a complex organizational structure, with a clear division of tasks among the members. In addition, it was verified the association among different crime syndicates in order to leverage the structure used for the perpetration of illicit acts. In the 1.351 requests for information exchange received by Coaf, the competent authorities (judicial police and the Public Prosecution) checked transactions carried out by a large number of people.

According to data obtained from state police, the large organizations have a high level of sophistication to deliver the drugs to the retailer by using several natural or legal persons to commit the crime, whether it be in the production, storage or distribution of the drugs or even in the concealment of assets and funds derived from trafficking, which, in turn, also uses a complex distribution system until the drug is delivered to the small-time drug dealer.

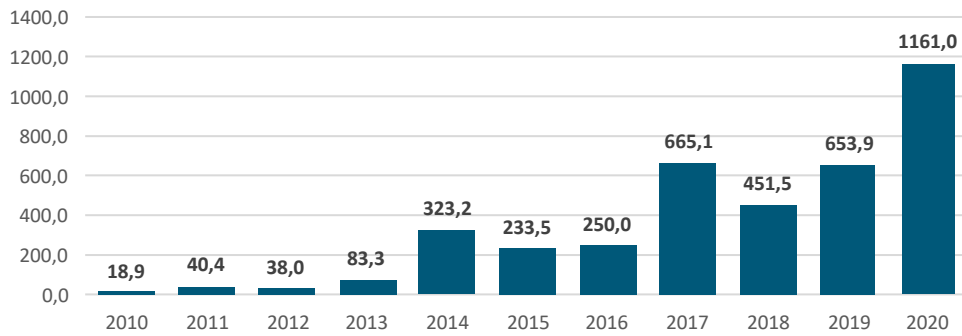
With the exception of synthetic drugs, which are mass-produced in the country, the other drugs are brought in predominantly from abroad, which requires a complex system for the transnational criminal organizations activities. Luring public officials responsible for the oversight, investigation and trial of related crimes demonstrates the large operational capacity of the activity.

As far as federal investigation is concerned, the Federal Police (PF), by means of a specialized department, the General Coordination for Drug Enforcement, Weapons and Organized Crime (CGPRE/Dicor/PF), has been improving the methodology for countering the major criminal organizations and syndicates in operation in the country, aiming not only at drug seizures, but also, and primarily at defunding organizations, with impressive results, including in joint operations with different jurisdictions.

The results obtained by PF in recent years reinforce the effectiveness of the dismantling strategies for these criminal groups by seizing, forfeiting, and freezing assets resulting from drug trafficking, with emphasis on the remarkable record set in 2020, when the mark of R\$1 billion in seized drug-related criminal assets was surpassed.

¹⁶ The abovementioned typologies can be found in the *Cases and Cases, Collection of AMLCFT Typologies, Special Edition, National Risk Assessment, 2021* as follows: 2.24 Purchase of Real Estate in Cash originating from International Drug Trafficking through Foreign Exchange Fraud; 2.54 Money Laundering of Drug Trafficking Proceeds through Lottery Houses and Hotels; 2.55 Fraud to Purchase Inputs for Drug Production; 2.56 Laundering of Drug Trafficking Proceeds through Transactions in the Bank Accounts of Students; 2.57 Money Laundering from Drug Trafficking via Travel Agencies; 2.59 Drug Trafficking Payments through *Remessa Expressa* Transfers; 2.60 Drug Trafficking Proceeds transferred abroad through Black Market Money Changers ('doleiros'); 2.84 Money Laundering of Drug Trafficking proceeds through Virtual Currencies; 2.85 Narcotics Trafficking Payments through the Purchase of Illegal Gold.

Graph 2 – Drug-related criminal assets seized (Million Reais)



Source: Federal Police

For instance, data related to the seizure of assets and funds were presented, some of which even showing an important work via international cooperation for the freezing of assets abroad, and operations which received wide national and international media coverage.

Table 5 – Assets seized in counter drug-trafficking operations

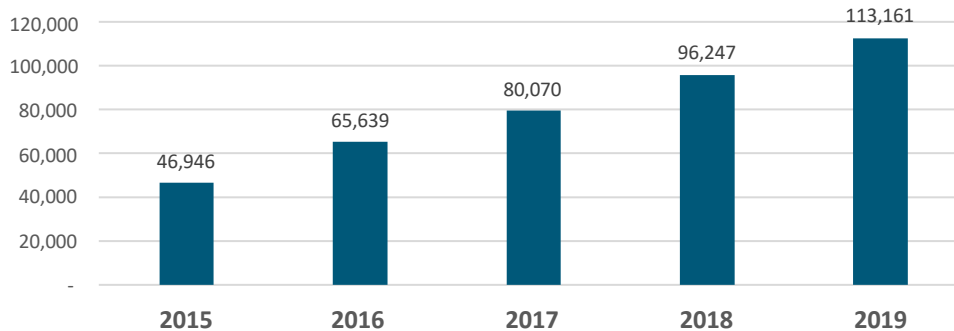
Operation	Seized assets (in R\$)
Enterprise	453,900,000.00
Status	220,438,788.46
Rei do Crime	148,452,789.35
Além Mar	76,220,000.00
Narcobroker	43,000,000.00
Pavo Real	38,311,704.41
Cavok	37,133,948.00
Antracnose Sinos	24,530,572.00

Source: Federal Police

Over the past seven years, from 2014 to 2020, the yearly average of assets/funds seized during criminal investigations which involved such offenses was over R\$500 million.

In addition to the information produced by investigative bodies, CNJ provided data relating to conviction for drug trafficking in the country. The Judicial branch issued 402.063 court decisions between 2015 and 2019, and 51,32 per cent of the decisions were convicting sentences.

Graph 3 – Time series of convictions issued on drug-trafficking offenses



Source: CNJ

Based on the analysis of the information provided by the different participating bodies, the criminal activity is confirmed to be perpetrated throughout the entire country, comprising all Brazilian federative entities, and evidence of international connections with major criminal organizations from other countries. Also, it was observed that the financial resources obtained with trafficking are remitted abroad to procure weapons and other narcotic drugs not produced in the national territory.

According to data obtained from DRCI, regarding international legal cooperation and offenses dealt with in collaboration with other jurisdictions, the cases involving drug trafficking are among the most relevant in quantity and complexity. Only between 2016 and 2020, 527 requests for international legal cooperation were transmitted to other countries, whereas 198 requests were received in the same period related exclusively to drug trafficking.

3.3 Organized Crime Syndicate – First Command of the Capital (PCC)

The *Primeiro Comando da Capital* – PCC (First Command of the Capital) is an organized crime syndicate which operates ostensibly and in a structured manner in the state of São Paulo for over two decades. It is the largest criminal organization in the country with over 70 thousand affiliates and transnational activities in at least seven countries, including Argentina, Paraguay and Uruguay. PCC is estimated to transact about US\$200 million per year.

The group's activities involve the trafficking of large quantities of illicit commodities, especially drugs – probably the major organized crime syndicate devoted to the trafficking of illicit drugs in Brazil – and weapons, and have notorious connections with international criminal organizations, especially in Paraguay and Bolivia.

The intense control exercised by this organization over territories where it has settled creates favorable conditions to exploit other activities, particularly commercial activities, which is justified by the use of force and the prolonged occupation of the territory. PCC's efforts to consolidate drugs and weapons trafficking routes, notably through the Center-Southern border of Brazil, and the attempt to assume control of ports, which would scale up the illicit transportation of goods.

The referred to criminal group has been wielding increasing influence over penitentiaries. Prisons have been frequently referred to as “crime home offices”. Some state actions have succeeded in reaching PCC's financial flows, but without any damage to its structure, a fact which, to a great extent, has allowed the continuity of operations.

Although the criminal organization's leaders have already been identified by public authorities, and the recovery of territories has become observable, the challenge remains for authorities responsible for the suppression of weapons and drug trafficking to undermine the main criminal group in the country. Much of this is owing to the fact that the group's structures are well established and able to withstand the impact of leaders and other members imprisonment (high replacement rate), and also the resistance to armed clashes against government forces and other criminal groups.

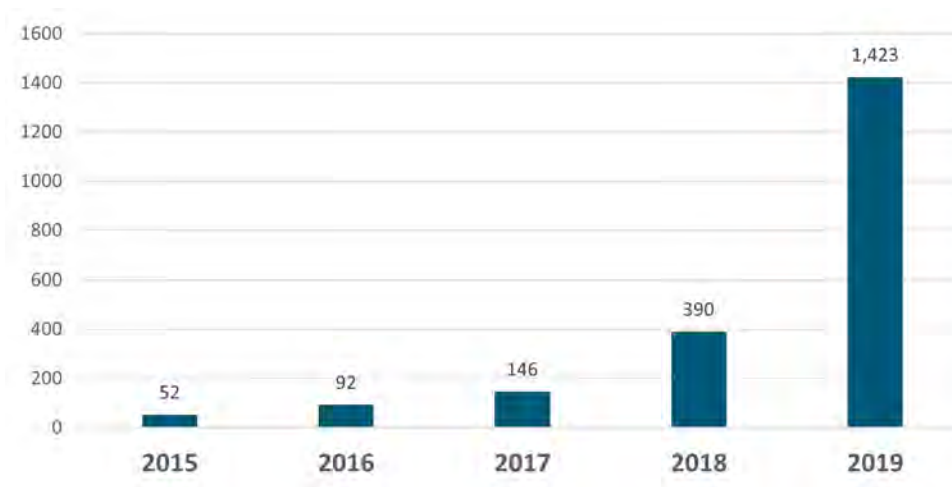
In 2018, two police operations were launched and succeeded in seizing/restraining R\$726.386,00 belonging to PCC. In 2019, eight police operations were launched and resulted in the seizing/restraining of assets and funds in the total amount of R\$2.893.000,00. The ever-changing complexity of the structure, the multiplicity of crimes committed in the name of the criminal organization, and the presence of the group's members all over the country and abroad have become the biggest hindrance to investigation and prosecution of crimes.

The increasing sophistication of methods used for ML is notorious, and includes the use of virtual assets and gold, in addition to the participation in money laundering professionals' networks and other typologies already mentioned for the threat related to drug trafficking.

Coaf received 7.206 information exchange requests (SEI-Cs) regarding crime syndicates, including PCC. In general, the organization members do not earn much, usually only enough to meet the member and his/her families' needs and to buy certain consumer goods. On the other hand, the criminal group's high-ranked members make a significant amount of money, and there is evidence that some of them keep funds overseas.

From the statistical viewpoint, obtaining data regarding convictions specifically of PCC members is fairly complex given the inexistence of a specific table and its dispersion in the national territory. However, since drug trafficking is PCC's major source of income, a relevant part of the drug trafficking convictions refers to members belonging to this criminal organization. Moreover, the CNJ obtained specific data on convictions related to criminal organizations.

Graph 4 – Time series of sentences imposed to criminal organizations



Source: CNJ

In sum, the combat against this extremely pervasive and dynamic structure represents one of the main challenges facing the public security in Brazil and its neighboring countries.

3.4 Financial Crimes

It refers to crimes perpetrated using complex and organized structures nationwide, either as a predicate offense or as the resulting ML.

Although several crimes may be qualified as a crime against the national financial system, those related to illegal operations carried out in the exchange market, to illicit capital flight and to operations carried out in the fringe market stand out.

Typology analyses made by Coaf indicated that 3.921 reports showed elements of the “dólar-cabo” (illegal dollar-wire transfer) typology, and 7.767 reports related to typologies involving foreign trade exchange operations. Such indicator confirms the irregular operation in the exchange market by the so-called “doleiros” (money changers) or “financial operators” as one of the main strands of the financial crimes, by means of the so-called “dólar-cabo”.¹⁷ Data on reports and information exchange requests which specifically mentioned crimes against the national financial system are as follows.

¹⁷ Typologies related to “dólar-cabo” may be found in the Annex *Cases and Cases, Collection of AMLCFT Typologies, Special Edition, National Risk Assessment, 2021* as follows: 2.68. Illegal Dollar Wire Transfers (dólar-cabo) through Transborder Trade, *inter alia*.

Tabela 6 – Comunicações relacionadas à tipologia “dólar-cabo”

Category	2015	2016	2017	2018	2019
Number of reports	116	85	123	133	110
Amounts involved in the reports	491,594,529	401,571,025	496,942,231	473,369,220	637,806,413
Entries in report analysis in the CGRP	287	156	121	77	76
Information exchange requests (SEI-Cs) received	113	96	186	281	120

Source: Coaf

In the “dólar-cabo” category, which is similar to a *hawala*, the “doleiro” in Brazil receives funds in the country in any currency, usually the local currency (reais), and provides the equivalent amount in foreign currency abroad without the intermediation by the formal financial system, i.e. without an exchange operation in an authorized institution. Similarly to the transfer of funds abroad, the “dólar-cabo” is also operated for the inflow of funds into the country.

In addition to the illicit capital flight,¹⁸ these operations share similar features with an accessory crime to aggravate and increase the complexity of the illegal operations, since the criminal networks which use “dólar-cabo” provide money laundering services to practically all other criminal organizations devoted to different crimes.

Another typology which stands out among the types of financial crimes takes place by way of paying fictitious imports.¹⁹ The transfer of funds abroad is made by a financial institution authorized to operate in the exchange market by the Central Bank. Incidentally, regarding this typology, between 2015 and 2019 the Central Bank instituted 78 sanctioning administrative proceedings: 13 of them against financial institutions, and 65 proceedings against non-financial legal persons (supposedly importers), and ordered the extrajudicial liquidation of eight financial institutions.

The complexity achieved in the perpetration of financial crimes may be measured by the number of stakeholders which may be involved in the process (import businessmen, figureheads, financial institutions’ employees, “doleiros”, exporters abroad, public officials, consulting companies, law firms, accounting offices, among others).

It was also verified the increasing sophistication of the classic money laundering techniques by way of foreign trade,²⁰ through the massive use of figureheads or front companies, characterized by the lack of financial capacity or a history of foreign trade transactions, with an increasing level of sophistication, in order to evade financial institutions’ AML/CFT procedures and controls. It was also observed the growing use of virtual assets and new technologies by these ML professionals’ networks.

For this reason, the increasing difficulties to use the financial system to transfer illicit funds into the country or abroad, materialized by stricter and more sophisticated controls by financial institutions, provide the opportunity to explore other typologies such as the “dólar-cabo” or also the transborder cash currency transport to neighboring countries. It is important to highlight the significant flow of reais through the border with Paraguay, originating from the local commerce in

¹⁸ Typologies related to “dólar-cabo” may be found in the *Annex Cases and Cases, Collection of AMLCFT Typologies, Special Edition, National Risk Assessment, 2021* as follows: 2.23. Capital Flight through the Parallel Financial System (‘dólar-cabo’); 2.40. Capital Flight through Brokerage Firms; 2.41. Capital Flight through Shell Companies and Real Businesses.

¹⁹ Typologies related to fictitious imports may be found in the *Annex Cases and Cases, Collection of AMLCFT Typologies, Special Edition, National Risk Assessment, 2021* as follows: 2.2 Money Laundering from Passive Corruption through Fictitious Imports; 2.22. Transfer of Funds Abroad through Fictitious Imports.

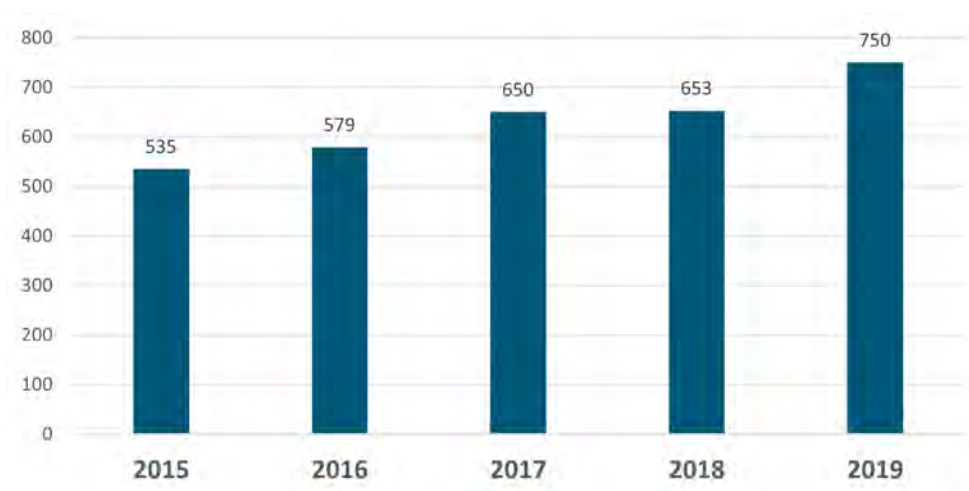
²⁰ Typologies related to foreign trade may be found in the *Annex Cases and Cases, Collection of AMLCFT Typologies, Special Edition, National Risk Assessment, 2021* as follows: 2.87. Money Laundering through Foreign Trade involving the Payment of Services

Ciudad del Este, but which can be used to conceal the transit of proceeds derived from smuggling or weapons and drug trafficking.

According to data provided by the Federal Police, from 2015 until 2020, 8.102 cases to investigate financial crimes were reported, 534 of which were opened simultaneously with a parallel money laundering investigation. The average of the total of cases reported in this timeframe to investigate only financial crimes is 1.350 cases per year, which demonstrates its relevance in the national criminal environment. In the referred timeframe, PF seized, in the cases of financial crime investigations, a total amount of R\$17.486.929.094,92 in assets.

CNJ provided data regarding decisions issued for crimes against the national financial system in the country, as follows.

Table 7 – Time series of sentences imposed to financial crimes



Source: CNJ

3.5 Tax Evasion

The latest estimate by the Economic Commission for Latin America and the Caribbean (ECLAC) suggests that tax evasion and avoidance in Latin America cost 6.3% of GDP in 2017,²¹ equivalent to US\$335 billion.²² Also, the illicit financial flows as a result of international trade misinvoicing reached US\$85 billion – or 1.5% of regional GDP.

Tax crimes threaten the political, strategic and economic interests of countries. They undermine the citizens' confidence in the administration of the State, their disposition to pay taxes and to generate the revenues needed for the countries' sustainable development.

Brazil, as previously introduced, is a country of continental proportions, which adopts the federative form of the State and has relevant regional economic inequalities. Such conditions influence the enormous complexity of the national taxation system, which simultaneously has a revenue-collecting element, and also represents incentives for the economic development of certain activities and regions. The diversity of tax bases for several taxes, and the lack of standardization

²¹ Economic Commission for Latin America and the Caribbean (ECLAC), Fiscal Panorama of Latin America and the Caribbean, 2019 (LC/PUB.2019/*-P), Santiago (2019), p.8

²² Estimates are based on national studies of income tax and value added tax (VAT) non-compliance. The figures correspond to a weighted average based on GDP at current prices in US dollars. The countries included in the income tax analysis are Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru and Uruguay. The VAT analysis covers Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

for tax regulations in the federal, state and municipal levels led to the constitution of intricate declaration procedures and tax compensations.

There are several fiscal authorities with a significant number of rules to be observed, and the need to exchange information among these tax authorities because of the tax compensation mechanisms resulting from rules of origin/destination of production/consumption/property. All this complexity is abused by criminals to perpetrate tax evasion, generating undue revenues for the criminals and a great loss for the public treasury.

Tax evasion is a threat which takes place throughout the country and in the local, state, district and federal levels. Tax evasion is a problem which involves companies of all sizes, from small ones to multinationals. A study named Tax Evasion in Brazilian Companies (2019) by the Brazilian Tax Planning Institute (IBPT), showed that evidence of tax evasion is present in 49% of small businesses, 33% of medium-sized companies and 18% of large companies. Still, IBTP estimated tax evasion by companies in Brazil in the amount of R\$390 billion, in 2018.

Analysis of tax evasion cases indicated different levels of sophistication, which can range from the mere movement of companies' funds through natural persons' accounts to the use of complex corporate arrangements, including with parts in tax-favored jurisdictions, or the participation of professionals' networks in the incorporation of companies (under the National Corporate Taxpayer's Registration – CNPJ), with the purpose to issue fake invoices.²³

The most commonly observed mechanisms are the failure to transfer to tax authorities the taxes deducted from employees' paychecks; the notification of fewer employees in the payroll in order to reduce the payment of taxes; the use of figureheads in imports; the act of breaking a corporate activity into formally different companies; and lastly the continuance of a corporate activity by succession of formally different companies. The use of figureheads in shareholding composition is common, as well as the involvement of professionals who provide the needed technical assistance for the perpetration of these frauds.

Based on the information provided by the PF, from 2014 until October, 2020, it was possible to obtain the following figures seized/frozen in operations which involved tax evasion crimes and other crimes against Treasury.

Table 8 – Amounts seized in tax evasion raids

Year	Seized amounts
2014	30,000,000
2015	125,000,000
2016	205,000,000
2017	370,000,000
2018	1,908,000,000
2019	4,800,000,000
Oct/2020	789,000,000

As an example of this threat detection, *Operação Grandes Rios* (Operation Great Rivers) investigated the exploitation, in the name of figureheads, of cigarette factories which generated substantial tax liabilities (taxes never paid to the “Receita”, the Brazilian Internal Revenue Service), but also profits, transformed into assets and funds amassed in Brazil and abroad by means of money laundering. The operation was launched in the states of São Paulo, Rio de

²³ Typologies related to foreign trade may be found in the Annex Cases and Cases, Collection of AMLCFT Typologies, Special Edition, National Risk Assessment, 2021 as follows: 2.50. Tax Evasion in the Illegal Commerce of Charcoal; 2.51. Cash Withdrawals at the end of the year to Conceal Assets in Tax Evasion; and 2.69. Tax Evasion in the Beverage Industry; 2.72 Evidence of Tax Evasion with the use of an account held by partners, legal representatives or third parties.

Janeiro, Pernambuco, Rio Grande do Norte and Rio Grande do Sul. The fraud was estimated in the amount of R\$2 billion in tax debts and R\$1,5 billion in tax evasion.

Another similar example was the *Operação Saldo Negativo* (Operation Overdraft Balance), which investigated a company headquartered in Florianópolis (SC) that introduced itself to tax debtors as creditor of alleged funds owed by the Federal Government, but such credits, in fact, did not exist. Customers were led to believe that their debts with the Federal Revenue would be paid off with the credits acquired, and were convinced by the company that it was a licit business. Members of the criminal organization took over the Federal Revenue Service’s place and received the tax credits directly, but failed to collect the owed taxes or only paid insignificant amounts to the *Receita*. This operation was launched in the state of São Paulo, in the Federal District, in Paraná and in Santa Catarina.

Tax crimes are the third type of illicit activity to ground the information exchange requests to Coaf (2.306),²⁴ representing 8% of the total. It is the second most informed illicit activity in suspicious operations reports, according to the glossary developed by Coaf. 1.734 checks were identified relating to risk factors associated to Tax Crimes in the analysis of the reports. Reports which indicated evidence of tax crimes had an associated amount of almost R\$9 billion between 2015 and 2019, representing the second highest amount among the illicit activities assessed.

Table 9 – Received reports relating to tax crimes

Category	2015	2016	2017	2018	2019
Number of reports	1,099	1,598	909	769	1,461
Amounts involved in the reports	742,088,231	1,533,811,822	1,605,944,995	1,570,038,453	3,543,388,904
Entries in the report analysis in the CGRP	292	266	293	237	646
Information exchange requests (SEI-Cs) received	359	259	412	550	726

The financial proceeds of this threat are high. Taxes evaded in all federative levels cause billionaire damages to the country, hampering the development of public policies. The complexity of the Brazilian tax system, the country’s federative and continental dimensions are identified as factors which hinder the criminal liability for this crime.

According to the CNJ’s assessment, threat detection is difficult. The substantial number of taxes, each one with its taxable event, with different responsible authority, together with the complex tax legislation in the country, increases the difficulty of detection for these crimes.

In addition, as the Public Prosecution Office observes, criminal prosecution of tax crimes depends on technical knowledge of different agents in different organizations. The oversight tax authority is, in general, the first one to be able to detect tax evasion. However, by statutory duty, tax agencies primarily have an eye out for tax collection revenues, more than for criminal prosecution.

In relation to the judicial proceedings, the Brazilian Judicial branch issued, between 2015 and 2019, 20.047 sentences, and 26,85% of these sentences were convictions, as shown in Graph 5.

²⁴ The numbers provided by Coaf comprise information on tax evasion crimes and smuggling and duty evasion violations, because they are all treated generically under “Crimes Against the Tax Order”.

Graph 5 – Time series of sentences imposed to crimes against the tax order



Source: CNJ

3.6 Organized Crime Syndicate – Red Command (CV)

The *Comando Vermelho* – CV (Red Command) has operated overtly and in an organized manner in the state of Rio de Janeiro for over three decades, although it has reached out other states and regions of Brazil. For the most part, the organization's leaders have already been identified by public authorities, and the occupation of territories is noticeable.

Nevertheless, the clarity in the identification of the different aspects of the criminal activity undertaken by this group does not minimize the challenges for the measures which the government authorities responsible for the suppression of the weapons and drug trafficking must take. This is because this criminal organization's structure is well established, and is able to withstand, among others, the impact of the incarceration of leaders and other members, as well as armed conflicts with the government and other criminal groups.

The criminal organization's activities move large sums of money and encompass the trafficking of large quantities of illicit goods, particularly drugs and weapons. The identification of the means used to circulate all these funds and items represents one of the main challenges for the efficient suppression of illicit activities. CV connections with international organizations are well known, indicating that the movement of funds goes beyond the limits of the Brazilian jurisdiction. The movement and dispersal of funds as well as the physical routes used for the illegal transportation of drugs and weapons present a huge adaptive capacity, which has led to a low impact of the suppression activities on the CV organizational structures.

The organization's capacity to replace members and change work routines (change of routes and methods) greatly hamper the control actions. The strict authority exercised by this group over territories where it is settled has facilitated the exploitation of other activities, particularly trade. It is not unusual that this authority is extended to the point that these criminal groups conduct other types of activities, in particular dispute resolutions, clearly appropriating the State's jurisdictional function.

The CV settlement in territories over long periods has resulted in the establishment of a complex relationship with the social groups which also occupy these areas, mostly with economic, interpersonal and cultural ramifications. Whether it be regarding the more blatant aspect of the group's illicit activities or regarding the more inconspicuous activities, the co-optation of public officials represents a great challenge for the bodies assigned to counter them to formally identify the illicit acts committed by the group.

The methods chosen to counter these criminal groups have resulted, in most cases, in criminal proceedings of limited relevance (crimes of low and medium seriousness), which fail to reflect the gravity of the illicit actions effectively perpetrated.

The diversity of tasks individual actors take upon is evident and associated with a ramification of activities in which CV is involved. The criminal group features a complex network of relationships with other organized crime actors as well as with some public officials. The criminal organization also has branches abroad and enjoys relationships with other foreign organized groups which are essential for their weapons and drugs supply networks.

It is remarkable, however, that the amounts received by the majority of the group's members are only sufficient to meet individual and familial essential needs and to purchase certain consumer goods which carry a strong symbolic value in the social environment where they belong to (designer clothing and shoes, jewelry).

In jail, the compensation for being recruited can be limited to protection. On the other hand, members of the syndicate who hold high-ranking positions earn high rewards, and there is evidence that some of them store funds abroad.

The risks resulting from the admission to this criminal group depend on the position held by each member in the hierarchy of the group. Group members in the lowest ranks are exposed to increased risks as they take part in armed conflicts with police forces and/or other criminal groups; therefore, the risks range from jail to death. Group leaders, in general, are given better protection for themselves and their families, which makes them less exposed to risks. On the other hand, not rarely are they targets of law enforcement officials as well as other rival groups.

Such as the data provided in relation to PCC, submitting statistical data specifically in relation to CV is quite complex. However, considering that this group has drug trafficking as its main activity, a significant part of drug trafficking convictions, particularly in its geographical regions, refers to members related to this organized crime syndicate.

3.7 Illegal Extraction of Natural and Mineral Resources

FATF, in a report on the ML/FT vulnerabilities associated with gold, emphasized two broad characteristics of gold and the gold market which make it enticing to criminal groups. The first is the nature and size of the market itself which is highly reliant on cash as a method of exchange and, therefore, hampers transactions tracking. The second is the anonymity generated from the properties of gold which make tracking its origins very difficult to do. These factors make gold highly attractive to criminal syndicates wishing to hide, move or invest their illicit proceeds.²⁵

According to a United Nations Office on Drugs and Crime (UNODC) report, extraction of natural resources in Latin America is related to drug trafficking, since it can have a direct impact on deforestation through the construction of infrastructure such as landing strips and illegal roads or routes.²⁶

According to estimates provided by Interpol and the United Nations Environment Programme (UNEP),²⁷ in South America, many illegal mining areas are controlled by small and medium-sized organizations, which focus on this type of extraction and its subsidiary activities, such as extortion and prostitution. The venture includes artisanal miners who undertake the activity of mining without machinery, using low technology, and who are not subject to State supervision, in

25 ATF, Money laundering and terrorist financing and vulnerabilities associated with gold, (2015), p.6.

26 UNODC *Resumen ejecutivo del Informe Mundial sobre las Drogas (2016)*, p.22.

27 UNEP, INTERPOL. Report prepared by the United Nations Environment Programme. 2016, p.17.

informal situation. From small to large-sized operations, illegal mining is associated with mineral extraction in forbidden areas – not just gold, but other abundant minerals in the region.

Compared to other illicit activities, such as illegal manufacturing and smuggling of drugs, illicit exploitation and smuggling of gold are easier to integrate into the legal economy. This is an enticing feature for criminal networks and groups which tend to illegally exploit mineral resources.²⁸

It is important to highlight that this illegal activity is usually associated with others besides money laundering, such as corruption, capital flight, tax evasion, public land squatting, association for crime. Several other crimes are observed when the necessary chain of illegal mining activities is considered.

Gold is an asset considered difficult to control (production and trade) in artisan and surface mining because of its small volume and added value. In addition, gold is a stable, anonymous, transformable and easily exchangeable asset, which facilitates its ensuing legalization.

According to estimates by the *Agência Nacional de Mineração – ANM* (National Mining Agency), illegal production of gold involves amounts around 15 to 20 tons of gold per year, with an estimated amount of R\$5,5 billions.²⁹

Regarding gemstones and precious stones, there are no consistent statistics, but they involve large amounts owing to the geological nature and the diversity associated to the quality of the stones obtained in different parts of the national territory. Estimating figures, ANM calculates that illegal mining of precious stones can generate between 500 million and two billion reais per year. Brazil produces unique gemstones in the world, like the Imperial Topaz (in the Ouro Preto region, Minas Gerais) and Paraíba tourmaline. Emeralds, aquamarines and high-priced alexandrites should also be pointed out.

Still according to ANM, aggregate (crushed stone, sand and gravel) and clay extraction, in addition to the illegal production, has a production level which is underreported and underpriced to avoid taxation. The illegal production tends to be higher in remote areas, far from any oversight. Sectorial data regarding the production of these mineral commodities are far higher than official data. This illegal activity generates a large financial flow when accounted in the total amount raised.³⁰

Undoubtedly, the activity's high potential for profits is an enticing prospect. Even though there are sophisticated extraction operations which require investments in equipment and labor – featuring in these cases the investment by individuals or groups with higher economic capacity -, extractive activity is still carried out, in many cases, in an artisanal way, by means of cheap labor and lost-cost techniques.

Besides damages to the Treasury, inasmuch as mineral resources are assets owned by the federal Union and extraction requires express authorization, there is also the environmental damage caused by the illegal exploitation of natural resources, whose impact is high and accumulates over time.

Despite the great concentration in the Northern region of the country, the threat significantly extends all over the national territory, owing to the great diversity of natural and mineral resources available. It is also observed intense activity in Environmental Conservation Units or Indian Reservations. The destinations of the products of these activities are the Southeastern region of the country, and later on the international market.

The great territorial extension in sparsely populated areas hinders the oversight and facilitates the criminals' work. Moreover, some typologies describe complex activities, including corrupt

28 Global Financial Integrity, *Siguiendo el dinero, flujos financieros vinculados a minería de oro artesanal en pequeña escala*, (2017), p. 31.

29 Considering an amount estimated of R\$297 per gram of pure gold. Base date: April 29, 2020.

30 For further information on the market size, see <http://revistamineracao.com.br/2016/12/22/extracao-ilegal-de-areia-no-brasil/> and <http://www.acamtas.com.br/p/a-areia-e-um-dos-maisimportantes.html>.

public officials actions, obstructing the monitoring, the detection of offenses and the prosecution of such illicit activities.³¹

According to Coaf, this is an illicit activity whose detection has been gradually increasing. Laundering the proceeds of this crime has encompassed methods associated with the movement of fiat currency and the use of companies which seem to be shell companies. It is also verified the use of panned gold as currency to purchase goods and other mining supplies, such as fuel for the machinery.

It has been recently identified the association of this illicit activity with other crimes, such as drug trafficking. Also, regarding precious stones, it was detected a typology involving the transfer of funds abroad by means of “dólar-cabo”-style informal funds transfer. The gradual increase of the analysis made by Coaf regarding this illicit activity is shown as follows.

Table 10 – Reports received regarding the illegal mining of natural and mineral resources

Category	2015	2016	2017	2018	2019
Number of reports	46	50	49	81	125
Amounts involved in the reports	35,384,146	77,292,551	242,924,422	365,743,919	530,243,831
Entries in the report analysis in the CGRP ³²	19	28	37	8	24
Information exchange requests (SEI-Cs) received	38	46	50	72	49

Source: Coaf

Regarding investigation and persecution, statistics show an increase in the number of operations targeting this offense in recent years.³³ The document titled “Illegal Gold Mining in the Amazon region”, prepared by the MPF, reports that the lenient control over extraction and the inflow and outflow of gold and over individuals and legal persons that operate in this market enable illicit capital flight, the laundering of assets originated in criminal activities and the circulation of goods – particularly, jewelry –, nationally and internationally, related to illicit financial, environmental and social-environmental activities.³⁴

Also according to the MPF, the lack of reliable information regarding the exploitation (source of the ore) fosters the laundering of assets, which is easily verifiable when dealing with gold: if the potential productivity of a given deposit, exploited because of a small-scale mining consent, is unknown, mineral products extracted in any part of the national territory, legally or illegally, may be legitimized as originating from that deposit.

In case of the Legal Amazon, where irregular mining is rife in almost all states in the Northern region of the country, for example, gold may be “laundered”, appearing to be legal, by means of

31 Typologies related to the illegal mining of natural and mineral resources may be found in the *Annex Cases and Cases, Collection of AMLCFT Typologies, Special Edition, National Risk Assessment, 2021* as follows: 2.45. Money Laundering through the Illegal Extraction and Sale of Precious Metals; 2.85. Narcotics Trafficking Payments through the Purchase of Illegal Gold.

32 The risk matrix used in the period refers to illegal extraction of precious stones and metals and illegal logging.

33 For instance, here are some operations:

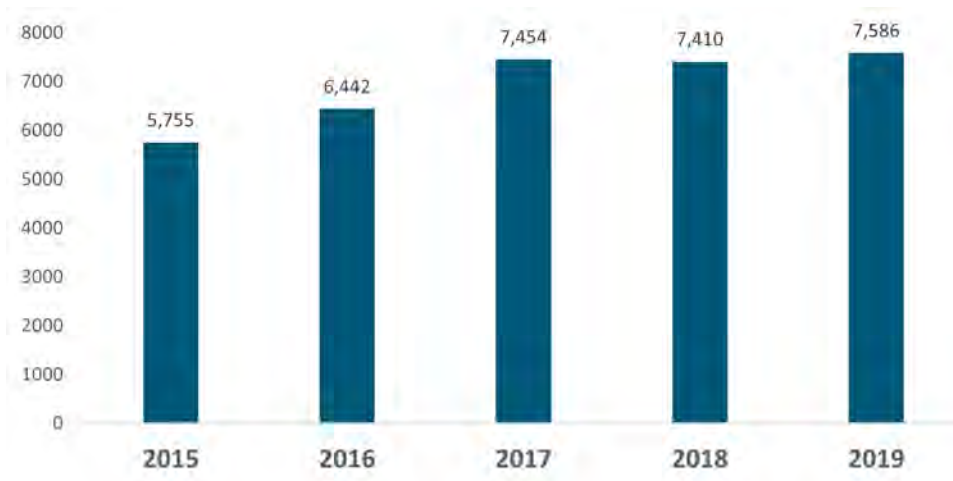
- *Operação Ouro Perdido* (Operation Lost Gold): comprised four states of the Federation and investigated the exploitation of gold, trade and tax evasion in illegal mining areas in Oiapoque, Amapá, in French Guyana and in Surinam, estimating operations in the total amount of R\$145 millions, according to the Federal Police;
- *Operação Trópeis*: investigated a criminal group involved with illegal logging and gold mining in a private property in Mato Grosso (MT); seemingly licit products were sold, and proceeds were estimated at R\$7 million;
- *Operação Céu Dourado* (Operation Golden Sky): investigated, in Goiás, the trafficking of gold and identified amounts of R\$1.6 million;
- *Operação Floresta Virtual 2* (Operation Virtual Forest 2): investigated an organization in Mato Grosso which made illegally-derived forest products look legal, which generated profits in the amount of R\$69 million;
- *Operação Arquimedes* (Operation Archimedes): investigated, in Amazonas, the trade of illegally logged timber and resulted in the judicial freezing of R\$50 million.

34 *Mineração ilegal de ouro na Amazônia: marcos jurídicos e questões controversas – Brasília: MPF, 2020*. Available at: www.mpf.mp.br/atuacao-tematica/ccr4/dados-da-atuacao/publicacoes/roteiros-da-4a-ccr/ManualMineraoIlegaldoOuronaAmazniaVF.pdf.

a simple statement that it refers to gold originating from areas legalized by a small-scale mining consent. Cases are plentiful where it is verified the existence of informal mining operation in Indian lands and conservation units, and a large part of the extracted gold is channeled into the financial market because the seller falsely determine its origin.³⁵

CNJ provided information of the time series relating to sentences issued in cases of Crimes of Illegal Extraction of Natural Resources, where the gradual increase in the number of decisions for this crime is verified.

Graph 6 – Time series of sentences imposed to crimes of illegal extraction of natural resources



Source: CNJ

As it is considered an emerging issue of great importance, ENCCLA established, as a priority for 2021, the Action 3/2021, which aims to improve the legislation, the tracking mechanisms and the oversight of the gold production chain, aiming to integrate the responses by the participating bodies and to mitigate the risks associated with the trade of this metal for money laundering, with the participation of several investigation, persecution, tax, intelligence and government agencies related to the subject.³⁶

3.8 Piracy, smuggling and duty evasion

According to a study recently published by the FATF, given the dynamic nature of international trade, including the diversity of tradable goods and services, the involvement of various parties and the speed of commercial transactions, money laundering through trade remains a profound and significant risk.³⁷

In Brazil, crimes of piracy, smuggling and duty evasion affect all parts of the country, to a greater or lesser extent. Such crimes are usually perpetrated basically in two ways: (1) by individuals or groups of individuals, in a “little ant” model, crossing national borders with small quantities of prohibited goods hidden in vehicles (hidden or concealed); or (2) by organized criminal structures,

35 *Mineração ilegal de ouro na Amazônia: marcos jurídicos e questões controversas – Brasília: MPF, 2020.* Available at: www.mpf.mp.br/atuacao-tematica/ccr4/dados-da-atuacao/publicacoes/roteiros-da-4a-ccr/ManualMineraoIlegaldoOuronaAmazoniaVE.pdf. P.104.

36 Regarding ENCCLA 2021 actions, see Annex I.

37 FATF – Egmont Group (2020), *Trade-based Money Laundering: Trends and Developments*, FATF, Paris, France, Available at: www.fatf-tatf.org/publications/methodandtrends/documents/trade-based-money-laundering-trends-anddevelopments.html.

working with large volumes/quantities through the action of several individuals and legal entities, operating in Brazil and abroad, using a clear division of tasks and coordinated action.³⁸

Despite its national coverage,³⁹ the crime of smuggling occurs with greater incidence in the border states, especially in the South and Southeast of the country, due to its proximity to Paraguay.

The crimes of piracy, smuggling and duty evasion are highly profitable, especially when committed by criminal organizations which are steadfast and reiterative regarding the illicit conduct. According to information from the MPF, several criminal groups turned to cigarette smuggling because it is a highly profitable activity with a milder punishment compared to drug trafficking or arms trafficking.⁴⁰ The low social reprimand for purchasing smuggled/pirated products due to the low prices, makes their trade especially easy and profitable in the national territory.

It is worth highlighting the observation of the Illicit Markets Observatory of the Federation of Industries of the State of São Paulo⁴¹ that the crimes of smuggling, piracy and duty evasion are part of the most recent criminal phenomenon: the illicit transnational markets (ITM). The profitability of these offenses is facilitated by the thriving Brazilian foreign trade and the extensive border and the number of ports in the country. In addition, the existence of long stretches of highway, the use of “watchers” to observe the ostensible police oversight work and the use of networks of money laundering professionals via foreign trade, using “doleiros” and shell companies, also hinder the countermeasures aimed at these crimes. Lastly, the use of cash and the flow of funds into and out of “transit accounts” are also widely used typologies.⁴²

It is estimated that smuggling and piracy caused a financial damage of R\$160 billion to the national Treasury in 2018.⁴³ Damages result mainly from the drop in tax collection and in industry revenues in addition to the collateral damage to consumers’ health and the need to increase investment in prevention and repression. Also, it is estimated that, in 2009, the country had lost R\$291,4 billion for the illegal market, according to a survey made by the National Forum Against Piracy and Illegality.⁴⁴

Table II shows statistics collected by the National Forum Against Piracy and Illegality.

38 Information submitted by the Federal Police, CNJ and Coaf.

39 The crime of smuggling has a broad criminal classification, which goes beyond importing or exporting prohibited goods, including also the conduct of practicing similar acts.

40 According to data from 2019, 57% of the cigarette market comes from smuggling, mainly from Paraguay.

41 Available at <https://sitefiespstorage.blob.core.windows.net/uploads/2019/01/file-20190116193358-anuario-de-mercados-ilicitos-2016.pdf>

42 Typologies related to piracy, smuggling and duty evasion can be found in the Annex *Cases and Cases*, *Collection of AML/CFT Typologies, Special Edition, National Risk Assessment, 2021* as follows: 2.37. Smuggling through Advanced Import Payments.

43 According to a survey made by the Institute of Economic and Social Development of Borders (Idesf) and Brazilian Association for Combating the Counterfeiting (ABCF). <https://www.idesf.org.br/2019/03/15/contrabando-e-falsificacao-geraram-r-160-bilhoes-em-prejuizos-ano-passado-aponta-estudo/>.

44 <http://www.fnep.org.br/forum/release/292#>.

Table 11 – Damages to Brazil – Illegal Market – 2019

Damages in 15 productive sectors + Tax Evasion Estimate	
Sector	Illegal Market
Clothing*	R\$58,400,000,000.00
Personal hygiene, perfumes and cosmetics	R\$25,000,000,000.00
Fuels	R\$23,000,000,000.00
Alcoholic beverages ***	R\$17,600,000,000.00
Cigarettes	R\$15,900,000,000.00
Pesticides	R\$11,232,000,000.00
Glasses	R\$10,100,000,000.00
TV subscription service	R\$9,000,000,000.00
Electronics	R\$7,500,000,000.00
Software	R\$7,500,000,000.00
Mobile Phones**	R\$4,962,000,000.00
Audiovisual (films)	R\$4,000,000,000.00
Sporting goods	R\$2,730,000,000.00
Imported perfumes	R\$2,000,000,000.00
Toys	R\$692,588,000.00
Loss of 15 Sectors: R\$199,616,588,000.00	
Estimated loss with tax evasion (46%): R\$91,823,630,480.00	
Total (Sectorial Losses + Tax Evasion): R\$291,440,218,480.00	
Estimated ALAC (Latin American Anti-Smuggling Alliance): Illegal Market moves 2% of the GDP of Latin American countries.	

* Data submitted in 2013 and with no further update.

** Mobile phone data from IDC (International Data Corporation).

*** Euromonitor data.

Source: National Forum Against Piracy and Illegality (FNCP).

As for impacts on GDP, an estimate by the Latin American Smuggling Alliance (ALAC) also points out that, on average, the illegal market corresponds to 2% of the GDP of Latin American countries.⁴⁵

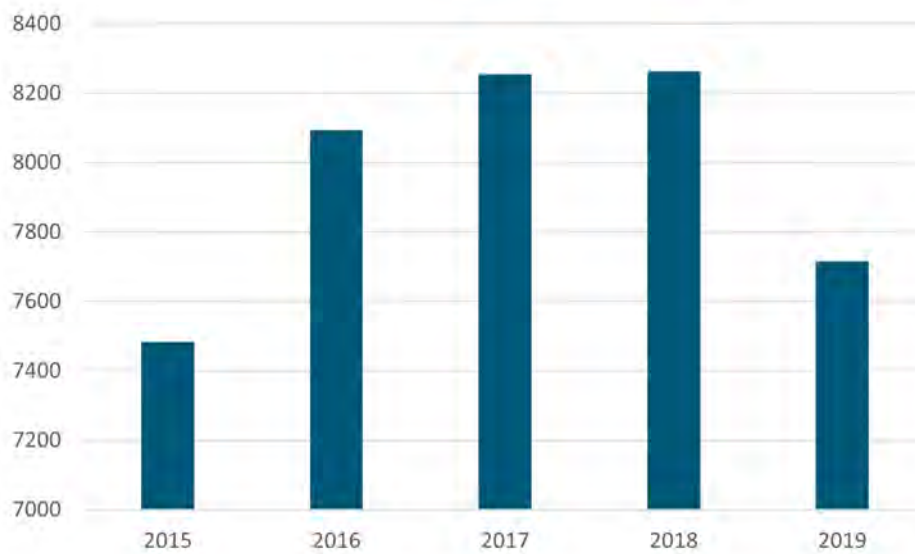
The use of cash or the inflow or outflow of funds in “transit accounts”, despite being rather elementary, wind up working adequately for criminals. However, these accounts need to be constantly changed in order to bypass the financial institutions controls and prevent the tracing of illicit funds. This almost always happens even before the preparation and dissemination of analyses by Coaf, based on reports received from reporting entities.⁴⁶ It is not uncommon the case of bank accounts opened in the name of individuals who reside in the neighboring country, which creates additional challenges for the investigations.

In terms of investigation and persecution, the quantity of seizures of smuggled goods, particularly cigarettes, has increased continuously. The number of the infraction reports by the Brazilian Federal Revenue Service and also criminal cases is also on the increase. According to data provided by the CNJ, Graph 7 shows the following information about criminal persecution of these offenses.

45 <https://www.efe.com/efe/brasil/mundo/contrabando-equivale-a-quase-2-do-pib-da-america-latina/50000243-3970509>.

46 According to Coaf, it was not possible to separate the analyses of tax evasion, smuggling and duty evasion crimes. All illicit conducts are treated under the general topic “Crimes against the tax order”.

Graph 7 – Time series of sentences imposed to crimes of piracy, smuggling and duty evasion



Source: CNJ

3.9 Other threats

Due to their importance, the following threats have also been analyzed and deserve special attention:

- **Illegal wildlife trade (medium):** According to the United Nations (UN), in 2020, wild animal trafficking was the third most lucrative illegal activity on the planet, second only to drug trafficking and weapons trafficking.

According to information from a recent report produced by FATF⁴⁷ in relation to wildlife trade, cash remains the predominant means of payment. The same report points out several challenges in accurately estimating revenues from the illegal wildlife trade.

In addition, efforts to detect and quantify yields face challenges due to the lack of available and accurate data on wildlife trade numbers and the fact that criminals often mix illegal trafficking with large flows of legal trade.

In Brazil, in general terms and based on the recent history of Federal Police operations related to combating trafficking in wild animals, it is possible to say that this threat has an international impact, since it is preferably aimed at consumers abroad. There is also an internal demand for some animal species captured illegally.

Although it is an obscure market, especially with the increasing transfer of the trade in animals from fairs and public spaces to social networks and virtual spaces, the occurrence of these crimes is well known. The occurrence of crimes is observed throughout the national territory, especially in areas where native vegetation and fauna still exist, such as in the Amazon, Cerrado, Caatinga and Pantanal.

Sometimes the crime materializes by means of complex and organized structures, more often in the predicate offense, since the trafficked goods are inserted in the international market, and the values moved are of great proportion, considering the price of some specimens. It involves

⁴⁷ FATF (2020), Money Laundering and the Illegal Wildlife Trade, FATF, Paris, France, www.fatf-tatf.org/publications/methodandtrends/documents/money-laundering-illegal-wildlife-trade.html.

several stakeholders, with an increasing appreciation of the illicit good along the chain, something very similar to drug trafficking. It is observed from poachers to major international traffickers, in connection with major end consumers of animals.

According to the CNJ, some factors concur to the occurrence of crimes, notably the co-optation of public officials, the lack of investment in equipment, the lack of monitoring in sensitive natural areas, challenges in the oversight of ports, airports, roads throughout the national territory and in border regions, elements which contribute to increase the difficulty of detection.

Regarding criminal proceedings related to the issue “wild animal trafficking”, it was verified that 2.158 sentences were imposed in 2015; 2.303, in 2016; 2.699, in 2017; 2.944, in 2018; and 2.964 sentences were issued in 2019.

- **Firearms trafficking (medium):** a threat with incidence in the whole country, which fuels high national violence rates, the protection and defense of criminal networks (such as drug trafficking and smuggling), property crimes and (absolute) record numbers of firearm-related deaths among all countries in the world. It sometimes materializes by way of complex and organized structures, particularly in case of international firearms trafficking.

In practical terms, in 2018, assets in the total amount of R\$3.762.635,00 were seized or forfeited, and in 2019 the amount was R\$8.090.571,00. A total of 20 operations were launched in two years (an average of 10 per year).

On the other hand, Coaf received 420 requests for exchange of information with investigation and persecution authorities on investigations regarding these offenses in the last five years. It has also been identified a significant increase in the number of suspicious operations reports included in the financial intelligence reports related to these requests for information exchange and regarding firearms trafficking (from 49, in 2015, to 960, in 2018 and 867, in 2019).⁴⁸

Despite the importance of the threat, the issue is largely addressed in threats related to the main criminal organizations (PCC and CV).

- **Human trafficking (medium):** human trafficking is considered by GAFILAT as the third most prevalent predicate offense in Latin America.⁴⁹

It usually materializes through complex and organized structures (either as an predicate offense or money laundering), and generates significant amounts of resources for its perpetrators. In addition, the logistics for transporting the trafficked person is low cost, since, as a rule, it has the consent of the victim, who will only be aware of the mistake when it is already under the control of the perpetrators.

The low risk of this activity for criminals is highlighted, since the victims, for various reasons, rarely notify the authorities.

In terms of financial intelligence, there was an increase of more than 700% in the number of reports received with indications of this crime between 2015 and 2019, although the absolute numbers are still small.⁵⁰ Thus, the red flags specifically associated with this crime are not yet widely known, which hinders its mapping and detection, despite the fact that some of the most

⁴⁸ Typologies related to piracy, smuggling and duty evasion can be found in the *Annex Cases and Cases, Collection of AML/CFT Typologies, Special Edition, National Risk Assessment, 2021* as follows: 2.79. Arms Trafficking.

⁴⁹ Segunda Actualización del Informe de Amenazas Regionales en materia de Lavado de Activos, 2017 y 2018. <https://GAFILat.org/index.php/es/noticias/105-segunda-actualizacion-del-informe-de-amenazas-regionales-en-materia-de-lavado-de-activos-2017-y-2018>.

⁵⁰ Coaf considered, for the purposes of this analysis, both illicit activities related to slave labor in Brazil and international trafficking in migrants and for sexual exploitation.

used typologies are known.⁵¹ In relation to sexual exploitation and smuggling of migrants, there is a significant number of cases involving money remitters.

On the other hand, according to information verified by Coaf, a small number of information exchanges was carried out with investigation and persecution authorities on investigations of these crimes in the last five years (72 information exchanges related to the conduct of 427 individuals). Considering the number of requests for information exchange received, financial investigation related to these offenses is relatively less developed and complex than in other threats, particularly corruption and drug trafficking.

In the investigative and persecutory plan in Brazil, it is noteworthy, for instance, the operation “Cinderela”, launched by the Federal Police last year. Funds and assets estimated in over R\$100 million were seized in the last two years, which provides an idea of the magnitude of this threat. It is believed that there are large undiscovered figures relating to this unlawful act, owing to its several characteristics, such as the vulnerability of the victims and the underreporting of cases in the country.

One of the most recent and complex investigations refers to an international migrant smuggling network. People from Asian countries entered Brazil with false passports and visas (including Brazilian ones), and were subsequently taken by migrant smugglers to the United States, by land routes, crossing the Brazilian border with Peru, in the Brazilian state of Acre, and moving on through the following countries: Ecuador, Colombia, Panama, Costa Rica, Honduras, Nicaragua, El Salvador, Guatemala and México (Operation ‘*Estação Brás*’).

It is also important to mention that, based on the Framework Agreement among the States Parties to the MERCOSUR and Associated States on the Creation of Joint Investigation Teams, Brazil has recently established a joint investigation team with Paraguay to investigate the crime of trafficking in persons.

According to the CNJ, the number of judicial proceedings is relatively low. In 2015, 24 sentences were imposed; in 2016, 28 sentences; in 2017, 51 sentences; in 2018, 29 sentences; and in 2019, 23 sentences were issued.

⁵¹ Typologies related to piracy, smuggling and duty evasion can be found in the *Annex Cases and Cases, Collection of AML/CFT Typologies, Special Edition, National Risk Assessment, 2021* as follows: 2.78. Trafficking in Persons.

A close-up, artistic photograph of several Brazilian banknotes. The focus is on the texture and colors of the paper, with a portrait of a man on a blue 1000 Real note on the left and orange and yellow notes on the right. The text 'REPÚBLICA DO BRASIL' and '1000' are visible on the blue note.

4 Financing of Terrorism National Threats

Brazil repudiates terrorism as a constitutional principle, is firmly committed to its combat, and is fully aware of its responsibilities before the international community in the combat against any activities which may be instrumental to perpetration of terrorist attacks in other countries.

The country has continuously strengthened the domestic legislation to enhance international cooperation in this area and has sought to improve the regulations and the practice to firmly repress those who intend to use the national territory, the economy or the Brazilian financial system to cause harm to third parties.

In view of this concern, Brazil took an important step with the enactment of Law No. 13.260, of March 16, 2016, which “criminalizes terrorism and its financing” and regulates the article 5th, section XLIII, of the Federal Constitution, defining the crime of terrorism, addressing investigatory and procedural provisions and reformulating the concept of terrorist organization. The Brazilian legislators incorporated in the new law guidelines of the International Convention for the Suppression of the Financing of Terrorism.

According to the art. 2nd of the Law No. 13.260, 2016:

Terrorism consists in the practice by one or more individuals of the certain enumerated acts for reasons of xenophobia; discrimination; or prejudice in regard to race, color, ethnicity, or religion, when committed for the purpose of causing social or generalized terror and exposing persons, property, public peace, or public safety to danger.

Article 6th refers to the FT and imposes heavy penalties – imprisonment, from 15 to 30 years – for anyone who, habitually or contingently, uses financial assets or property to fund terrorist activities. It is important to note that the law punishes the habitual or contingent financing with the same penalty.

On October 16, 2015, Law No. 13.170 was enacted, which regulated “the action of freezing of assets, rights or values as a result of a United Nations Security Council (UNSC) resolution”. However, it resulted necessary to review it in order to fully adjust the law to international standards. Thus, on March 8, 2019, the Law No. 13,810, of 2019, was enacted, which repealed Law No. 13.170, of 2015 and which “provides for the compliance with sanctions imposed by United Nations Security Council resolutions, including the freezing of assets of natural and legal persons and entities, and the national designation of persons investigated or accused of terrorism, its financing or acts related to it”.

Over time, FATF standards have been gradually reviewed to increase the requirements regarding high-risk situations and to allow countries to adopt more objective and focused approaches to these risks. Among the main changes in FATF standards, it is noteworthy the adoption of the Risk-Based Approach (RBA), according to which countries need to clearly understand the Financing of Terrorism (FT) risks which might affect them and adjust their Combating the Financing of Terrorism (CFT) systems to tackle the nature of these risks, with enhanced measures in higher risk scenarios, and the option of simplified measures, where the risks are lower.

The debate about a Risk-Based Assessment applied to the Financing of Terrorism (RBA/FT) considers the following key concepts: threat, vulnerability, consequence or impact and risk, elaborated in FATF guidance manual and whose understanding is fundamental for all agents involved in the National Risk Assessment. Ideally, a risk assessment involves making judgments about threats, vulnerabilities and consequences.

The goal in FT monitoring, detection and investigation is to understand the threats and vulnerabilities before a risk becomes a reality and take the commensurate preventive action. Threats must be understood and halted before they can exploit vulnerabilities because of the violent and indiscriminate harm inflicted on the public if a terrorist act is committed.

The methodology used in 2020 NRA separated a specific macro-process to assess the FT threats in Brazil. A “threat” is one of the constituting factors of the risk, and usually is an essential starting point to understand the FT risk. A threat may be defined as “a person or group of people (natural or legal), object or activity with the potential to cause harm, for example, to the State, to the society, to the economy”.

In the FT context, the idea of threat comprises domestic or international terrorist organizations and their facilitators, their funds, as well as past, present and future FT activities, and individuals and populations sympathetic to terrorist organizations. For this reason, in order to carry out a FT risk assessment, it is deemed relevant to understand the groups involved in the terrorist activity, and the environment in which predicate offenses are committed, and funds are generated to identify the nature, and if possible the size and the volume.

Traditionally, Brazil recognizes as terrorists the groups designated as such by United Nations Security Council, pursuant to its Resolution 1.267: Al Qaeda and its affiliates, Islamic State and its affiliates and the Taliban. Nevertheless, Brazilian competent authorities also monitor organizations and entities referred to in the international counter-terrorism agenda, which might be involved in terrorist activities and their financing.

The methodology used to prepare the 1st NRA comprised the use of questionnaires submitted to the competent authorities to assess FT threats in the country: the Brazilian Intelligence Agency (*Agência Brasileira de Inteligência – Abin*), the Federal Police (*Polícia Federal – PF*) and the Council for Financial Activities Control (*Conselho de Controle de Atividades Financeiras – Coaf*). The answers

helped to consolidate a mathematical score referring to the FT national threats and an assessment (low, average, high ou very high) for each one of them.

In order to develop the analysis further, FT threats were first separated into two major types: the “threat actors” and the “threat activities”. In the “threat actor” category, it was included the analysis of likely connections with Brazil of domestic or international organizations, their facilitation networks, individuals and populations somehow potentially related to terrorist organizations. In the “threat activity” category, any licit or illicit activity with a potential to be used to fund activities or terrorist organizations were considered.

Among the threats posed by international groups, the analysis of the following groups were prioritized: Al Qaeda and its affiliates, Islamic State and its affiliates, Taliban in addition to other threat actors, with emphasis on lone actors; non-Islamic violent extremist groups; foreign terrorist fighters; other organizations not listed as terrorist and expatriate populations.

In addition, analysis focused on activities which had the potential to be used for FT and which required, as the case may be, greater attention to avoid their use for FT purposes. In this case, the following potential activities stood out: triangulations through the smuggling of products or through foreign trade, donations from individuals or legal entities, human trafficking and product piracy. Below is a ranking of potential FT threat activities:

- Smuggling of products;
- Trade-based financing of terrorism;
- Donations from individuals;
- Donations from legal entities;
- Extortion of local and diaspora populations and businesses;
- Human trafficking;
- Piracy;
- Drug trafficking;
- Self-funding;
- Cigarette smuggling;
- Precious stone smuggling;
- Smuggling of migrants;
- Credit card fraud.

Thus, the overall national susceptibility in relation to the financing of terrorism in the national consolidated score, according to the scores obtained from the consulted authorities, was considered **low**.

FT Threat: Low
(National Consolidated Score)

Next, this document describes the most relevant conclusions drawn from the complete process of analysis carried out regarding each of the threats described above, whether they be threat actors or threat activities.

4.1 Threat Actors

4.1.1 Al Qaeda and its affiliates

Al Qaeda is considered a terrorist group by Brazil pursuant to the United Nations Security Council Resolution 1.390, adopted on 16 January 2002, concerning the Taliban regime in Afghanistan, Osama bin Laden and Al Qaeda, which was internalized by Decree No. 4.150, of 6 March 2002.

During the preparation process of the analyses related to the NRA, besides Al Qaeda, several other likely affiliated terrorist entities were also considered, such as Al-Qaeda in the Arabian Peninsula (AQAP), Al-Qaeda in the Islamic Maghreb (AQIM), Jama'at Nasr al-Islam wal Muslimin (JNIM), Al-Qaeda in the Indian Subcontinent (AQIS), Al Shabaab, Jabhat Fateh al-Sham, formerly known as Al-Nusra Front.

Although there have been records of individuals linked to Al-Qaeda in the national territory, there is no confirmation thus far of financial activities of this group in Brazil. For this reason, Al Qaeda is still considered a low threat in Brazil, with low probability that this terrorist organization is carrying out FT activities in Brazil. Occasional transfer of funds could take place, hypothetically, by means of transfers of small amounts from Brazil to foreign countries by individuals.

Detecting and identifying possible threats took advantage of analyses of financial activities carried out by Coaf, intelligence information produced and shared by Abin, and police intelligence developed by a Federal Police special unit.

In this context, in response to an electronic questionnaire sent because of the NRA, Coaf informed that, of the total number of reports filed between 2011 and 2020 containing words associated with FT, 12% (31 records) had terms related to Al-Qaeda. Still according to the government body, after analysis of the reports submitted, and given the number and the complexity of the reports received, the probability that this terrorist organization is carrying out activities in Brazil is considered to be low. Regarding the financing capacity, all reports were grounded in the existence of adverse media on the subjects of the reports, associating them or their partners to the referred to terrorist organization, which would therefore characterize them as defensive reports.

In a qualitative analysis, Coaf verified that some older reports provided information on modest cash transactions. More recent reports show transactions of legal entities' funds made in individuals' bank accounts, in some cases employees of these companies. In general, said legal persons are in the furniture and apparel trade industries.

As for the domestic intelligence, according to analyses carried out by Abin, the threat to Brazil in 2020 is low, given the lack of confirmation for the presence of Al-Qaeda operational cells in the country. The risk of a violent act by likely sympathizers or militants radicalized on the internet is considered low. Evidence of direct and systematic activity of the group in South America, either for the financing of their activities or for the perpetration of attacks and recruiting of people, has not been verified. Even though individuals who express sympathy for Al-Qaeda have already been identified, there is neither structured presence of the organization in Brazil, nor identified leaderships or executors of the group in the national territory. According to Abin, however, there is indication of alleged members and/or sympathizers of the organization passing through the country, which requires an ongoing process of monitoring by competent authorities.

In terms of police intelligence and investigation, analyses by the Federal Police special unit indicate that, to date, no proven cases of financing of terrorism to Al Qaeda have been detected. By hypothesis, it can be said that any financing could occur through transfers of small amounts from Brazil to foreign countries by individuals, which is why this activity requires monitoring.

Because of the information submitted in the reports filed, evidence indicates towards a low fundraising capacity by Al Qaeda in Brazil. Still according to the information submitted, except for duty evasion and tax evasion, it was not possible to identify other illicit activities associated with the few reports filed.

4.1.2 State Islamic and its affiliates

The Islamic State is one of the groups considered terrorist by Brazil pursuant to the United Nations Security Council Resolution No. 2199, of 12 February 2015, which reaffirms that all Member States shall combat terrorism and its financing and disrupt the trade of weapons and related material with the Islamic State in Iraq and the Levant, the Al-Nusrah-Front (ANF) and individuals, groups, undertakings and entities associated with Al-Qaeda. This Resolution was internalized by Decree No. 8.526, of 28 September 2015, and is the first resolution incorporated to the Brazilian legal system which refers to the Islamic State in Iraq and the Levant.

While preparing the analyses for the NRA, besides the Islamic State, the connections with other likely affiliate organizations were examined, including Boko Haram and the Islamic State West Africa Province (ISWAP), the Islamic State in the Greater Sahara (ISGS), the Islamic State Sinai Province (IS-SP), and the Islamic State Khorasan Province (IS-KP).

The threat of action by the Islamic State and its affiliates in Brazil, whether for terrorist actions, for terrorist financing or recruitment actions, was considered low.

As mentioned in item above, the process of detecting and identifying possible threats made use of an analysis of financial activities carried out by Coaf, intelligence information produced and shared by ABIN and police intelligence developed by the special unit of the Federal Police.

Despite the threat is perceived as low, the detection and investigation process resulted in the launch of two police operations related to sympathizers of the Islamic State in Brazil: the *Operação Mendaz* (Operation Mendaz, 2015) and the *Operação Hashtag* (Operation Hashtag, 2016), which could count on financial intelligence inputs from Coaf, an investigation process by PF, and also strategic intelligence analyses.

In this context, regarding detection, Coaf informed that, of all reports filed with words associated to FT, 13% (32 reports) referred to the Islamic State. Almost all reports referred to persons involved in the referred to Operations Mendaz (4 records) and Hashtag (10 records).

Still according to Coaf, the analyses considered, in addition to said reports, all the reports analyzed in financial intelligence reports referring to the abovementioned operations. In this context, 36 financial intelligence reports (FIRs) were produced and disseminated in investigations related to the Operation Mendaz, and nine in investigations related to Operation Hashtag.

This assessment did not take into consideration FIRs on foreign terrorist fighters (FTFs), which allegedly travelled to regions controlled by the Islamic State, because they will be considered in a later item.

Furthermore, it should be clarified that the monitoring process is quite extensive, and the information included in the referred to FIRs comprised not only the aforesaid reports which specifically mentioned the terrorist organization, but also other reports which brought up individuals probably involved with the Islamic State, without an explicit indication by the reporting entity.

The oldest form of movement of funds identified in these analyses involved the “overpayment” of a credit card bill, and the credit balance was used subsequently for cash withdrawals abroad, in regions with a high-threat level of terrorist attacks. Later on, it was observed the structuring of a network of shell companies, incorporated in many cases using false documentation or documents obtained from diaspora populations through extortion. These companies showed a significant

amount of cash deposits, used thereafter for the advance payment of imports and other ways to transfer funds abroad, using, therefore, typical money laundering operations via international trade. There is evidence that an identical scheme was used to pay for under-invoiced imports in the garment sector, associating the likely activity of FT to illicit acts such as tax evasion and illegal capital flight.

Coaf carried out 45 information exchanges related to Operation Mendaz. Also, five other exchanges mentioned connection of the persons of interest with the Islamic State. A request for information exchange about a person of interest in the Operation Hashtag was also identified.

Regarding domestic intelligence, Abin, in its monitoring process, has detected only a limited number of ISIL sympathizers in Brazil, but has not identified any operational cells nor any large-scale recruiting or financing activities. However, at the time of big sporting events (the World Cup and the Olympics), between 2014 and 2016, it was verified activities by homegrown extremists radicalized online, who embraced the extremist ideology of the Islamic State and intended to form a terrorist cell in the national territory. This threat, however, was identified and, with the launch of the Operation Hashtag, suppressed, resulting in the arrest of the suspects.

In terms of the police, as a result of the investigations carried out by the Federal Police, the aforementioned Operations Mendaz and Hashtag were launched regarding domestic sympathizing groups radicalized online.

In August 2015, PF launched Operation Mendaz, authorized by the Federal Justice, aiming to investigate a group suspected of illegally moving over R\$150 million in five years. It was found that the persons of interest were part of a cell specialized in money laundering, suspected of supporting terrorism and whose members defended mass executions and the Islamic State.

At the top of the laundering scheme was a foreign citizen who used shell companies and fake names to remit funds to risk areas. The PF suspects that the money was raised in scams, such as larceny, rubber checks and defrauded loans. The network used fake information to obtain documents which enabled the creation of fictitious natural or legal persons in order to open bank accounts, request cards and perform exchange operations, remittance and withdrawal of money abroad. Credit card bills were paid more than it was owed for the credit balance to be withdrawn abroad. The group frequently used a clearing house specialized in transferring small amounts of money without the need for a bank account. In the name of the head of the organization alone, around 300 operations were detected in less than two years to remit around R\$2,5 million abroad.

The first PF operation after the enactment of Law 13,260, of 2016, was dubbed *Operação Hashtag* (Operation Hashtag) and launched to dismantle a group involved in the promotion of the Islamic State and in the execution of preparatory acts in preparation for terrorist attacks and other criminal acts during the Rio de Janeiro Olympic Games (Rio-2016), which started on August 5th that year.

Despite being a seemingly amateur group, the existence of this first cell was already foreseen, because there was ISIL propaganda in Portuguese, and since 2015 there has been evidence of the formation of cells of this kind in the country. On the other hand, the operation evidenced the police forces and the national protection system capacity of detection, in a broader sense.

In May 2017, the 14th Federal Court of Curitiba convicted eight out of the ten individuals arrested in the Operation Hashtag, who were in preventive custody, to jail terms ranging from 5 to 15 years. The 4th Region Federal Regional Court maintained the lower court conviction of eight defendants.

Despite the existence of occasional cases, it is understood that, in general, the Brazilian territory is not the focus of expansion for the group, which prioritizes the financing of cells in countries located in conflict zones and with a large Islamic population. There were neither any signs of systematic transfer of funds to ISIL from the country, nor of money laundering or financial illicit cases linked to the group.

4.1.3 Taliban

Taliban is one of the groups considered terrorist by Brazil pursuant to the United Nations Security Council Resolution No. 1.267, of 15 October 1999, which provided for sanctions against the regime and was internalized by Decree No. 3.267, of 30 November 1999.

As above, the detection and identification process of likely threats linked to the Taliban took advantage of the financial activities analyses carried out by Coaf, intelligence information gathered and disseminated by Abin, and police intelligence collected by the Federal Police special unit.

Nevertheless, the analyses carried out by the different agencies mentioned above have not identified any terrorist financing threat linked to the Taliban. Ultimately, the analyses indicate that to a greater extent this group concentrates its activities in other regions of the world, with little or no links to Brazil whatsoever.

4.1.4 Other Threat Actors

Other threat actors have been identified in the framework of the combat and prevention of the financing of terrorism in Brazil: lone actors; small terrorist cells; non-Islamic violent extremist groups; ethnically or racially motivated terrorist actors; foreign terrorist fighters; individuals or networks involved in the recruitment, training, and facilitation; diaspora populations.

4.1.4.1 Lone actors

According to ABIN, one of the national priorities in the fight against terrorism and its financing in Brazil consists in preventing the radicalization of individuals. It has been observed in Western countries, the perpetration of terrorist attacks by individuals acting alone (lone agents), online self-radicalization and the strengthening of anti-Islamic ideologies as important trends in recent years.

In 2019, most of the terrorist acts committed in the West were perpetrated by lonely actors and consisted of simple, uncoordinated actions, with the use of knives or firearms. As a rule, the perpetrators did not receive support from other radicalized individuals or terrorist organizations. However, this does not rule out the fact that lone actors tend to receive extremist material and maintain relationships with others radicalized through virtual means which are difficult to track.

In addition, the increase in political and social polarization and the upsurge of extremist views are also pointed out as concerning factors for the coming years.

In this context, an important threat is the possible radicalization or affiliation with a terrorist group of Brazilian citizens or foreigners residing in Brazil. Demonstrations of support for Islamic extremism by nationals were more prominent during the period of major events, between 2014 and 2016. During that period, law-enforcement authorities identified groups of Brazilians who proselytized their ideology and promoted organizations on social networks.

Currently, according to the intelligence analysis carried out, the profile of sympathizers is that of self-radicalized individuals, exposed to extremist ideas over the internet, little integrated into cells abroad and with low capacity to mobilize resources for attacks.

Intelligence analysis warns that, like other Western countries, Islamic radicalization in Brazil is directly linked to jihadist activism in the virtual environment. However, it is peculiar in the sense of reaching mainly young converts, with a low or average cultural level and religious knowledge, and without ethnic or family relations with Muslim countries.

According to analysis produced by Abin, after the terrorism convictions by the Federal Justice, within the scope of Operation Hashtag, and the formal defeat of ISIL in Syria and Iraq, radicalized

Brazilians who maintained intense virtual activity reduced or stopped ostensive interactions. This is due both to a downturn in the support of extremist Islamic ideology and to the adoption of stricter communications security measures to avoid detection and monitoring by intelligence and public security agencies. Threats and extremist Islamic content propagated within Brazil are still identified on the internet, but they are threats of low feasibility, carried out by individuals with no evidence of willingness, resources, skill and initiative to perform a violent act.

Another concern in the area of radicalization is the spread of extremist Islamic ideology within the prison system. This is a reality in several countries, mainly in Europe, and has a direct impact on the growth of Islamic terrorism. However, the proportion of extremist Islamic detainees represents a tiny fraction of the Brazilian prison population.

In the West, the upsurge of extremist views unrelated to Islam, and often contrary to it, has been gaining prominence due to the increase in publicity for violent acts of this nature in recent years. As far as the Muslim community is concerned, mosques and people identified as adherents of the Islamic religion tend to become potential targets for extremist attacks.

In Brazil, it is currently considered more likely the perpetration of violent acts related to non-Islamic faith and convictions. Agencies have been paying close attention to individuals who are prone to translating their resentments into violent actions, in addition to paying attention to possible radicalization processes.

In conclusion, in Brazil, although the probability of perpetrating Islamic terrorist acts is remote, national authorities are alert for the reduced possibility of acts carried out by individuals not linked to terrorist groups or networks. Both lone actors and small terrorist cells have been considered a low threat.

4.1.4.2 Non-Islamic violent extremist groups

Non-Islamic violent extremist groups comprise eco-terrorist groups; insurrectionary anarchists; anti-civilization, ultranationalist and neo-Nazi movements; ethnically and racially motivated radical groups; supporters of the Fourth Political Theory ideology, the New Resistance group, the new integralism; groups which preach religious intolerance; and those motivated by online radicalization in forums and chats.⁵²

Regarding ultranationalism and neo-Nazism, these movements were strengthened in 2019, with the increase of attacks in several countries in the world. At the international level, the growth of ultranationalist groups is mainly driven by the increase in immigration to the European continent. These groups are opposed to what they believe to be an “Islamization of Europe” and respond to this “threat” with violent attacks.

In Brazil, insurrectionary anarchism is a minority movement, adept at direct action and violence as a means of promoting social revolution. Activists are concentrated mainly in the Southern and Southeastern regions. There is an incipient presence of groups with a tendency to radicalization.

Non-Islamic religious intolerance is characterized by the act of discriminating against, offending and assaulting people on account of their religious practices and beliefs, including the locations, customs, icons, and cultural values associated with that practice. In 2019, an increase in the number of cases was registered, and the use of violence or threat of violence became more frequent, with the use of firearms. In some Brazilian states, organized criminal groups have been involved in acts of religious intolerance with a ban on the practice of African-based religions in their territories. Religious intolerance events are underreported, which hinders the monitoring, analysis and countering the threat.

52 Anonymous forums frequently used by extremists.

There was specific mention of an ecoterrorist organization group, whose attacks would not require a large funding, such as fires caused by explosive materials purchased from local businesses. Groups linked to these activities were considered a low threat.

4.1.4.3 Foreign terrorist fighters

Foreign terrorist fighters (FTFs) were considered a low threat. Although the participation of Brazilian citizens in the global flows of foreign fighters is insignificant, the phenomenon affects the country with increasing intensity.

The increase in the number of immigrants and refugees coming from countries in conflict presents itself as a gateway for individuals with connections to terrorist groups in the country who may either establish operational cells in the Brazilian territory, or serve as a point of contact with radical groups abroad.

4.1.4.4 Other organizations not listed as terrorists

In addition to the terrorist organizations designated by the UNSC, studies have been undertaken on the possible participation of groups not listed as terrorists, but which deserve special attention because they have been listed in other jurisdictions, including neighboring countries.

Among these organizations, Hezbollah (an entity listed as a terrorist organization in Argentina and Paraguay) was considered a low threat. Brazil does not consider the group terrorist, but the fact that there are suspicions that people linked to it could be carrying out illegal activities in the Tri-Border Area (TBA), where the borders of Brazil, Argentina and Paraguay intersect, led to the monitoring of possible operations in the country.

In terms of detecting illegal activities, Coaf informed the existence of reports possibly linked to Hezbollah and/or related persons. The reports were motivated mainly by the existence of adverse media on those involved or their inclusion in a foreign restrictive list.

In the analyses, it was observed cash deposits, structured deposits or deposits made by electronic trading companies followed by transfers to companies and/or non profit organizations or also for the purchase of real estate. The use of accounts held by the referred to companies in the name of the main subjects under analysis aimed at making the financial operations look legal. It was also verified that, more recently, the use of typologies of international trade-based money laundering.

Regarding intelligence and regional cooperation, in 2019, security cooperation among governments was strengthened. Recent efforts to advance this agenda in the continent were notable such as the relaunching of the 3+1 Mechanism, renamed as Regional Security Mechanism (RSM), and other multilateral meetings which started after the Western Hemisphere Counterterrorism Ministerial, in Washington, DC, in December 2018.

The Regional Security Mechanism, consisting of Brazil, Argentina, and Paraguay and with the support and participation of the USA, aims to coordinate international efforts for the fight against illicit activities in South America and their links to transnational crime and to the financing of terrorism. The purpose is to annually gather diplomatic representatives and law-enforcement agents from the three TBA countries, with the USA, to deliberate on strategies to detect, identify and suppress likely transnational criminal activities which might be exploited by potential terrorists.

In the regional context, between 2019 and 2020, several regional initiatives to fight against terrorism and its financing were carried out, with emphasis on the II Hemispheric Ministerial Conference on Fight against Terrorism, in Buenos Aires/Argentina and the III Hemispheric Ministerial Conference Fight to Combat Terrorism, held between January 19 and 20, 2020, in Bogotá/Colombia.

The analyses of the criminality process in the complex Tri-Border Area indicate the strong presence of a Shiite community in the region and in the local trade in the border region, which involves both licit and illicit activities.

In the detection and analysis process, it has been noted evidence of a money laundering network in the Tri-Border Area, connected to tax evasion and other crimes against the National Financial System, with no direct link to the financing of terrorist activities or terrorist organizations designated by the United Nations Security Council.

Furthermore, there is no evidence of structural or systematic association between activities suspected of links with the financing of terrorism and the large criminal structures existing in the country, such as PCC.

Other groups, like *Al-Jama'a al-Islamiyyah al Muqatilahbi-Libya* (Libyan Islamic Fighting Group), *Al-Gama'at al-Islamiya* from Egypt, *Lashkar-e-Taiba*, active in Afghanistan and Pakistan, ETA (*Euskadi Ta Askatasuna* or Basque Homeland and Liberty) active in the Basque Country, between Spain and France, were indicated as low threats and mentioned in single reports or suspicious transaction reports with small cash transactions; therefore, even though they have been mentioned, the referral was unique.

Finally, a third group identified includes the non-Islamic organizations of regional interest, or paramilitary groups in South America which have not been designated by the Brazilian government as terrorist, but listed as such by neighboring countries and their allies.

This designation includes the Revolutionary Armed Forces of Colombia (FARC), which was considered a low threat. Despite the conclusion of the peace process between the Colombian government and the FARC, which would end the conflict and ensure the political participation for the group, FARC dissidents and other leaders formed new organized armed groups to fill the void of power left behind by combatants, which had links mainly with drug trafficking.

4.1.4.5 Expatriate populations (Diaspora populations)

The phenomenon of diaspora communities turning against their adopted homelands, the government and its people is not witnessed in Brazil. It is not noted any difficulty for these expatriate communities to integrate into the places where they choose to live, nor problems related to the assimilation or alienation of these populations.

It has been identified, however, the need to give due attention to a phenomenon credited to globalization: how easy the transnational movement of funds and people. The so-called financial lifelines-flow of contributions between local populations and the country of origin may represent a vulnerability which requires the due attention and diligence.

Facing the challenge to identify emerging threats related to expatriated communities is as necessary as avoiding marginalization and stigmatization of these groups and carrying out the geographical monitoring of expatriate communities, both domestically and internationally.

Abin regards as more vulnerable activities related to the raising of funds from Brazilians and foreigners living in Brazil and to the remittance abroad by formal or informal means. It is noteworthy the use of natural or legal persons' donations and the self-financing from legal or illegal local trade structures. Diaspora populations or expatriate populations were, however, considered a low threat.

4.2 Threat Activities

The assessment undertaken to explore the potential FT threats in Brazil considered a second group in the analysis: the threat activities. This type of threat refers to activities with a potential to be used by individuals or groups linked to terrorism to raise, move, store or use funds or other assets to meet the needs of a terrorist or a terrorist organization.

The financing of terrorist activities is not limited to financial support for the perpetration of attacks. It is necessary to consider that there is a huge investment in training fields infrastructure and propaganda for radicalization, activities for which it is also necessary to gather resources. Thus, by interrupting the flow of terrorist financing and understanding how past attacks were financed, it is possible to help prevent future attacks.

FT sources may differ depending on the terrorist act. Funds can originate from both legal and illegal sources, that is, financing can be derived from criminal activities and origins, but also from perfectly legal activities or origins, and the main challenge is to identify these sources with the aim of eradicating them. An assessment of the different FT sources can be useful for countries to identify where mitigation controls should be applied in the country.

In this sense, a specific questionnaire was developed to identify licit or illicit activities which might pose a greater threat in the context of terrorist financing in Brazil, and the main threat activities were mapped and identified.

As a conclusion of this analysis, it was possible to separate three groups of threat activities, according to their perception of use: a low, medium and high-profile group. The first group refers to activities whose perception of potential use is low, that is, it is one of the forms of financing terrorism which is understood to be rarely used in the country. This group includes both lawful activities, such as self-financing or one's own financing of actions, as well as illegal activities, such as the smuggling of cigarettes, drugs, precious stones and migrants, in addition to credit card fraud.

The second group comprises activities whose perception of potential use is medium, that is, it is one of the ways which could be used in the country for the purpose of financing terrorism. Among these activities are legal activities, such as the donation of individuals and legal entities, and illegal activities, such as the extortion of businesses and local and diaspora populations, human trafficking and piracy.

Finally, a third group comprises the threat activities considered to have the largest potential for use, which includes the smuggling of products and the financing of foreign trade-based terrorism.

Regarding the first group, the only lawful activity considered in this group was self-financing, while low profile illicit activities are the smuggling of cigarettes, drugs, precious stones and people (smuggling of migrants) and credit card fraud.

ABIN indicates that self-financing is the potential type of financing mainly related to the performance of foreign terrorist fighters (FTFs), lone actors and non-religious extremist groups. Coaf reported that this type of source was identified mainly in the case of foreign fighters.

Cigarette is one of the main products among those illegally traded in Brazil. Cigarette smuggling accounts for over 50% of this product's trade, and has been adopted as a business by criminal syndicates, generating a relevant profit margin for these groups.

Coaf reported the smuggling of cigarettes as an illicit activity detected in the agency's analyses, which could have the potential to be used to obtain funds linked to the FT, with no grounds for this link so far.

Drug trafficking is a criminal activity with a potential link to terrorism and its financing. According to Abin, it refers to a type of crime associated mainly with singular cases of individuals belonging to diaspora communities and residents of border regions. Coaf mentioned the alleged association between remnants of a former guerilla group in a neighboring country with Brazilian drug traffickers.

Precious stones and their trade also have the potential to be used in all stages of terrorist financing, that is, in raising, moving, storing, and using. Even the licit trade, due to its characteristics, could be subject to considerable vulnerabilities, creating challenges for the gemstone industry and for national AML/CFT authorities.

Regarding the trafficking of migrants, ABIN informs that trafficking in migrants or smuggling of people can potentially be associated with the recruitment of people to contribute to the activities of terrorist organizations or extremist groups and their moving abroad irregularly. Coaf, in turn, reported that in more recent analyses it was verified an association of criminal organizations linked to the smuggling of migrants to people potentially linked to a terrorist organization.

Another type considered to have the potential to be used in FT transactions would be credit card fraud. One of the types of fraud is the “overpayment” of credit card bills, that is, payment with amounts well above what is actually due, leaving the balance available on the card. This balance can be withdrawn abroad – usually in countries where criminal groups or terrorist organizations operate – through additional cards. In the terrorism financing chain (raise – movement – storage – use), this practice could be used to move or transfer funds.

Abin reports that raising funds by means of fraud or other less offensive crimes is associated mainly with the remittance of small amounts abroad. Coaf mentioned the typology of “overpayment” to artificially generate balance which could be withdrawn abroad.

The second group of activities which could potentially be used for activities related to the FT, and which were considered to be of greater potential than the previous category, refers to donations from individuals and legal entities, in addition to extortion from businesses and populations and diaspora, human trafficking and piracy.

Making donations is a lawful activity and does not constitute a crime unless it is for the purpose of financing terrorist acts. The threat, in this case, is the raising of funds from legitimate or apparently lawful activities to finance terrorism. According to Abin, among the activities with potential to finance terrorist groups, donations of diaspora populations and foreigners from countries in conflict regions stand out.

Donations could potentially use the banking system as a way to transfer funds by means of structuring transactions to different individuals linked to terrorist groups in the destination country, where the funds could be gathered by local leaders. The same potential can also be found in the procedure which has small companies as recipients. For non-religious extremist groups, there could be the transfer of small amounts of money among groups with ideological compatibility. Abin perceives this activity as a higher threat.

Donations from legal entities refer to transfers of funds from sympathizers to the terrorist cause from legal entities established in Brazil, including non-profit organizations, non-governmental organizations (NGOs) or charities. In Brazil, these institutions are called Civil Society Organizations (CSOs). The sources of the funds can be either funds obtained from the company’s revenues, in the case of donations from legal entities, or funds raised on behalf of a charitable cause.

As for such entities, the purpose of the monitoring is to detect fake humanitarian associations, which are supposed to help children or families in places of conflict, but, in practice, could be used to finance terrorist organizations.

According to Abin, regarding the raising of funds by legal entities incorporated in Brazil and in neighboring countries, and their use to launder funds, it is particularly relevant to monitor commercial entities incorporated by expatriate communities and non-profit entities linked to religious, educational and charitable institutions

In addition, it was verified the fundraising potential from Brazilians and foreigners living in Brazil who engaged in legitimate commercial activities in the national territory, for the later transfer

of funds abroad using the financial system and the 'dólar-cabo' system. Coaf, in turn, referred to some unique potential cases of use of non-profit organizations to transfer funds to risk areas.

FATF reports acknowledge that terrorist groups extort local populations as a way of supporting their activities. There are reports of extortion of local businesses, for example, of local businessmen and companies, local and diaspora populations.

Abin indicates that the potential threat activity refers to the collection of funds in communities who are resident in Brazil for services rendered to relatives or friends in the country of origin, whereas Coaf mentions a case detected in which a likely terrorist financier used newly arrived migrants' CPFs (Individual Taxpayer Registry, in its acronym in Portuguese) to incorporate shell companies.

Finally, studies of the main bodies dealing with the FT in the country categorized a third group of activities with a comparatively higher probability to be used for terrorist activities or its financing, with emphasis on smuggling of products and trade-based financing of terrorism.

The smuggling of products as a FT threat activity, in practice, is the generic term used to designate smuggling, duty evasion and counterfeiting.

Abin considers the smuggling of products a type associated mainly to specific cases of individuals belonging to diaspora communities and residents in border areas. Coaf states that, according to analyses made, smuggling/duty evasion activities are the major illicit activities which could potentially be linked to the FT.

As seen in the specific part for ML, trade-based money laundering schemes are relevant and represent a challenge for the monitoring and control of operations, specially related to smuggling activities. Thus, these trade-based schemes are likely to be used not only for ML, but also for the FT.

Abin also describes as a comparatively more threatening activity the type of transfer of funds by means of the payment of foreign trade activities, evading the official system (by means of 'dólar-cabo' schemes), and also the under-invoicing of transaction amounts, facilitating a possible siphoning of funds to other purposes or regions.

Coaf also identified some typologies which could probably be associates to the trade-based financing of terrorism.



5 National Vulnerability

5.1 Vulnerability of Regulated Sectors

The Brazilian Anti-Money Laundering Law⁵³ provides, in its article 9, the activities which are subject to the obligations set forth in articles 10 and 11, considered more vulnerable to the perpetration of crimes of money laundering and the financing of terrorism.

The oversight or supervisory authority of those activities shall enact the regulation concerning the obligations set forth in articles 10 and 11, or in the absence of such an authority, the instructions shall be issued by Coaf, which shall define the entities included in this category, as provided in par. 1 of article 14 of Law 9.613, of 1998.

According to this NRA methodology, vulnerabilities are defined as flaws or weaknesses in the AML/CFTP systems which may be exploited by threats, posing risks to these systems. Therefore, vulnerabilities represent the “where”, i.e, which sectors, products or services may be probably be exploited by the threats. The assessment of sectoral vulnerabilities sought to assess the weighted vulnerability of each of the regulated sectors, and also, within each sector, the vulnerabilities of its main products or services.

In order to accomplish this task, all regulatory and supervisory bodies of the Brazilian AML/CFTP systems were invited to participate. Each body was encouraged to undertake its own AML/CFTP Sectorial Risk Assessment (SRA), identifying the major vulnerabilities in the sector. Later,

53 Law No. 9.613, of 3 March 1998.

the results submitted were consolidated and weighted, both at the sectoral level, considering the representativeness of each segment within the macro sector, and at the national level, considering its materiality.

When this was completed, it was possible to state that the country’s sectoral vulnerability score must be understood as an average, for the purposes of ML/FT.

That done, it becomes possible to affirm that the country’s score of sectoral vulnerability should be understood as average, for ML/TF purposes.

Vulnerability: Medium
(Consolidated National Score)

This score, according to the chapter 2 of the methodology, was the result of the consolidation and weighting, sorted out as follows.

Figure 9 – Vulnerability of regulated sectors ranking

Sectors	Weighted Vulnerability
Banking and Non-Banking Financial Institutions	Medium
Securities	Low
Insurances and Pension Plans	
Other regulated sectors	

It can be concluded, therefore, that, in a consolidated way, the “banking and non-banking financial institutions” sector is the most vulnerable compared to the other sectors for the purposes of ML/FT.

The main vulnerabilities identified regarding each regulated sector are detailed below.

5.1.1 Banking and Non-Banking Financial Institutions⁵⁴

According to FATF reports⁵⁵ and the International Monetary Fund (IMF)⁵⁶, the National Financial System is huge and diversified, being the largest in Latin America, and is formed by a wide range of public and private entities and institutions, which promote financial intermediation. It is through the financial system that people, companies and the government circulate most of their assets, pay their debts and make their investments.

There are around 1.626 operative institutions authorized to conduct business by the Brazilian Central Bank (BCB), sorted out in the following segments.

54 For the purposes of this report, the term “banking and non-banking financial institutions” encompasses banks and savings banks, “consórcio” administrators, credit unions, brokers and distributors, payment institutions and other non-banking institutions regulated and supervised by the Central Bank of Brazil. N.T. “Consórcio” is a closed pool of retail clients or “participants”, who make installment payments over a fixed period of time in order to fund the purchase of an ex-ante designated product.

55 FATF Mutual Evaluation Report on Anti-Money Laundering and Combating the Financing of Terrorism of The Federative Republic of Brazil – FATF - June 2010 - Available at <https://www.fatf-GAFI.org/publications/mutualevaluations/documents/mutualevaluationreportofbrazil.html>.

56 Financial System Stability Assessment - Brazil, FMI, November 2018; Financial Sector Assessment Program, Detailed Assessment of Observance – Basel Core Principles for Effective Banking Supervision – Brazil, FMI, November 2018; and Financial Sector Assessment Program Technical Note on Supervision and Oversight of Financial Market Infrastructures - Brazil, FMI, November 2018.

Table 12 – Institutions authorized to operate

Segment	Dec/2020
Multiple Bank	137
Commercial Bank	20
Development Bank	4
State/Federal Savings Banks	1
Investment Bank	10
Foreign-Exchange Bank	5
Credit, Financing and Investment Society	60
Direct Credit Society	41
Peer-to-peer Loan Company	4
Securities Brokerage Firm	64
Exchange Brokerage Society	53
Securities Brokerage Dealer	96
Leasing Company	19
Building Society and Savings and Loan Association	3
Credit Company for Microentrepreneurs and Small Businesses	31
Development Agency	16
Mortgage Company	6
Payment Institution	26
Credit Cooperative	886
'Consórcio' Management Company	144
Total	1626

Base date: 12/31/2020.

Source: <https://www.bcb.gov.br/estabilidade/financeira/evolucao/fmes>

The Brazilian financial system is characterized by a broad territory coverage, being present in at least one physical service point in all 5,568 Brazilian municipalities. At the end of 2020, there were 18,122 face-to-face service points in the country. Also, the use of remote channels has increased and in 2017 accounted for 66% of the total transactions made (remote and face-to-face). Transactions made via smartphones and PDAs increased 19% between 2015 and 2017.⁵⁷

The total assets of banking and non-banking financial institutions totaled, at the end of 2020, more than R\$9.7 trillion, 94% of which corresponding to the banking sector.

Table 13 – Evolution of the annual assets of the FIs (in billion Reais):

	2016	2017	2018	2019	2020
Banking Segment	R\$6,741.58	R\$6,801.00	R\$7,171.56	R\$7,560.52	R\$9,177.31
Non-Banking Segment	R\$267.25	R\$310.63	R\$359.37	R\$387.43	R\$603.51
TOTAL	R\$7,008.83	R\$7,111.63	R\$7,530.93	R\$7,947.96	R\$9,780.82

The vulnerabilities in the sector were identified in a Sectorial Risk Assessment (SRA), prepared by the Central Bank of Brazil between 10 May 2019 and 6 November 2019. This exercise, which prioritized the survey on risks related to products and services considered more exposed for the purposes of ML/FT, counted with the participation of representatives of the regulated sector by means of the three selected Class Associations.⁵⁸

⁵⁷ *Relatório de Cidadania Financeira*, 2018, Available at https://www.bcb.gov.br/Nor/relcidfin/docs/Relatorio_Cidadania_Financeira.pdf.

⁵⁸ Brazilian Association of Banks (ABBC), Brazilian Exchange Association (ABRACAM) and Brazilian Federation of Banks (FEBRABAN).

Overall, the sector’s weighted vulnerability was assessed to be medium for the purposes of ML/FT. In more detail, the following table shows the categories used in the SRA in descending order of exposure to use for the purposes of ML/FT.

Figure 10 – Sector’s regulated products vulnerabilities ranking

Segment/Product	Segment Vulnerability
Exchange	High
Prepaid Payment Account	Medium
Checking Account/ Savings Account	
Postpaid Payment Account	
“Consórcio”	Low
Check money order	
Others	

Among the segments assessed for the SRA, exchange⁵⁹ was the only one to present a high vulnerability of use for ML/FT purposes. Certain operations carried out in the foreign exchange market are related to some of the more traditional types of money laundering, as they allow the transit of resources to and from abroad, making the process of tracking resources more complex, especially when the flow involves tax havens.⁶⁰

Institutions in the banking segment can carry out all exchange transactions provided for in exchange regulations, in any amount.⁶¹ In the case of the non-banking segment, foreign exchange transactions in the primary market have limitations in terms of form and value. As of 31 December 2020, 179 institutions were authorized to operate in the foreign exchange market, 101 of which in the banking segment and 78 in the non-banking segment. In 2020, ten banks concentrated 81.2% of the total value of operations in the primary market, according to the following figure.

Currently, the foreign exchange market in Brazil handles a significant volume of resources. In 2019, the volume handled in the primary market surpassed US\$1,385.7 billion (next figure). According to data from the BCB,⁶² individuals account for the largest number of spot foreign exchange transactions, especially in the form of international travel and unilateral transfers. In relation to legal entities, clients related to the financial activities and insurance sector celebrate approximately half of the total amount handled in the primary market. Finally, foreign exchange transactions in 2020 corresponded to around 26% of the total handled in the primary market, totaling US\$356.9 billion.

59 For the purposes of this work, the following products and services are considered in the Foreign Exchange category: purchase and sale of foreign currency (‘manual exchange’ - foreign currency exchange in fiat/traveler’s checks - or prepaid card in foreign currency); the international remittance, either at the exit or at the entrance; import payment; the import of national currency; the receipt of exports; available funds abroad; the financial exchange and the current account in foreign currency (CCME in its acronym in Portuguese).

60 Typologies related to the use of the foreign exchange market for ML/TF can be found in the Annex: Cases and Cases Collection AML/CTF Typologies, Special Edition, as follows: 2.36. Foreign Exchange Bureaus Involved in Illegal Currency Transfer Schemes Abroad; 2.40. Capital Flight through Brokerage Firms; among others.

61 Except development banks, which can only carry out specific operations authorized by the BCB.

62 Source: *Relatório de Economia Bancária*, 2019. Available at: https://www.bcb.gov.br/content/publicacoes/relatorioeconomiabancaria/REB_2019.pdf.

Graph 8 – Participation in the exchange market in 2020

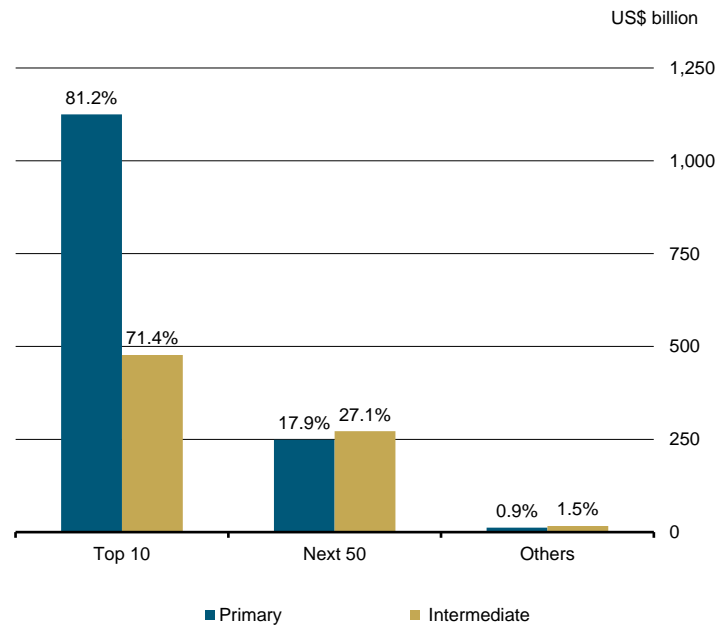


Table 14 – Primary Market

Amounts per type of contract						
Type of Contract	2018		2019		2020	
	US\$ bi	%	US\$ bi	%	US\$ bi	%
Export	227.7	15.1%	198.0	12.7%	192.0	13.9%
Import	178.3	11.8%	175.1	11.2%	164.9	11.9%
Financing – Portfolio Invent – Non-Residents	530.1	35.2%	633.7	40.6%	527.9	38.1%
Financing – Portfolio Invent – Residents	39.6	2.6%	36.6	2.3%	61.2	4.4%
Financing – Others	529.8	35.2%	517.5	33.2%	439.7	31.7%
Total	1,505.6	100.0%	1,560.9	100.0%	1,385.8	100.0%

Despite the BCB's efforts to regulate and supervise the foreign exchange market for the purposes of AML/CFT in recent years, which resulted in the liquidation of 14 financial institutions and the institution of dozens of sanctioning administrative proceedings for serious shortcomings in their AML/CFT obligations, some products in the exchange category are still significantly vulnerable to ML/FT, namely, for instance, import payment operations, import freight payment and the sale of foreign currency in fiat currency (manual exchange). Receiving or repaying loans taken out abroad, and loading and reloading significant amounts of foreign currency into prepaid cards also deserve special attention from institutions authorized to operate in the exchange market.⁶³

Finally, it should be noted that the increasing efforts to fight illicit operations in the exchange market has led to the use of 'dólar-cabo' transactions, represented by the purchase and sale of

63 Typologies related to the use of import payment operations, payment of import freight, sale of foreign currency in fiat currency and prepaid cards for the purposes of ML/FT can be found in the Annex: Cases and Cases Collection of AML/CFT Typologies, Special Edition, as follows: 2.22. Transfer of Funds Abroad through Fictitious Imports; 2.37 Smuggling through Advanced Import Payments; 3.6 Funding of Extremist Groups with the Use of Shell Companies; 2.45 Money Laundering through the Illegal Extraction and Sale of Precious Metals; 2.79 Arms Trafficking, among others.

foreign currency in the shadow market, without any intervention by institutions authorized to operate in the exchange market by the Central Bank.⁶⁴

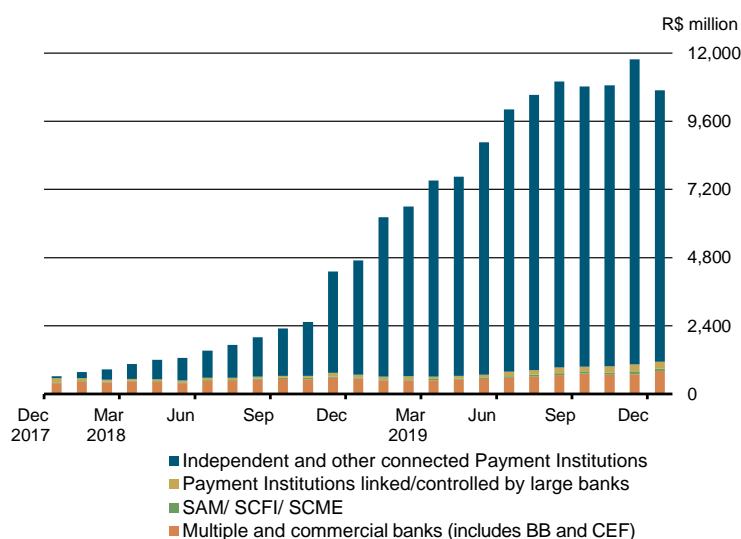
The “**Prepaid payment accounts**” and the “**Checking and savings accounts**” showed medium vulnerability, according to the BCB’s SRA. Although they have been treated as different categories, they have similar characteristics in relation to different ML/TF typologies, with emphasis on withdrawals and deposits in cash; structuring of debit or credit operations; or the issuance of DOC (Credit Order Documents) or TED (Available Electronic Transfers) or another form of electronic transfer, by means of receipt of funds in cash, without identification of the depositor.⁶⁵

It is important to note that the largest amount of funds transacted in the National Financial System is operated by means of checking and savings accounts, where the largest number of unusual transactions is observed. In 2020, over 160 million people (representing over 90% of Brazil’s adult population) maintained some kind of banking relationships, such as deposit accounts (known as checking accounts), savings accounts and deposit accounts for investments.⁶⁶ Regarding the prepaid payment accounts, the balance of electronic currency in prepaid cards reached R\$9,8 billions in December 2019, a growing sector in recent years.

Table 15 – Means of payment – Balances at the end of the period (in millions)

	Dec/18	Dec/19	Dec/20
Demand deposits	192,070	219,413	313,755
Savings deposits	1,011,794	1,115,229	1,742,789

Graph 9 – Prepaid account at authorized institutions



The financial institutions have increasingly invested in advanced technological resources (artificial intelligence, machine learning, etc.) in order to detect these transactions more effectively,

64 Typologies related to the use of cable dollar for the purposes of ML/FT can also be found in the Annex: Cases and Cases Collection of AML/CFT Typologies, Special Edition, as follows: 2.23. Capital Flight through the Parallel Financial System (‘dólar-cabo’); 2.29. ‘Dólar Cabo’; 2.68. Illegal Dollar Wire Transfers (dólar-cabo) through Transborder Trade; 3.3 Funding of an Extremist Group through Agribusiness and Foreign Trade; 3.5. Financing of Extremist Groups/Individuals through ‘inverted’ ‘dólar-cabo’ Transactions, among others.

65 Typologies related to the use of withdrawals and deposits in cash; the structuring of operations; issuance of DOC or TED or other form of electronic transfer, receipt of funds in cash, without identification of the depositor for the purposes of ML/FT can be found in the Annex: Cases and Cases Collection of AML/CFT Typologies, Special Edition, as follows: 2.76. Cooperative Fractioning; 2.85. Narcotics Trafficking Payments through the Purchase of Illegal Gold; 2.3 Misappropriation of Municipal Public Administration Funds by Intermediaries; among others.

66 *Relatório de Cidadania Financeira*, 2018, Available at https://www.bcb.gov.br/Nor/releidfin/docs/Relatorio_Cidadania_Financeira.pdf.

seeking to reduce the so-called ‘false positive’ cases. The use of digital means to open accounts, a common procedure in processes related to prepaid accounts which has also become usual for the more traditional accounts (checking and savings), also represents a relevant challenge to the AML/CFT areas in the financial institutions, particularly in the detection of forged documents in the customers’ identification and qualification process.

5.1.2 Securities

The securities market is regulated and supervised by the Brazilian Securities and Exchange Commission (CVM), pursuant to Law No. 6.385, of 7 December 1976. Without prejudice to other securities, two segments should be emphasized: the organized securities market,⁶⁷ and the portfolio management market, particularly the investment funds one.

The weighted vulnerability of the securities sector was considered low for ML/TF purposes, compared to other national sectors. However, when evaluating only its regulated segments, the CVM, in its SRA, considered that both segments have medium vulnerability.

Figure 11 – Sector’s regulated products vulnerability ranking

Segment/Product	Segment Vulnerabilities
Market and Intermediaries	Medium
Investment Funds	

At the end of 2020, Brazil had three market managing entities authorized by CVM:

- B3⁶⁸ – manages three market infrastructures (Clearing and Settlement Entity, Registrar and Depository) and one Stock Exchange;
- CSDBR – manages a Registrar and made its first registration in October 2020;
- BBCE – manages a Registrar and, although authorized, has not registered any transactions yet.

On 31 December 2020, the universe of intermediaries working at B3 corresponded to 69 institutions, of which 56 Full Trading Participants⁶⁹ (*Participantes de Negociação Plena* – PNP, in its acronym in Portuguese) and 13 Trading Participants (*Participantes de Negociação* - PN).⁷⁰

Shares/Equities - ADTV ⁷¹ - Financial Volume (US\$)	Dec/19	Dec/20
Total Shares/Variable Income (Spot, Forward and Options Market)	5.687.084.893	6.816.014.135
Listed Derivatives - Interest, Currencies and Commodities - ADV ⁷² - Number of Contracts	Dec/19	Dec/20
Total	5.650.071	7.559.758

Among the main vulnerabilities of the Market and Intermediaries segment, it is possible to mention the difficulty in the due identification of non-resident investors’ ultimate beneficial

67 An environment supervised by the Superintendence of Market Relations and Intermediaries (SMI) - <https://www.gov.br/cvm/pt-br/acesso-a-informacao-cvm/institucional/estrutura>.

68 http://www.b3.com.br/en_us/.

69 http://www.b3.com.br/en_us/products-and-services/membership/foreign-exchange-clearinghouse/types-of-participant/full-trading-participant.htm.

70 http://www.b3.com.br/en_us/products-and-services/membership/clearinghouse/access/trading-participant.htm.

71 Average Daily Trading Volume.

72 Average Daily Volume.

ownership, who benefit from a simplified registry to commence and continue performing capital market operations.⁷³

In 2020, the investment funds industry⁷⁴ reached an equity worth of around R\$6 trillion,⁷⁵ which at the time corresponded to about 80% of the national GDP. At that time, CVM had a record of 21.027 investment funds, with emphasis to structured funds: 685 property funds (FIIs);⁷⁶ 1.570 credit rights investment funds (FIDCs) and 1.362 investment funds in participations (FIPs).⁷⁷ It is worth mentioning that, in December 2020, there were 66 trustees, 93 full trustee (TN: acts as both trustee and funds manager), and 1.220 fund managers registered at the agency.

This industry also stands out for its high representativeness in the financing of several segments of the national economy, maintaining in its portfolio more than 50% of the stock of the federal public debt, or almost 20% of the Brazilian stock market capitalization. Another evidence of the importance of this segment is its interconnection with other segments of the economy, as well as its importance to sustain and enable various forms of investment in the country. As an example, investment funds represent almost all investments in the technical reserves of their own social security schemes instituted by Brazilian municipalities and states, open supplementary social security entities and insurance companies. In addition, they account for more than half of pension fund investments.

From the vulnerabilities inherent to the CVM segments, it is possible to highlight: the service providers that start their activities in the capital market, and for this reason, their AML/CTF structure has not yet been tested, nor a history of performance validated by the regulator; and non-resident investors,⁷⁸ who, depending on their characteristics and form of structuring, may bring higher risks of money laundering (for example, those whose characteristics and legal nature hinder the determination of the beneficial owner).

5.1.3 Insurances and Pension Plans

123 insurance companies, 13 open entities of complementary welfare, 18 capitalization companies, 15 local reinsurers, 40 admitted reinsurers, 76 eventual reinsurers, 27 reinsurance brokers, and 97.166 active insurance brokers (55.945 individuals and 48.995 legal entities) are operating in the market. These institutions are regulated and supervised by the Superintendence of Private Insurance (SUSEP, in its acronym in Portuguese). Regarding closed private pension funds, a segment regulated and supervised by the National Superintendence of Complementary Pensions (Previc), 295 Closed Private Pension Funds (EFPC) with 2.843 sponsors and 591 settlors. These EFPCs administered 1.161 benefit plans.

The Private Insurance sector accounts for 3,76% of the Gross Domestic Product. From January to December 2020, the revenue of the market segments supervised by Susep reached R\$274.11 billion, representing a nominal growth of 0.6% in relation to the 2019 revenue. In real terms, considering the accrued inflation measured by the Extended Consumer Price Index (IPCA), there

73 Typologies related to the use of the securities market for the purposes of ML/FT can be found in the Annex: Cases and Cases Collection of AML/CTF Typologies, Special Edition, as follows: 2.21. Use of the Transferrable Securities Market to Conceal the Senders and Recipients of Cash Transactions; 2.25. Fraudulent Operations with Real Estate Investment Funds and Pension Funds; among others.

74 In 2020, this environment was supervised by the Institutional Investor Relations Superintendence (SIN). Due to a restructuring in the CVM organization chart, as of February 2020, this process is under the Institutional Investors Supervision Superintendency (SIN) and the Securitization Supervision Superintendence (SSS) - <https://www.gov.br/cvm/pt-br/acao-a-informacao-cvm/institucional/estrutura>.

75 Approximately US\$1,156,069,364,162.

76 <http://conteudo.cvm.gov.br/legislacao/instrucoes/inst472.html>.

77 <http://conteudo.cvm.gov.br/export/sites/cvm/legislacao/instrucoes/anexos/500/inst578consolid.pdf>.

78 Under the terms of ICVM 560/15, all non-resident investors must register with the CVM before conducting business in the Brazilian financial and capital markets. On 31 December 2020, the CVM had a record of 18.807 non-resident investors.

was a decline of 2.49% in the total amount of revenues. This result is caused by the performance of the savings products sector, including VGBL (“Vida Gerador de Benefício Livre” or Free Benefit Generator Life Plan), PGBL (“Plano Gerador de Benefício Livre” or Free Benefit Generator Plan) and Traditional Pension Plans, which showed a real decrease of 4,91% in the period, and also of the capitalization bonds market, which registered a decline of 6,71% in real terms. The total of technical reserves amounted to R\$1.201,94 billion in December 2009, a nominal growth of 7,52% if compared to December 2019.

The sectors supervised by Susep were considered as low vulnerability regarding ML and FT, according to the SRA prepared by the agency. However, both pension savings sector, such as PGBL and VGBL, and capitalization products are considered of higher risk and draw the attention of supervisors.

Figure 12 – Ranking of vulnerability of products regulated in the sector

Segment/Product	Segment Vulnerability
Capitalization	Low
Broker(s)	
Open Supplementary Pension	
Insurance, Reinsurance and Retrocession	
Closed Pension Plan	

The sector risk assessment conducted by Previc also concluded that the sector’s vulnerability for ML/FT purposes is low.

The closed pension benefit plans represent long-term savings, accumulated during the working life phase to ensure an income level which might provide a similar lifestyle after retirement. This mission depends on the efficient management of assets and liabilities which is under the responsibility of the Closed Private Pension Funds (EFPC), as managers of the referred to complementary retirement plans. The significant amount of funds, around 13,7% of the GDP in December 2019, turn these entities into qualified institutional investors, holding a crucial role in the country’s economic performance.

At the end of 2019, the total assets in EFPC reached an amount close to R\$1 trillion, with a 10% growth compared to the year 2018. In December 2019, there were: i) 314 defined benefit plans (*‘Benefício Definido’* – BD), with assets of circa R\$610 billion; 347 variable contribution plans (*‘Contribuição Variável’* – CV), with assets about R\$251 billion; and iii) 459 defined contribution plans (*‘Contribuição Definida’* – CD), with assets around R\$134 billion. The 314 BD plans are the most representative, corresponding to approximately 61% of the total assets of the system, whereas the 347 CV plans account for 25% of the total resources and the 459 CD plans are close to 14% of the amount managed by the EFPC.

5.1.4 Other regulated sectors

For the purposes of this Report, the category of other regulated sectors comprises the factoring⁷⁹ and Virtual Assets Service Providers sectors and all Designated Non-Financial Businesses and Professions (DNFBPs).

The ranking regarding the weighted vulnerability of other regulated sectors is presented in the following table.

79 According to the FATF Glossary, the factoring activity is included in the concept of financial institutions.

Figure 13 - Ranking of vulnerability of regulated segments of other sectors

Segment/Product	Vulnerability
Virtual Asset Service Providers (VASP)	High
Real Estate Sector	
Factoring Segment	
Precious Metals and Stones Sector	
Money or Value Transfer Services	Medium
Luxury Goods Segment	
Accountants	
Economists	
Lawyers	
Commercial Boards	Low
Events, Fairs and Parties	
Animal trade	
Arts and Antiques Trade	
Direct Segment and Athlete Promotions	
Lottery, Lotex and Fixed Quota	

The five sectors which are most vulnerable for AML/CFT purposes are detailed below.

5.1.4.1 Virtual Assets Service Providers

In Brazil, this sector’s activities are not regulated or supervised yet for the purposes of AML/CFT, responding only to tax regulations.⁸⁰ It is estimated that there are around 40 virtual asset brokers in operation in the country. In addition, the sector has some class associations.

Although there is no AML/CFT legal obligation for these institutions, Coaf has received spontaneous suspicious operations reports of companies in this sector, as follows.

Table 16 – Annual number of virtual assets service providers reports

Virtual Assets	2019	2020	Total
Total	4,404	6,476	10,880

In 2018, FATF changed its recommendations to explicitly consider the virtual assets sector in view of the perceived ML/FT risks. Among the inherent vulnerabilities of virtual assets are, for example, the possibility of anonymity of operations, since the identification information of the sender and recipient of the operations is not necessarily available, making it difficult to track; the speed with which it is traded; and its global reach.

In Brazil, the vulnerability of the Virtual Assets sector for ML/TF purposes was considered to be very high, first and foremost because of the lack of regulation and supervision. In addition, the virtual assets segment has shown a growth in recent years.

According to the study “Cryptocurrencies and The Future of Money”,⁸¹ virtual assets already have an important volume of use, with 10.5% of the interviewees indicating their use at least weekly. According to the website Statista, a global data platform, Latin America is a region which

⁸⁰ RFB Normative Instruction No. 1,888, of May 3, 2019 (IN 1888).

⁸¹ CGC, Cryptocurrencies and the Future of Money. Madrid: Center for the Governance of Change, IE University, 2019.

concentrates many virtual assets users, and the percentage of Brazilians who already had some relationship with these assets would have already reached the double digits.⁸²

On the other hand, the volume traded in virtual assets in Brazil is still small, especially when compared to other countries or other financial segments. Although Brazil is the country with the highest volume of virtual assets traded in Latin America, the report “The 2020 Geography of Cryptocurrency Report”, produced by Chainalysis and published in September 2020, explains that Latin America as a whole was responsible for only 7% of the world traded volume of virtual assets, in the period of July 2019 and June 2020. This amount allows to classify Latin America as one of the smallest crypto-economies in the world in terms of volume traded, ahead only of Africa and the Middle East. In addition, Latin America’s cryptoeconomics had the second lowest growth rate during the study period. According to a report by Cointradermonitor, in 2020 the volume of bitcoin transactions in Exchanges in Brazil reached US\$10 billion, which represents, by way of comparison, about 0.07% of the volume traded on the Brazilian stock exchange in the same year.

5.1.4.2 Factoring

In Brazil, the commercial development activity, also known as *factoring*, emerged in 1982. Currently, 560 companies are associated with the National Commercial Development Association (ANFAC), doing business in the amount of R\$150 billion, according to data from the Association itself. The commercial development activity serves mainly small and medium-sized companies which face cash difficulties, offering operations backed by receivables from commercial transactions. The universe of clients in the sector is around two hundred thousand companies, with the State of São Paulo concentrating, in 2018 and 2019, 60% of the amount of operations carried out in the country.

Although the activity is supported by the Brazilian Civil and Commercial Codes, there is still no specific legislation in the country regulating *factoring* operations. For this reason, in the absence of a body which supervises the activity, Coaf issued normative instructions regulating the duties of arts. 10 and 11 of Law No. 9.613, of 1998, for companies in the sector.

The sector has a high weighted ML/FT vulnerability for moving a considerable amount of resources, for being included in the concept of financial institution according to the FATF Glossary and for not having a regulatory or supervisory body of the activity with broad legal powers to apply preventive measures as affectively as recommended by the FATF.

5.1.5 Designated Non-Financial Businesses and Professions (DNFBPs)

In Brazil, the Designated Non-Financial Businesses and Professions (DNFBPs) segment is quite heterogeneous, comprising hundreds of thousands of regulated entites and encompassing several activities in addition to the ones recommended by FATF.⁸³ According to Law No. 9.613, of 1998, DNFBPs are designated individuals and companies that carry out activities related to:

- Lotteries;
- Real Estate;
- Precious metals and stones;

⁸² <https://www.statista.com/chart/18345/crypto-currency-adoption/>.

⁸³ Of the activities recommended by the FATF, only casino activity is excluded, since, in Brazil, the operation of casinos has been prohibited since 1946 (Decree-Law No. 9215, of April 30, 1946). This prohibition applies to casinos of all types, including physical establishments, websites and ship casinos. Casinos which operate on foreign ships are also subject to this prohibition when in Brazilian territory. However, Brazilian citizens are not prohibited from using foreign casinos that operate on the Internet.

- Trade in art objects and antiques;
- Trade in luxury or high-value goods;
- Public Registry of Mercantile Companies and Related Activities - Trade Boards;
- Attorney services;⁸⁴
- Accounting services;⁸⁵
- Independent audit;⁸⁶
- Economic advice for the management of funds, securities or others;
- Miscellaneous services for athletes and artists;
- Promotion of fairs, exhibitions or similar events;
- Transportation and custody of valuables;
- Trade in high-value goods of rural or animal origin.

In the DNFBP sector, there are segments which are more vulnerable to ML/FT, such as the real estate sector, the trade of precious metals and jewelry, and the money and value transfer.

On the other hand, although some segments appear as a regulated entity in Law (.613, of 1998, they have not been identified as commonly used in the country for the purposes of ML/FT, such as the lottery segment, which features only one supervised entity, the *Caixa Econômica Federal* (the Federal Savings Bank), which, because it is a financial institution in addition to a public company under private law, is also under the supervision of the Central Bank of Brazil, with regard to operations carried out at the national financial system.

5.1.5.1 Real Estate Sector

For the purposes of this report, the real estate sector encompasses both real estate brokers, regulated and supervised for AML/TF purposes by the Federal Council of Realtors (COFECI) and the Regional Councils of Realtors (CRECIS), as well as notaries and registrars, regulated and supervised by the National Council of Justice (CNJ). In Brazil, the vast majority of real estate transactions are carried out with the intermediation of companies in the real estate sector and/or real estate brokers and, subsequently, the purchase and sale contracts are supervised by a public notary and registered with the responsible public registry.

The weighted ML/FT vulnerability of the real estate sector is high. The real estate market plays an important role in the Brazilian economy and is exposed to several situations which increase its exposure to ML/FT, such as transactions with higher risk clients or the use of middlemen or complex legal structures to conceal the real beneficiary of the transaction. Part of this sector, such as the notaries, was regulated for AML/CFT purposes only in 2019, and is still in the process of maturing their knowledge of their risks and obligations, but already files suspicious transaction reports with Coaf.

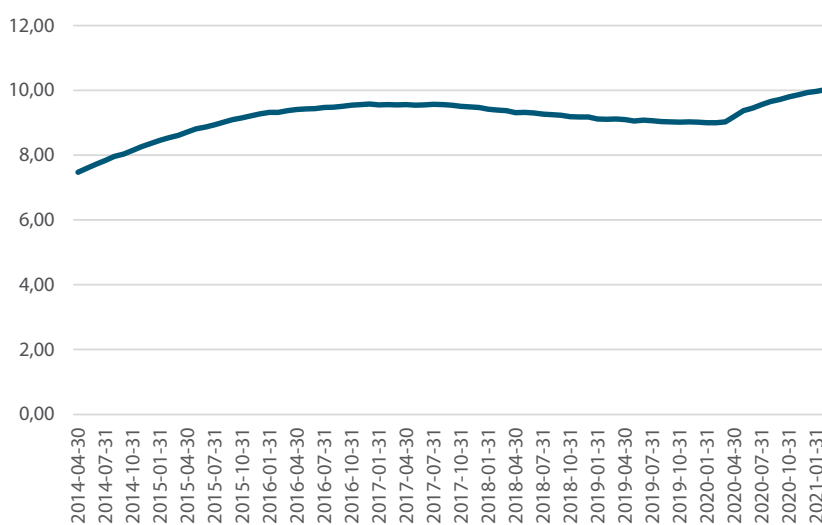
The financial volume trades in the real estate sector is around R\$600 billions per year. In October 2020, for example, this sector was responsible for 9,78% of the Brazilian GDP, according to data gathered by the Central Bank. The graph **below** shows the evolution of the sector's participation in the country's GDP, from April 2014 to October 2020. In contrast to this financial volume, there are no legal impediments to use cash to carry out real estate transactions.

84 When exercising the activities listed in art. 9, XIV, of Law 9.613, of 1998.

85 When exercising the activities listed in art. 9, XIV, of Law 9.613, of 1998.

86 When exercising the activities listed in art. 9, XIV, of Law 9.613, of 1998.

Graph 10 – Financial volume traded in the real estate sector in relation to the GDP



Source: https://www.bcb.gov.br/estatisticas/grafico/graficocosc/indices_imobiliario_pib

It is worth mentioning that, despite constituting different obligations, the real estate market settles its purchase and sales operations through national financial system institutions, which are more mature in relation to AML/CFT obligations. Thus, despite the relevant vulnerability inherent in the sector, the continued use of the financial system for payments is a risk mitigator.

5.1.5.2 Precious metals and jewelry

In this Report, the jewelry, precious stones and metals sector is treated comprehensively, reaching different stages of the supply chain, and includes the result of the SRAs referring to the mineral extraction sectors, including gold and precious gems, which is regulated and overseen by the National Mining Agency (ANM, in its Portuguese acronym); and the trade in jewelry and precious metals is regulated and overseen for the purposes of AML/CFT by Coaf.

According to the latest report published by the Brazilian Institute of Gems and Precious Metals (IBGM),⁸⁷ in 2018 Brazil ranked 2nd in the list of the largest suppliers of colored gemstones, being responsible for 1/3 of the world’s gem production; 12th among the largest producers of gold and 22nd place in the world’s jewelry manufacturing. In 2017 over 14 thousand regular facilities in the sector were in operation, as detailed **below**.

87 Report “The Sector in large numbers 2018”, Available at <https://ibgm.com.br/publicacao/publicacao-o-setor-em-grandes-numeros-2018/>.

Table 17 – Historical record of the total number of facilities in the sector

CNAE 2.0 Subclass	2017	2016	2015	2014	2013
Precious metal ore extraction	165	175	185	172	193
Precious metal ore processing	17	17	18	28	25
Gems (precious and semi-precious) stones	85	87	87	89	83
Precious metal metallurgy	53	58	63	61	89
Gem cutting	176	173	184	193	207
Jewelry and goldsmith artifacts manufacturing	975	986	1,021	1,030	1,026
Costume jewelry and similar artifacts manufacturing	853	893	928	899	872
Jewelry, watches and costume jewelry, including faceted precious and semi-precious stones wholesaler	1,118	1,191	1,216	1,208	1,129
Jewelry items retailers	8,512	8,646	8,786	8,630	8,363
Clocks and watches and parts thereof retailers	2,185	2,216	2,226	2,214	2,188
Total	14,139	14,442	14,714	14,522	14,155

Source: IBGM

Furthermore, according to the IBGM report, in 2018 retail sales in the sector reached R\$12.6 billion, and the sector was responsible for exporting more than US\$3 billion, with Minas Gerais, Bahia and São Paulo being the states with greater participation in the sector's exports.

The precious metal sector weighted vulnerability for ML/FT purposes in Brazil was classified as high. The sector is not yet regulated for AML/CFT purposes at all stages of the supply chain, because the ANM has not published its specific regulation. In addition, inherent challenges to identifying and combating illegal mining, and the unawareness of AML/CFT obligations by most of the sector's members are factors which corroborate this vulnerability.

In addition, there are vulnerabilities inherent to the mining activity and to the jewelry, stones and precious metals trade which make the sector vulnerable to ML/TF, as already highlighted by international works and guides, such as those produced by⁸⁸ FATF and GAFILAT.⁸⁹ For example, the gold mining and trading sector tends to rely heavily on the use of cash. In addition, goods such as gold, jewelry and precious stones are easily transported and difficult to track. In Brazil, several types of ML and FT typologies illustrate how the sector is exploited for the purposes of concealment and movement illicit money.⁹⁰

5.1.5.3 Transport of cash and bearer negotiable instruments

The vulnerability of the sector related to the transport of cash and bearer negotiable instruments (BNIs) was considered medium for the purposes of ML/FT. In Brazil, there are around 40 Cash and BNI Transport Companies, which, together, have well over 340 branches. In addition,

88 For example: (1) RBA Guidance for Dealers in Precious Metal and Stones, Available at <https://www.fatf-gafi.org/media/fatf/documents/reports/RBA%20for%20Dealers%20in%20Precious%20Metal%20and%20Stones.pdf> and (2) Money laundering and terrorist financing risks and vulnerabilities associated with gold, available at <https://www.fatf-gafi.org/media/fatf/documents/reports/ML-TF-risks-vulnerabilities-associated-with-gold.pdf>.

89 For example: (1) Análisis de Amenazas Regionales del TATEFLAT, Available at <https://www.gafilat.org/index.php/es/biblioteca-virtual/gafilat/documentos-de-interes-17/estudios-estrategicos-17/1244-analisis-de-amenazas-regionales-del-gafilat-actualizacion-2017>; (2) Informe de Tipologías Regionales GAFILAT, Available at <https://www.gafilat.org/index.php/en/biblioteca-virtual/TATEflat/documentos-de-interes-17/Tipologys-17/3126-informe-tipologias-regionales-gafilat-2018>.

90 Typologies related to the use of the gold mining and trading sector market for ML/FT purposes can be found in the Annex: Cases and Cases Collection of AML/CFT Typologies, Special Edition, as follows: 2.5. Laundering of corruption money through simulated asset sales; 2.45. Money laundering through the illegal extraction and sale of precious metals; 2.85 and 2.86. Narcotics trafficking payments through the purchase of illegal gold; among others.

the Brazilian Association for Cash and BNIs Transport Companies (ABTV, in its acronym in Portuguese) estimates that this type of company moves around R\$20 billions in cash per day in the country, supplying and collecting cash at companies, ATMs and banks.

In recent years, Cash and BNI Transport Companies in Brazil have become vulnerable to abuse for money laundering purposes, as demonstrated by investigations, such as the “*Operação Câmbio Desligo*” (Operation Over and Out). The use of cash for money laundering is a well-known typology, and the combination of the size and transport of large amounts of cash with the provision of financial services for companies, such as payment of slips, has made this sector attractive to those who sought funds in cash without tracing their origin.

5.2 ML/FT Combat and Prevention Capability

The vulnerabilities survey regarding Brazil’s ML/FT combat and prevention capability had its own particular methodology, that is, the analyses did not start from a specific threat, but from a broader approach, a glimpse into the country’s entire preventive and coercive system to combat the already existing threats and the ones which may arise.

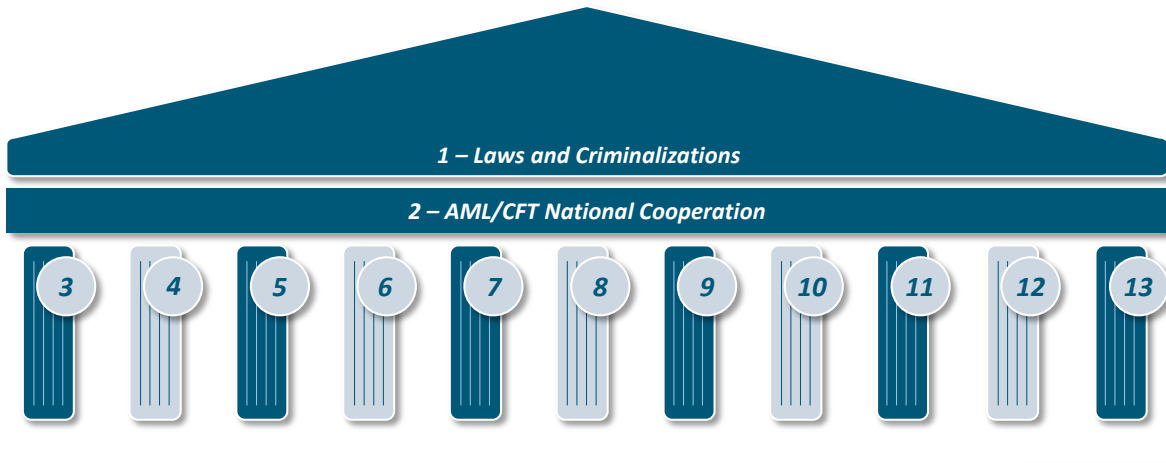
For this purpose, using the FATF 40 Recommendations and its 11 Immediate Outcomes as reference, a framework of Pillars was devised to enable the assessment of a money laundering, financing of terrorism and financing of proliferation of weapons of mass destruction (ML/FTP) combat and prevention system based on criteria such as consistency, integrity, legal framework, institutional powers and procedures implemented, in addition to the analysis of effectiveness of the AML/CFT systems in relation to the expected outcomes. It is important to point out that, even though the recommendations and all the guides prepared by FATF are references used in the assessments, the applied methodology was not limited only to these principles, but also included specific situations in the country.

Brazil’s vulnerabilities related to its ML/FTP combat and prevention capability were analyzed in different stages, covering the legal framework, the strategies or public policies applied and the operational performance of the supervision, financial intelligence, investigation, prosecution and judgment bodies.

With that said, it should be noted that, in order to complete this stage, over three hundred questions were formulated, organized into thirteen thematic pillars, and submitted to over thirty different institutions, which allowed an effective assessment of the country’s ML/FTP combat and prevention capability.⁹¹

91 For further information, see the Annex Methodology for the National Risk Assessment.

Figura 14 – Pilares temáticos da avaliação da capacidade de prevenção e combate a LD/FTP

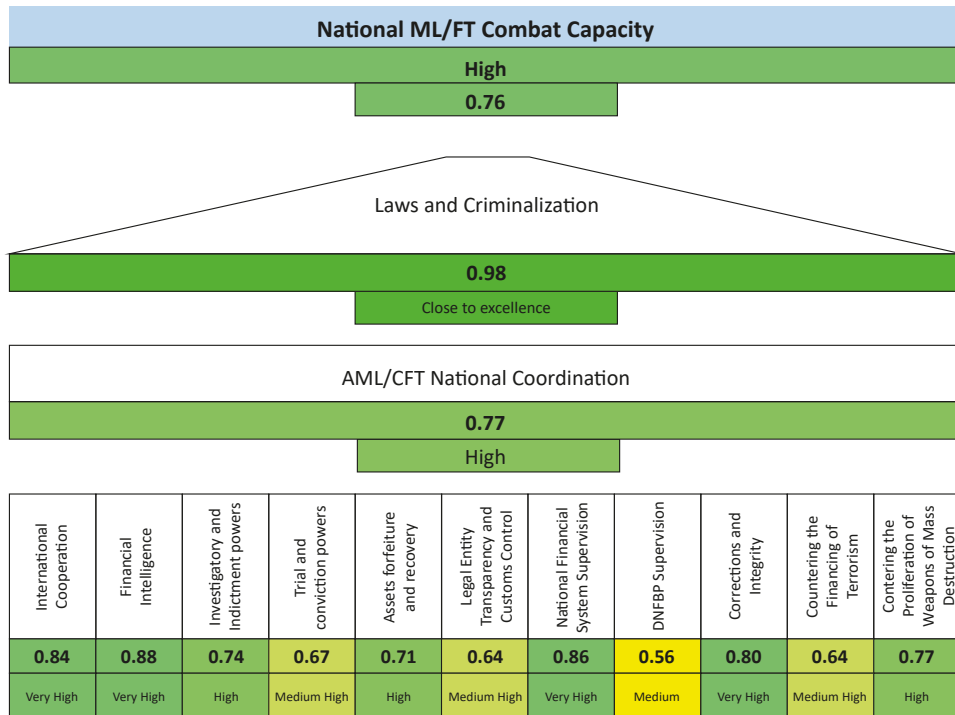


- 1. Laws and Criminalizations
- 2. AML/CFT National Cooperation
- 3. International Cooperation
- 4. Financial Intelligence
- 5. Investigatory and Indictment powers
- 6. Trial and Conviction powers
- 7. Assets Forfeiture and Recovery
- 8. Legal Entity Transparency and Customs Control
- 9. National Financial System Supervision
- 10. DNFBP Supervision
- 11. Corrections and Integrity
- 12. Financing of Terrorism
- 13. Proliferation of Weapons of Mass Destruction

Thus, each pillar was awarded a specific score, according to the replies obtained from relevant institutions, and added to the analysis made by the WGNRA.

As a global result of this process, the national score awarded to ML/FTP combat and prevention capability was considered high, as shown in the graphic representation below:

Figura 15 – Nota nacional e por pilar da capacidade de prevenção e combate a PLD/TFP



The main elements identified in relation to each pillar in the analysis are presented below.

5.2.1 Laws and Criminalization Pillar

In this particular pillar, the purpose was to consolidate the assessment regarding the legal framework in force in the country which allows for the adoption of preventive and coercive measures to combat money laundering and the financing of terrorism.

The questionnaire and the answers were fundamentally based on criteria of adequacy of standards in relation to those established in Recommendations 3, 5, 9, 10, 11, 20, 21, 26, 28 and 36. It should be noted that the methodology used was not limited to these premises, but also included specific situations linked to the country's risk and context.

Issues related to the adequacy of the rules and criminal types existing in the national legal framework were analyzed, relating to the different elements of the offense of money laundering (Law nº 9.613, of 1998), elements of the FT offense (Law nº 13.260, of 2016) and the incorporation into the national legislation of the main international instruments.

In addition, it was also verified the adequacy of the secrecy laws to international standards, the due diligence rules of the client, reporting of operations, confidentiality and rules for the supervision of the regulated subjects.

The general score achieved in this pillar, 0.98 (close to excellence), reflects the strengths especially related to the adequacy of the national legal framework to the international standards determined by the FATF recommendations, with a special focus on the adoption in Brazil of a fourth generation ML legislation, in which the concealment or disguise of any and all assets linked to criminal activities, of any predicate offense, can be classified as a ML criminal offense.

Similarly, it is verified that the internalization of the main international regulations and secrecy laws, the national rules regarding customer due diligence (CDD), confidentiality and the reporting of operations to Coaf show an important coordination with elements and requirements of international standards.

It is important to note some opportunities for specific improvements in items related to “regulated subjects (regulation and supervision)”, with room for improvement in the definition of the regulated subjects and in the choice of regulators and supervisors for some sectors of lesser importance, and also the need for activities related to virtual assets transactions to conform and the adequate supervision of stakeholders involved in this sector.

5.2.2 AML/CFT National Cooperation Pillar

In this particular pillar, the objective was to consolidate the assessment of the countries capacity to carry out institutional articulation which enables: a) development and implementation of public policies and solutions to combat corruption and money laundering; b) the exchange of experiences and good practices among public institutions; and c) the constant improvement of the operational information flow among institutions.

The questionnaire and the answers were based on criteria of the FATF Recommendation 2, and on topics related to the effectiveness, in accordance with the criteria established in the Immediate Outcome 1 of the FATF Mutual Evaluation Methodology.⁹² In the National Strategy and Policy, the assessment included issues relating to the National Strategy and the public policies designed to combat ML/FT and Brazil's capacity to properly identify, assess and understand the risks of these two crimes.

⁹² It should be noted that the methodology used in this work is not limited to these premises, but also includes specific situations in the country, especially the analysis based on the threats identified in the scope of this study.

The general score achieved of 0.8 (very high) reflects strengths especially in relation to the institutional articulation promoted by Enccla and the public policies promoted by the Ministry of Justice and Public Security (MJSP). Some positive aspects of ENCCLA are noteworthy:

- the comprehensiveness of participants, with over eighty public institutions which directly work in the combat against corruption and money laundering;
- the track record as one of the world's longest-standing national strategies (since 2003) and with over three hundred actions carried out;
- the workflow, which constitutes a continuous spiral of identification of the main ML/FT risks and presentation of solutions, with review/approval on an annual basis;
- the work methodology based on decisions reached by consensus of all the participants, promoting a high level of commitment by public institutions and great legitimacy of the outcomes approved.

As far as the coordination regarding targeted financial sanctions is concerned, it should be mentioned the legal and operational structure set forth in Law No. 13.810, of 2019, and created to quickly disseminate, locate, and freeze the assets of individuals and terrorist organizations, in accordance with the United Nations Security Council sanctions list and in relation to a request made by a third country.

It is important to point out some opportunities for improvement in items related to the combat against terrorism and its financing, such as the formulation of an interinstitutional public policy on this topic, which comprises the different sectorial initiatives, and the need to increase the control mechanisms over Non-Profit Organizations in order to better identify any practices related to these crimes.

Specifically on these improvement possibilities, it was approved ENCCLA's Action 5/2021, which throughout the year will further studies on the FT so that the country can pave the way for improvement.

5.2.3 International Cooperation Pillar

In this specific pillar, the objective was to evaluate the country's performance regarding international cooperation as a tool to prevent and combat ML/FT. For this purpose, several aspects related to Mutual Legal Assistance, extradition and cooperation between similar entities were taken into account, in particular law enforcement, tax and supervisory authorities, in addition to implementation and effectiveness aspects of international cooperation.

The questionnaires sent, and the responses received were based on criteria set forth in FATF Recommendations 36 to 40, and operational and effectiveness issues linked to Immediate Outcome 2, including specific situations in the country.

The overall score achieved of 0.84 (very high) reflects strengths especially from a legal, normative and institutional point of view, in particular the solid legal basis for the formulation of requests for cooperation (12 multilateral treaties and bilateral treaties in criminal matters with over twenty different jurisdictions).

It is also noteworthy the institutional strength and the instituted powers of the Central Authority (Department of Asset Recovery and International Legal Cooperation - MJSP), as well as of specific international cooperation agencies of both the Federal Public Prosecution Office and the Federal Police. It should be pointed out as well the availability of investigative techniques and the confidentiality for international cooperation, including actions to suppress and combat the main threat identified.

It is important to note the quality of the international cooperation among FIUs by means of the Egmont Group, and the cooperation among similar entities involving tax agencies and supervisors, with memorandum of understanding with several countries and the active participation in the corresponding international organizations.

It is worth highlighting some opportunities for general improvements in items linked to statistics, structure for the exercise of the various aspects of international cooperation and the effectiveness of information exchanges according to the purposes pursued, in particular the repatriation of assets.

5.2.4 Financial Intelligence pillar

In this pillar, it was assessed the power of action, activities, skills and effectiveness of the use of financial intelligence to help obtain results in investigations related to ML/FT and predicate offences.

The conceptual basis for the questionnaire was FATF Recommendation 29, and operational and effectiveness issues linked to Immediate Outcome 6. It was verified Coaf's role as the national center for receiving and analyzing suspicious transactions reports (STRs) and other relevant information on ML/FT, and its assignment to receive suspicious activities reports (SARs) and cash transaction reports (CTRs), to analyze the information received according to criteria based on RBA, and disseminate the analysis to law enforcement agencies. In addition, activities were analyzed based on the threats identified in the scope of this study.

The analysis encompassed issues related to the mandate established to produce and manage financial intelligence information, as well as the dialogue with national and international bodies and entities; the submission of reports, whether SARs, CTRs, and other established limits; the quality of financial intelligence production; available information, information security, dissemination and response to request of information; available statistics; cooperation, technical and operational independence; and the effectiveness regarding the use of Financial Intelligence Reports (FIRs).

The overall score of 0.88 (very high) reflects strengths especially in relation to technical and operational independence in line with international standards. In addition, great capacity was reported in relation to aspects related to the processing of information, both when it is submitted and when it is disseminated.

Regarding statistics, it was verified transparency in the provision of relevant information referring to the annual production of both thematic or information exchange FIRs, monthly amounts of SARs and CTRs by reporting entity, geographical distribution of these reports among other criteria.⁹³

Another highlight was the information security, because of the existence and the general use of a file sharing information system used to securely exchange electronic files with competent authorities through encrypted electronic means, named Electronic Exchange System (*Sistema Eletrônico de Intercâmbio – SEI-C*), accessible exclusively via digital certificate. On the other hand, the FIRs have their own security mechanisms which allow the identification of the receiving competent authority, the date and time of access and the authenticity of the document. Finally, the dissemination of information, whether spontaneous or at the request of the investigating and prosecuting authorities, was positively assessed by the different bodies.

As an opportunity for improvement, special attention should be paid to the need for progressive development of the quality of information received by Coaf, especially in sectors

93 Available at: <https://www.gov.br/Coaf/pt-br/aceso-a-informacao/Institucional/Coaf-em-numeros-1>.

without regulation and which spontaneously submit reports to Coaf and some DNFBPs. Despite the differences among the DNFBPs, deficiencies were identified in the reports received regarding the description of the identified suspicions, the identification of the type of transaction reported, and also in relation to the lack of information on the customer and the identification of the relevant counterparts.

Finally, Coaf's structure still requires more human resources, but the employee selection process should be noted owing to its strict and transparent criteria, in which all employees sign a confidentiality term in relation to the information to which they have access, in addition to undergoing basic entry training, in which they receive training including information security and counterintelligence.

5.2.5 Investigatory and Indictment Powers pillar

This specific pillar aimed to consolidate the assessment of the power of action, activities, skills and effectiveness of the investigative work by both the Federal and State Police and the Federal and State Public Prosecution Offices, as bodies responsible for investigation, criminal prosecution and oversight of public authorities.

The questionnaires and the responses were based on the criteria of FATF Recommendations 30, 31 and 40 and on effectiveness issues according to the criteria set forth in Immediate Outcome 7.⁹⁴

The analysis comprised issues related to the powers established for criminal investigation and prosecution; the possibility and effectiveness of the use of investigative techniques; the domestic cooperation among agencies to obtain information; the direct international cooperation among investigation and prosecution agencies; the use of technological tools; the structure for the development of activities; the request and quality of financial intelligence information; the aspects regarding the effectiveness of the actions, with the analysis of the results achieved and a direct link to the main threats identified.

The overall score achieved of 0.74 (high) reflects strengths especially in terms of obtaining information from national agencies, capacity to access to information both in the investigation and prosecution stages, in addition to the possibility of using Coaf's information, characterized by its quality, which had the best average among the items. Regarding the link between the investigation and prosecution work in relation to the main threats, it was verified more relevant results in LD related to corruption and financial crimes.

It is important to note some opportunities for general improvements in items linked to the statistics, given the difficulty in obtaining and updating data related to different stages of the process, particularly given the lack of statistical data on convictions (Judicial Branch) related to the statistical data on indictments (Federal Police and Public Prosecution Office).

A positive aspect registered was the existence of the "ePol Statistics System", which has data on all types of criminal investigations, underway or closed, at the Federal Police, but it was verified the urge to interconnect the data with other agencies and also the challenges in entering information into the existing systems.

As for the relation with the main threats, the profile associated with Tax Evasion was the one which featured the lowest relative score in the assessment, showing room for improvement.

⁹⁴ It should be noted that the methodology used is not limited to these premises, but also includes specific situations in the country, especially the verification based on the threats identified in the scope of this study.

5.2.6 Trial and Conviction Powers pillar

In this specific pillar, the objective was to consolidate the analysis on the power of trial, its activities, skills and the effectiveness of the Brazilian Judicial Branch, which holds the constitutional authority to exercise the jurisdictional role of the State to uphold the law in the concrete case, aiming to resolve conflicts of interest and, with this, safeguard the legal order and the authority of the law.

The questionnaire and the responses were based on the criteria set forth in FATF Recommendations 3, 5 and 33, and in matters related to effectiveness, according to the criteria established in the Immediate Outcomes 7 and 8.⁹⁵

The analysis included issues related to concrete application of the law in crimes of ML/FT, statistics on trials, convictions, assets forfeitures and aspects related to the effectiveness of the activities, analyzing results achieved regarding the main identified threats (corruption, drug trafficking, crimes against the national financial system and tax evasion).

The overall score obtained of 0.67 (medium high) reflects strengths, particularly with respect to setting and attaining the Judicial Branch National Goals. For the period comprised between 2015 and 2020, based on the National Council of Justice (CNJ) Resolution n. 198, of 1 July 2014, eight goals were established. Among these was Goal 4, which consisted of actions related to crimes against the Public Administration in close connection with the main threat identified in the country (corruption).⁹⁶

In addition to the referred to goals, it is worth mentioning the progressive increase in non-criminal proceedings, highlighting the institutional competence of the Public Prosecutor's Office and the Attorney General's Office to act in the referred to proceedings, provided that the predicate offences to the money laundering crime had been perpetrated against the Federal Public Administration.

Regarding the illicit flow linked to drug trafficking, the CNJ submitted statistics which show relevant effectiveness in combatting this crime: between 2015 and 2019, 402.063 court decisions were ruled, and 51,32% of these rulings were convictions.

It is important to emphasize the progress of CNJ's project on statistical systems, currently in the final phase of completion, which will allow for real-time monitoring of all legal proceedings, allowing for research with a greater number of details and criteria. The CNJ implemented the National Database of the Judiciary - DataJud, regulated by CNJ Resolution No. 331, of 20 August 2020. This database receives information from all proceedings in the country and allows their monitoring.

Concerning the FT, information currently indicates a limited number of cases, and a low threat to Brazil. However, two emblematic cases reported resulted in the arrest of the individuals charged, which showed the capacity and the existence of a method for law enforcement in this matter, as the domestic criminal offence includes the criminalization of preparatory acts, which broadens the scope of application of the relevant legislation on terrorism and its financing (Law 13.260, of 2016).

Some opportunities for general improvements in items related to the statistics (which are expected to be overcome once the aforementioned CNJ project is completed) should be stressed, and it remains necessary to adjust the parameters so that the future generation of the statistics takes into account the FATF requirements, such as the number of people convicted of ML; ML

⁹⁵ It should be noted that the methodology used is not limited to these premises, but also includes specific situations in the country, especially the verification based on the threats identified in the scope of this study.

⁹⁶ Engaged in this goal since 2013 (former National Goal 18), the Superior Court of Justice (STJ) and the segments of State Justice, Federal Justice, Federal Military Justice, and State Military Justice committed themselves to the goal in 2018. Particularly, STJ decided to judge 90% of the proceedings distributed until 12/31/2015 and 80% of the proceedings distributed in 2016; the Federal Justice, 70% of the proceedings distributed until 12/31/2015; the State Justice, 70% of the proceedings distributed until 12/31/2015; the Federal Military Justice, 95% of the proceedings distributed until 12/31/2016; and the State Military Justice committed to judge 95% of the proceedings distributed until 12/31/2016 in the Military Audits, and those distributed in the second level until 12/31/2017.

trials and convictions related to the predicate offense; assets permanently forfeited in the country as a result of ML with links to predicate offences; among other data.⁹⁷

The link with the main threats reveals that Tax Evasion had the lowest score in the assessment, showing room for improvement and records of a high rate of criminal liability extinction in criminal proceedings related to this type of crime, over 50% of the cases.

5.2.7 Assets Forfeiture and Recovery pillar

This pillar aimed to consolidate the assessment of the country's capabilities in assets forfeiture and recovery as a measure to prevent and combat ML/FT and in line with established international standards.

The questionnaire and the responses were based on the criteria set forth in FATF Recommendations 4 and 38, and in matters related to effectiveness, according to the criteria established in the Immediate Outcome 8 of FATF's Assessment Methodology.⁹⁸ The Asset Forfeiture pillar analyzes issues related to the mandate for the adoption of asset freezing provisional measures during the investigation and indictment stages and the final confiscation (forfeiture) of assets. It also analyzed the legal possibility and the effective use of assets freezing and forfeiture mechanisms in the scope of international legal cooperation, the effectiveness of asset freezing and forfeiture in relation to the major threats identified in this report.

The overall score achieved of 0.71 (high) reflects strengths especially in relation to the mandate for freezing assets during the investigation and indictment stages, with the possibility to effect it in a preliminary stage during the investigation process. The amounts frozen indicate the frequent and effective use of this mechanism.

It was positively noted as well the use of asset freezing mechanisms in the scope of international legal cooperation, particularly in outgoing proceedings whereby domestic requests to other jurisdictions are transmitted abroad aiming at the recovery of assets.

Some opportunities for improvement should be mentioned, particularly in items related to statistics, given the difficulty in obtaining and updating data related to asset forfeiture at the end of the criminal proceeding. As for the freezing of assets, statistics from police investigations are well structures, especially at the federal level.

Nevertheless, data on the amounts effectively confiscated are not available to its fullest extent, which requires a more active interaction among the major information chains, investigation authorities (Criminal Police), criminal prosecution (Public Prosecution) and the Judicial branch.

It should be noted that the National Secretariat for Drug Policy (SENAD, in its acronym in Portuguese) keeps statistics management panels related to seized and destined assets including those resulting from money laundering, but essentially related to drug trafficking. The option to refine and present statistics detailed by type of crime is not available.

Regarding the effectiveness related to the final forfeiture of assets, the participating bodies stated that the Brazilian legal framework in the matter of asset forfeiture may be considered appropriate to achieve the intended outcomes, but the criminal proceeding in the Brazilian legal system is time-consuming which, in many cases, jeopardizes the repatriation of assets from abroad.

At last, in relation to the connection with the main threats, the profile associated with Tax Evasion was the one which featured the lowest relative score in the assessment, showing room for improvement.

⁹⁷ FATF establishes in a specific guide the main statistics necessary for its presentation within the framework of mutual evaluation processes. For more information see: <https://www.fatf-tatf.org/media/fatf/documents/reports/AML-CTF-related-data-and-statistics.pdf>.

⁹⁸ It should be noted that the methodology used in this work is not limited to these premises, but also includes specific situations in the country, especially the analysis based on the threats identified in the scope of this study.

5.2.8 Legal Entity Transparency and Customs Control pillar

This pillar aimed to assess the capacity, skill and effectiveness of the body responsible for customs control and the transparency of legal entities in preventing and combatting ML/TF. In this pillar's assessment, it was taken into consideration aspects related to transparency and ownership of legal entities and the transparency and ownership of other legal structures; to coordination and cooperation in the field of customs control; to the declaration of cross-border transportation of valuables; and to the dissuasive measures related to tax evasion. The Federal Revenue of Brazil was the agency consulted for the preparation of the requested responses.

The questionnaire and the responses were based on the criteria set forth in FATF Recommendations 25 and 32, and operative and effectiveness matters were related to Immediate Outcomes 5 and 6, including specific situations in the country.

The overall score achieved of 0.64 (medium high) reflects the existence of strengths, but also important opportunities for improvement. Among the strengths, it is important to note, for example, the existence of several actions in the country aimed at promoting greater transparency for legal entities, such as the prohibition of certain corporate types, such as trusts, the existence of a timely consultation environment for registration information and the requirement to keep this registry updated.

As for customs control measures, it is worth noting the existence of controls for the movement of valuables, such as the traveler's electronic declaration of goods and declaration of international physical movement of valuables.

Regarding the opportunities for improvement, the possibility of unincorporated companies or entities named Silent Partnership or Undeclared Partnership (*Sociedade em Conta de Participação – SCP*) deserves attention. In addition, in the cross-border transportation of valuables, there is no legal provision to retain items for a reasonable amount of time in order to analyze the origin of the funds and likely evidence of money laundering and financing of terrorism of the amount previously declared upon arrival in the country.

5.2.9 National Financial System Supervision pillar

The objective of this pillar was to assess the performance of the supervisory bodies of the financial system in relation to the compliance of the AML/CTF obligations by the supervised entities. In the evaluation of this pillar, aspects related to the powers of supervision and the application of sanctions were considered as a result of non-compliance with obligations; application of the risk-based approach by supervisors and supervised entities; obligation to identify and verify the identity of customers; adoption of customer due diligence (CDD) measures; identification of the beneficial owner of corporate customers; reporting suspicious transactions to the financial intelligence unit; keeping records of operations; procedures related to politically exposed people (PEP); international cooperation; inclusion of information in electronic transfers and their monitoring; and regulation and supervision of virtual asset service providers (VASPs).

The questionnaire and the responses were based on criteria established by FATF Recommendations 1, 10 to 13, 15 to 20, 26, 27, 34 and 40, as well as the Interpretive Notes to Recommendations 1 and 40 and Immediate Outcome 3.

The final assessment granted a score of 0.86 (very high), resulting from the ongoing work carried out by supervisory bodies over the last 20 years, characterized by its scope and constant evolution. In this regard, it is noteworthy the enactment of the most recent regulations by the Central Bank of Brazil (BCB), the Securities and Exchange Commission (CVM), the Superintendence of Private Insurance (SUSEP) and the National Superintendence of Complementary Pensions (Previc),

which coordinate more clearly and objectively the regulations of these bodies with the principle of risk-based approach (RBA) and also provide greater transparency and predictability in relation to supervision.

On the other hand, considering they are relatively recent regulations, the positive impact of the RBA effectiveness assessment on the part of the entities under supervision will be better represented only in the next National Risk Assessment.

Another positive aspect of this pillar's assessment is represented by the coordination of customer due diligence procedures by the entities under regulation, which was subject to continuous monitoring by the supervisory bodies, and was treated with special attention in the standards review process.

Also, the positive assessment of aspects related to electronic transfers, including the insertion of information about senders and beneficiaries and the maintenance of their records, deserves mention, due to its importance in the process of tracking illegal resources.

Regarding Recommendation 26,⁹⁹ it is important to stress the approval of a bill which guaranteed the autonomy of the Central Bank and aligned the legal framework relating to the agency with the best international practices. However, it is still verified the need to increase the human resources available to some supervisory bodies.

Finally, it is urgent to accelerate the legislation and regulation process for the the segment of virtual asset service providers (VASPs).

5.2.10 Designated Non-Financial Businesses and Professions Supervision pillar

In this particular pillar, the objective was to evaluate the performance of regulators and supervisors in DNFBP sectors in relation to the compliance of their regulated entities with AML/CFT obligations. In the evaluation of this pillar, it was considered aspects related to the powers of supervision and the application of sanctions as a result of non-compliance with obligations; application of the risk-based approach by supervisors and supervised entities; obligation to identify and verify the identity of customers; adoption of customer due diligence (CDD) measures; reporting suspicious transactions to the financial intelligence unit; keeping records of operations; procedures related to politically exposed people (PEP); and the provision of guidance and feedback by supervisors.

The questionnaire and the responses were based on criteria established by FATF Recommendations 22, 23, 28, 34 and 35, and operational and effectiveness issues linked to Immediate Outcome 3. It should be noted however that the methodology is not limited to these premises and includes specific situations in the country.

The final assessment of this pillar reached the score of 0.56 (average). It was observed particularly the great heterogeneity in the responses of the different DNFBP sectors in relation to the application of AML/CFT measures. While some of these sectors are more advanced in terms of regulation and supervision, including the application of risk-based approach to supervision, others do not even have specific AML/CFT standards, such as the gold, precious stones and metals sector, attorney services,¹⁰⁰ promotion of fairs, exhibits or similar events; and the trade of high-added value products of rural or animal origin.

⁹⁹ Recommendation 26 - Countries should ensure that financial institutions are subject to adequate regulation and supervision and are effectively implementing the FATF Recommendations. Competent authorities or financial supervisors should take the necessary legal or regulatory measures to prevent criminals or their associates from holding, or being the beneficial owner of, a significant or controlling interest, or holding a management function in, a financial institution. Countries should not approve the establishment, or continued operation, of shell banks.

¹⁰⁰ When exercising the activities listed in art. 9, XIV of the Law n. 9.613, 1998.

In addition, several supervisors face difficulties to adequately exercise their functions related to the ML/FT prevention, such as a risk-based supervision and the provision of guidance to assist their supervised sector's AML/CFT measures.

5.2.11 Correctional and Integrity pillar

In this pillar, the aim was to highlight the public power's level of integrity by analyzing the performance of its internal control and correction systems, especially in the context of preventing and combating corruption. The Federal Comptroller General's Office (CGU) was responsible for preparing the responses, in view of their competence in the aforementioned matters.

In addition to internal control, correction, transparency and protection of public assets, the questionnaires answered also used elements from Immediate Outcomes 1 and 7, in addition to the link with some of the main threats identified, especially corruption.

Thus, issues related to effective, proportionate and dissuasive sanctions in cases of corruption involving the public sector were analyzed, and preventive actions and the effective capacity of the correction and internal control systems were also assessed.

The overall score achieved of 0.8 (very high) reflects particularly the participation in special operations with other State defense agencies, such as the PF and the Public Prosecution, both at the Federal and State levels. In 17 years, 480 investigative actions were launched, 62 of which in 2020 alone, adding up to a calculated total loss of over R\$5.3 billion.¹⁰¹

The CGU, the Central body of the Correction System of the Federal Executive Branch (SISCOR), applied, in the year 2020 alone, more than 450 expelling sanctions against civil servants - about 67% resulting from corruption cases. In addition, during the same period, investigations of irregularities against the Public Administration by private entities resulted in the application of R\$111 million in fines, based on the Anti-Corruption Law (Law No. 12.846, of 2013).¹⁰²

Another highlight, regarding prevention actions, is the Anti-Corruption Plan for the period from 2020 to 2025, designed with the objective of structuring and executing actions to improve, within the scope of the Federal Executive Branch, the mechanisms of prevention, detection and accountability for acts corruption, making progress in complying with and improving anti-corruption legislation and meeting international recommendations. The document, developed by the Interministerial Committee to Combat Corruption (CICC), seeks to reflect and reinforce Brazil's commitment to tackling corruption and is in line with the efforts already materialized in 2019 in the Anticrime and Anticorruption Package.

5.2.12 Countering the Financing of Terrorism pillar

In this specific pillar, the central objective was to assess the capacity to prevent and combat the financing of terrorism in Brazil. Aspects related to FT investigations were evaluated, in addition to the measures applied in the scope of terrorism financing and linked to non-profit organizations.

With regard to financial sanctions imposed as a result of the connection with the financing of terrorism or terrorist organizations, aspects related to the mandate established, designation proposals, controls and mechanisms for freezing goods and valuables, designation reports to regulated sectors, the protection of bona fide third parties and mechanisms for the exclusion and review of the designations list.

¹⁰¹ CGU provides a map detailing the actions already carried out in the municipalities of Brazil through the link <https://www.gov.br/cgu/pt-br/assuntos/operacoes-especiais>.

¹⁰² Data available in the Data Correction Panel: <http://paineis.cgu.gov.br/corregedorias/index.htm>.

Regarding Non-Profit Organizations (NPOs), the analysis comprised the sector's legal framework; the transparency required regarding the identity of the managers and the financial statements of the entities, in addition to the use and control of funds and license and registration of NPOs in the country; the due diligence in relation to beneficiaries and associate NPOs; the maintenance of records of national and international transactions for audit purposes; cooperation, investigation and information gathering by all levels of authorities or appropriate organizations which may have relevant information on NPOs; and finally the supervisor or regulator structure in the non-profit sector.

The questionnaire and the responses were based on criteria set forth in FATF Recommendation 6 and 8. In addition, operational and effectiveness issues related to Immediate Outcomes 9 and 10 were also contemplated.

The overall score achieved of 0.64 (average high) consolidates the national aspects identified in the topics related to FT investigations and financial sanctions and the NPOs. With regard to FT financial sanctions, the scores range from “close to excellence” to “excellent”. On the other hand, the scores for NPOs ranged from “nonexistent” to “high average”, reflecting the need for improvements in all aspects analyzed.

5.2.13 Countering the Financing of Proliferation of Weapons of Mass Destruction pillar

In this pillar, the central concern was to assess the capacity to prevent and combat the financing of the proliferation of weapons of mass destruction in Brazil.

The assessment covered aspects of the international regimes for non-proliferation of nuclear, chemical and biological weapons of mass destruction and their delivery systems, in particular, Brazil's adherence to international treaties, agreements and conventions on the subject and the integration of the obligation into the national legal system. It was also verified aspects related to the monitoring, export controls and the production of items for nuclear, chemical and biological weapons and their delivery systems.

Another aspect assessed in this pillar refers to the targeted financial sanctions related to the financing of the proliferation of weapons of mass destruction, particularly regarding controls and mechanisms for freezing assets, communicating designations to and ensuring compliance by the sectors, de-listing mechanisms and review of designation lists and contracts, agreements or obligations.

The questionnaire and the responses were based on criteria set forth in FATF Recommendation 7. In addition, operational and effectiveness issues related to Immediate Outcome 11 were also contemplated.

The overall score obtained was 0.77 (high) and consolidates the national aspects identified in the following sections: “international treaties and agreements”, “monitoring”, “export control”, “dual technology”, and finally aspects related to financial sanctions related to the financing of proliferation, described in the sections “instituted powers”, “freezing mechanisms and controls”, “communication and compliance with designation by the sectors”, de-listing mechanisms and designations list review” and “prior contracts, agreements and obligations”.

Except for the item “prior contracts, agreements and obligations”, all other sections which are part of the financing of proliferation of weapons of mass destruction pillar reached scores ranging from “high” to “close to excellence”. The item “prior contracts, agreements and obligations” faces challenges and has room for improvement, requiring the enactment of specific rules on the topic.

5.3 Transversal Vulnerabilities

5.3.1 National Borders

Brazil borders ten of the twelve countries in South America, which is equivalent to 15,719 kilometers of dry border and represents 68% of the national territorial limits. The country has the third largest land border in the world, behind only China and Russia. The maritime border extends for 7,367 km. The border strip comprises the entire area up to 150 km from the boundary line of the territory, constituting an extensive area to be inspected and protected.

Border monitoring comprises land and airspace surveillance actions, river and road traffic inspection, and immigration control, which poses a great challenge because of Brazil's continental dimension. The Brazilian border strip is neither continuous nor homogeneous, covers eleven states, 588 municipalities, 27% of the national territory and is home to approximately 11.7 million people. There are both uninhabited regions and densely populated areas. The level of integration with the national territory and neighboring countries also varies.

The difficulty to monitor is intensified by the porosity of the borders, aggravating the region's vulnerability in relation to cross-border crimes. The flow of people, goods and services that consistently circulate between Brazil and its South American neighbors is large. Quite often, the international boundary is a line between cities which merge economically, politically, and socially. They even share basic services infrastructure, such as education, health and sanitation, among citizens of two different countries. The dynamism and the informality of the economy in these locations are abused to conceal crimes such as the illicit movement of funds, merchandise, illicit capital flight and tax evasion.

Currently, the Tri-Border Area (TBA) between Argentina Brazil and Paraguay is the region which requires attention in matters of ML/FT. The region is frequently mentioned because of its connection with activities related to money laundering linked to smuggling, duty evasion, drug and arms trafficking, whose illicit funds would be moved by means of different methods and fraud connected to international trade.

Furthermore, as for FT, the area, owing to its Islamic population, is potentially related to alleged logistics support and transfers of funds to individuals linked to Islamic groups. After extensive analysis was done in the area, no confluence of international organizations and criminal groups operating in Brazil was identified.

Criminal organizations and groups characterized as terrorists might occasionally share financial operators, and law enforcement agencies are aware of this possibility, as criminal activities in the Tri-Border Area are routinely investigated and repressed, usually in cooperation with agencies from Argentina, Paraguay, and other countries. The Brazilian intelligence agency and police observe the events the region with great attention, and the cooperation with third-party agencies is common.

The cooperation with neighboring countries is acknowledged as crucial for the identification and the repression of cross-border illicit activities. The excessive fragmentation and legal hurdles to the flow of information on security, defense and criminality hamper the functioning of police and intelligence activities.

In the detection and analysis process, it was detected evidence of a money laundering network in the Tri-Border Area, associated with tax evasion and other crimes against the National Financial System, but without any evidence so far of direct association with the financing of terrorist activities or terrorist organizations designated by the United Nations Security Council. The Brazilian law enforcement agencies remain ready to detect and identify criminal activities in the region, and to investigate and suppress them.

5.3.2 Informality of the Economy

According to the *Síntese de Indicadores Sociais 2020* (2020 Summary of Social Indicators), published by the Brazilian Institute of Geography and Statistics (IBGE), the informality of the Brazilian labor force – considering as such, private sector employees and domestic workers without a formal contract, assisting family worker, self-employed persons and employers who do not contribute to the official social security – was at 41,6% of the employed population in 2019, the highest percentage in the series measured since 2012.¹⁰³ For the same year, the Brazilian Institute of Ethics in Competition (ETCO) and the Getúlio Vargas Foundation's Brazilian Institute of Economics (IBRE) published a study which estimated the so-called “informal or underground economy” in 17,3% of the Gross Domestic Product (GDP), around R\$1,2 trillion for the year.

The FATF's third round mutual evaluation report of Brazil, published on 25 June 2010, indicates that money laundering risks are higher in relation to the border areas and the informal economy. Several factors of ML/FT risk incidence may be mentioned because of the very nature and the *modus operandi* of informality in economic relations and productive activities. It is relevant to emphasize the use of cash and other means of payment which ensure anonymity – many of them originating from the informal economy or illegal activities, such as mining or unauthorized extraction of natural resources – and which may favor illicit activities and their financing, particularly ML/FT.

Likewise, it is important to note the availability of informal labor force, which may be used to facilitate illicit activities, both in the generation of goods and services and in the laundering and concealing of assets. Additionally, unregistered employees, people with inaccurate or fake registry data may serve as figureheads in economic and financial transactions.

Similarly, shell companies, featuring formal registry, which is fake or incompatible with the economic reality, may be used to legitimize or facilitate people's or entities' transactions with illicit purposes. Also, shell companies and people with inaccurate or fake registry data hamper deterrence and repression by public authorities.

It is relevant to mention that some illegal activities, particularly counterfeiting and smuggling, may promote associated illicit activities, such as illegal immigration and emigration, enticement and human trafficking, labor analogous to slavery, among others related to the informal use of labor force.

In addition, there are institutional and legal aspects, such as the spread of informality or illicit activities over the formal sector owing to the State's own repressive action, which can drive companies and individuals into insolvency and illegality, feeding a vicious circle. The association of public officials by the informal and/or illegal sector may also undermine state action in the regulation and supervision/repression of these activities.

Finally, the Brazilian State has developed programs and initiatives with the purpose to incorporate informal sectors of the economy into formal sectors, particularly by means of simplifying registry, reducing bureaucracy and streamlining procedures to obtain permits and licenses, including by using digital technology instruments. In the financial field, the BCB also expanded actions aiming at the financial inclusion, in order to boost access to banking services, expand microcredit and different types of use of financial services and means of payment by the population.

103 IBGE (2020) *Síntese de Indicadores Sociais: uma análise das condições de vida da população brasileira*.

5.3.3 Cash money

The use of cash to high-value transactions, and the difficulty to determine the source of funds are vulnerabilities frequently observed by several supervisors in relation to their sector. The topic “cash money” often permeates typologies already identified, related both to money laundering and to the financing of terrorism.¹⁰⁴

Note that the topic has already been object of several ENCCLA actions¹⁰⁵ in addition to regulatory measures aiming to limit the use of cash, for example, for the payment of taxes in an amount exceeding R\$10,000.00, and the acceptance of payment by financial institutions of payment bank slips in the same threshold. It is important to stress the obligation to identify the individual who makes the transactions and uses cash in the individual amount over R\$2,000.00.

5.3.4 Ultimate Beneficial Owner

Another vulnerability constantly mentioned in the SRAs is related to the difficulty to identify the Ultimate beneficial Owner (UBO) of transactions. In particular, the use of shell companies to facilitate or promote money laundering and the financing of terrorism. Similarly, as seen above, the vulnerabilities linked to the non-disclosure of the ultimate beneficial owner appear associated in the CVM sectorial assessment, in relation to non-resident investors in the country.

Although it is mandatory to identify the UBO in several transactions, as it is the case of transactions in the financial system, complex corporate structures are frequently used deliberately to conceal the real beneficiary, as shown in ML typologies.¹⁰⁶

5.4 Consolidated Vulnerability

For the the calculation of the consolidated vulnerability, the aggregated sectorial vulnerabilities (medium) and the final consolidated score of the National Combat Capability (high) were taken into account, as shown in the figure **below**.

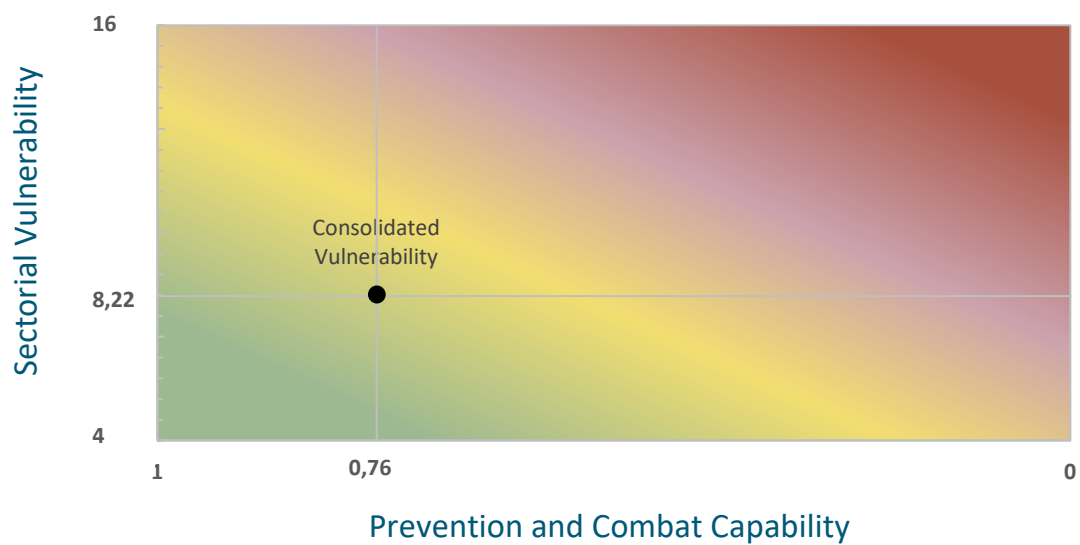
Considering the analysis listed and the location of the aggregated score in the matrix, it is observed that the consolidated vulnerability in the country is medium.

¹⁰⁴ Typologies related to the use of cash for ML/FT purposes can be found in the Annex: Cases and Cases Collection of AML/CFT Typologies, Special Edition, 2021 National Risk Assessment, as follows: 2.51. Cash withdrawals at the end of year to conceal assets in Tax Evasion; 2.65. Laundering of cash originating from corruption through purchase of automobiles; 3.2. Financing of Sunni extremist group abroad; 3.4. Financing of extremist groups/individuals through cells outside the country; among others.

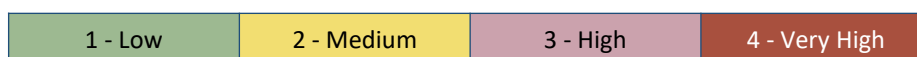
¹⁰⁵ Action 7/208 – To implement restriction and control measures for the use of cash money and Action 07/2019 – To propose measure(s) to improve controls or restrictions to use, in the internal market, domestic or foreign currency for the purposes of prevention of illicit acts.

¹⁰⁶ Typologies related to the use of front companies for ML/FT purposes can be found in the Annex: Cases and Cases Collection of AML/CFT Typologies, Special Edition, 2021 National Risk Assessment, as follows: 2.4 State corruption associated to fiscal fraud through shell companies; 3.6 Funding of extremist groups with the use of shell companies; among others.

CONSOLIDATED VULNERABILITY



Consolidated Vulnerability:





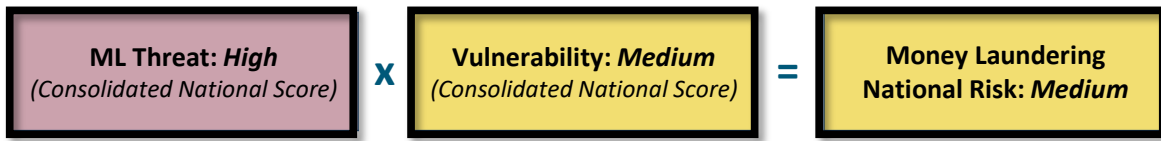
6 AML/CFT National Risk Consolidation

Once the stages related to the consolidation of threats and vulnerabilities were finalized, and the analyses referring to each of the detailed macro-processes were made, i.e. once the “what” or the “who” have been identified by means of the ML/FT Threat Survey, the “how” has been determined by the Collection of ML/FTP Typologies already identified in Brazil, and the “where” has been singled out by means of the research of the vulnerabilities in the regulated sectors and the prevention and combat capability, it should be assessed the country’s ML and FT National Risk, with an emphasis on the main results verified in each macro-process and the main national priorities.

6.1 Money Laundering National Risk

As described in the methodology, the ML National Risk presented **below** refers to the result of the variables “ML Threat” and “Vulnerability”. In the context of vulnerabilities, it was considered the vulnerability’s consolidated score, which represents the result of the Sectorial Vulnerability with the representativeness and materiality weighting factors included, and the country’s ML/FTP Combat and Control Capability. In this situation,

ML National Risk



Threat	4 - Very High	National Risk Medium	National Risk High	National Risk Very High	National Risk Very High
	3 - High	National Risk Medium	National Risk Medium	National Risk High	National Risk Very High
	2 - Medium	National Risk Low	National Risk Medium	National Risk Medium	National Risk High
	1 - Low	National Risk Low	National Risk Low	National Risk Medium	National Risk Medium
		Vulnerability			
		1 - Low	2 - Medium	3 - High	4 - Very High

As has been demonstrated, Brazil’s ML General Risk is **medium**. In the first place, the qualification obtained was impacted by the relative result of the national exposure to the threats, which was considered high, particularly regarding corruption, drug trafficking, criminal groups, financial crimes and tax evasion, all of which assessed as high. In second, it is observed the national consolidated vulnerability.

Brazil faces the challenge to fight against ML with a plethora of tools and mechanisms which, despite their unquestionable achievements on several fronts, could still comprise greater depth, versatility, coordination, and effectiveness. In this scenario, one strength worth mentioning is the adoption of measures which curb the national vulnerability.

In the Sectorial Risk Assessments, the “Banking and non-banking Financial Institutions” sector, despite the maturity and depth of the controls applied, due to its size and diversity of products, services, customers and channels, was considered more vulnerable for purposes of ML/FT, compared to the other sectors analyzed. In the segment named “Other regulated sectors”, the Virtual Assets Service Providers (VASP), Real Estate, Factoring and Precious Metals and Jewels sectors showed a greater comparative vulnerability.

Regarding the vulnerability related to the National Combat Capability (whose score was considered high), it is noteworthy the legal aspects and the operational capacity of the bodies associated with the fight against, detection, financial intelligence, investigation, prosecution and freezing of assets related to criminal activities.

In addition, it must be stressed the strengths related to the institutional articulation fostered by ENCCLA, the institutional weight and the mandate of the central authority for international legal cooperation (Department of Assets Recovery and International Legal Cooperation – MJSP), and the specific international cooperation agencies from both the Federal Public Prosecution Office and the Federal Police.

It is also important to point out the great capacity reported in relation to aspects related to the treatment of intelligence information, with emphasis on information security and the capacity and quality of information dissemination, whether spontaneous or at the request, provided by COAF; the collection and use of intelligence information by law enforcement agencies; and the use of RBA by supervisors – BCB, CVM, SUSEP, PREVIC and COAF.

As improvement points, it should be emphasized the normative, supervisory and knowledge deficits and the application of preventive measures in several DNFBP sectors; the lack of a regulatory framework for the appropriate regulation of activities associated with virtual assets; the need to improve the collection of information on beneficial owners and to enhance AML/CFT measures in the foreign exchange, factoring, precious metals and real estate sectors, in addition to the measures to improve statistics on the seizure of assets in ML proceedings and predicate offences in the country.

6.2 Financing of Terrorism National Risk

As described in the methodology, the National FT Risk is calculated based on the FT Threat variables listed above and the Consolidated Vulnerabilities (Sectorial and Prevention and Combat Capability), as shown in the following graphic.



Threat	4 - Very High	National Risk Medium	National Risk High	National Risk Very High	National Risk Very High
	3 - High	National Risk Medium	National Risk Medium	National Risk High	National Risk Very High
	2 - Medium	National Risk Low	National Risk Medium	National Risk Medium	National Risk High
	1 - Low	National Risk Low	National Risk Low	National Risk Medium	National Risk Medium
		Vulnerability			
		1 - Low	2 - Medium	3 - High	4 - Very High

As previously explained, the General FT Risk in Brazil is **low**. Regarding terrorism and its financing, Brazil has demonstrated the capacity to detect and identify possible operations related to terrorism or its financing, the legal normative framework and the operational capacity capable of investigating, pursuing and condemning any FT crimes, with specialized units for combating terrorism in several institutions, especially ABIN and PF. Owing to the existing competences, some occasional FT cases have been detected and pursued.

In general, no direct links were identified between the main international terrorist organizations with the country, despite some occasional cases of radicalization, especially during the period of major sporting events which took place in the country between 2014 (FIFA World Cup) and 2016 (Rio de Janeiro Summer Olympic Games). Because of the global events held in Brazil, international cooperation practices in the field of FT were also incorporated and improved.

In sum, no significant local risks were detected, and it could be concluded that the main threats relate to foreign terrorist organizations which operate in other regions and seek to exploit some of the country's vulnerabilities to carry out FT activities.

Although the general legislation to combat FT is closer to international standards, Brazil still shows a normative, regulatory and supervisory deficit, particularly in relation to NPOs, which should be the subject of a priority work, commensurate with the risks identified.¹⁰⁷

¹⁰⁷ On NPOs, even before the NRA was finalized, the topic was included in the ENCCLA for treatment in 2021: further studies on the financing of terrorism (FT) issue, presenting a collection of best practices related to the prevention, detection, investigation and repression of the crime; further the knowledge of several bodies on the FT, including the mapping of types of non-profit organizations which might be more vulnerable, in addition to preparing a collection of best practices related to the prevention, detection, investigation and repression of crime under consideration, relying as collaborators on the following bodies: DRCI, ABIN, AGU, AJUFE, ANPR, BB, BCB, CAIXA, COAF, CVM, FEBRABAN, MRE, MPF, PF, PREVIC, RFB, SUSEP.

6.3 National Risk Assessment Priority Actions

Although this document constitutes the first ML/FT national risk assessment exercise in the country, Brazil has had since 2003 a robust mechanism for the coordination and the approach of risks and vulnerabilities in the public and private sectors aiming to counter corruption and money laundering: ENCCLA.

As explained, the main practical outcomes resulting from this institutional articulation consist in measures taken to implement public policies, by means of submitting draft legislation; improving administrative structures; producing and disseminating knowledge by means of handbooks and training and qualification programs; disclosing and implementing good practices in the public service, among other measures.

In this context, resulting from the identification of risks and the need for progressive approach of the emerging risks, it is possible to emphasize some outcomes which ENCCLA has achieved in recent years, such as: the creation of the National Qualification and Training Program for the combat against Corruption and Money Laundering (PNLD), the creation of the National Financial System Customer Registry (CCS); the Banking Movement Investigation System (SIMBA), an initiative to regulate the declaration of assets and funds which constitute the private property of civil servants; the creation of the Seized Assets National System (SNBA); the discussion and proposal which enabled the enactment of Law N. 13.810, of 2019, regarding Targeted Financial Sanctions, as well as several other initiatives.

As the NRA methodology establishes, based on the main threats and vulnerabilities identified and analyzed during all the assessment process, a priority treatment of actions for the progressive improvement of the country's AML/CFT system should be indicated. It should be emphasized that the prioritization exercise to be carried out by the WGNRA is the main objective of the NRA and intends to better allocate national resources to prevent and counter ML/FTP.

The critical areas and, therefore, the issues which have been assessed in the NRA as being at higher risk for the country and should be paid greater attention to in the Action Plans are the following:

- **Virtual Assets** – Set up a regulatory framework for Virtual Assets Service Providers (VASPs) in line with the best practices provided by FATF (Recommendation 15);
- **Cash** – Evaluate the adoption of additional restriction measures and control for the use of cash in Brazil;
- **Beneficial owners** – Improve the controls and exchange of information to try and avoid the use of shell companies for money laundering and to allow a better identification of the ultimate beneficial owner of the transactions;
- **DNFBP training programs** – Increase training for both public officials and the regulated sectors listed in Article 9 of Law N. 9.613/1998, giving special attention to the qualitative relevance of the reports submitted (Suspicious Transaction Reports and Cash Transaction Reports);
- **Exchange** – Evaluate measures for AML/CTF improvements in the sector particularly regarding the most commonly used typologies;
- **Factoring** – Evaluate measures for AML/CTF improvement in the sector particularly regarding the most commonly used typologies;
- **Precious Metals** – Evaluate measures for the improvement of the supervision in the mining and trade of precious metals and stones activity, aiming to set up an AML/CTF regulatory framework for the sector;
- **Customs control** – Improve dissuasive AML/CTF measures in customs control;
- **Tax evasion** – Improve dissuasive AML/CTF measures to counter tax evasion;

- **Assets Recovery** – Improve measures to enable more effectiveness in the repatriation of assets located abroad;
- **Risk-Based Approach** – Promote studies to evaluate the risks connected to different types of legal entities in the country, especially Silent Partnerships or Undeclared Partnerships (*Sociedade em Conta de Participação* – SCP);
- **Non-Profit Organizations** – Promote studies to evaluate the risks connected to the NPO and define measures for high-risk entities;
- **Statistics** – Improve the statistics systems designed to control and follow up on seized assets (confiscation).

In general, even though the AML/CFT legislation is close to international standards, Brazil still has to make normative, regulatory and supervisory improvements particularly in DNFBP sectors, which should be subject to a coherent and priority effort, commensurate with the risks identified. In this scenario, we listed the main actions to mitigate the identified risks in the following sectors:

- *Accountants* – Raise awareness of the relevance of AML/CTF measures in the sector and to implement a AML/CFT risk-based supervision procedures;
- *Economists* – Raise awareness of the relevance of AML/CTF measures in the sector and to implement AML/CFT risk-based supervision procedures;
- *Lawyers* – Raise awareness of the relevance of AML/CTF measures in the sector, to prepare a regulatory framework, and to implement AML/CFT risk-based supervision procedures;
- *Fairs and Artistic Events* – Raise awareness of the relevance of AML/CFT measures in the sector, to prepare a regulatory framework, and to implement AML/CFT risk-based supervision procedures;
- *Wildlife trade* – Raise awareness of the relevance of AML/CFT measures in the sector, to prepare a regulatory framework, and to implement AML/CFT risk-based supervision procedures;
- *Works of Art* – Raise awareness of the relevance of AML/CFT measures in the sector; to implement measures to mitigate the difficulties in the definition of the value of a work of art, and the the proof of authenticity;
- *Real Estate Brokers* – Raise awareness of the relevance of AML/CFT measures in the sector, to implement AML/CFT risk-based supervision procedures, and to apply dissuasive and proportionate measures on its regulated market;
- *Chambers of Commerce* – Raise awareness of the relevance of AML/CFT measures in the sector and to implement AML/CFT risk-based supervision procedures;
- *Notary Offices* – Raise awareness of the relevance of AML/CFT measures in the sector, to implement AML/CFT risk-based supervision procedures and to improve the quality of reports submitted to Coaf and the to increase the knowledge on the specific red flags in the sector.

Annex I – ENCCLA Actions

In the last few years, ENCCLA, the national coordination mechanism, has been carrying out the activities of mapping and mitigating the main ML national threats and predicate offences.

Below are listed the several actions approved and developed in the past years and related to ML/FTP:

ENCCLA 2021

- Action 1/2021 – Create mechanisms to share databanks directly and continuously, in a safe environment, among state actors responsible for the prevention, detection and repression of corruption, money laundering and the financing of terrorism.
- Action 2/2021 – Examine the money laundering risks with the use of new models of Payment Schemes and Institutions (AIP, in Portuguese) in regulated segments.
- Action 3/2021 – Improve the legislation, the tracking mechanisms and the oversight of the gold productive chain in order to integrate the activities of intervening organizations and mitigate the risks related to the use of this metal's commerce for money laundering purposes.
- Action 5/2021 – Further studies on the financing of terrorism (FT) issue, presenting a collection of best practices related to the prevention, detection, investigation and repression of the crime.
- Action 6/2021 – Maintain the effective articulation among bodies and entities which will be involved in Brazil's mutual evaluation process by FATF, seeking a better preparation of the country to monitor all the evaluation process.
- Action 8/2021 – Big data and artificial intelligence: using these tools to fight corruption and money laundering.
- Action 9/2021 – Consolidate and disseminate the National Program for the Prevention of Fraud and Corruption.
- Action 10/2021 – Propose measures to strengthen the fight against corruption and money laundering connected with environmental crimes.

ENCCLA 2020

- Action 05/2020 – Improve the current system of control of election campaign expenses and identify other relevant measures to avoid/curb the misuse of electoral funds. This action resulted in a proposal for a resolution to the Superior Electoral Court (TSE) to establish the permanent activity of the Electoral Justice Intelligence Center in order to create and maintain specific procedures aimed at continuously identifying traces of irregular activities in the financing of political parties, and not only electoral periods.
- Action 06/2020 – Improve tools for disposing of assets seized under a judicial order in criminal proceedings, integrating management practices among Police forces, the Public Prosecution, Public Attorneys, the Judiciary and the Ministry of Justice and Public Security (MJSP). Results obtained: (i) Update of Recommendation No. 30/CNJ/2020; (ii) technical cooperation agreement signed with the National Anti-Drugs Secretariat (SENAD), with the objective of integrating data between computerized systems Electronic Judicial Process (PJe) and Management System of the National Anti-Drug Fund (GFUNAD); (iii) technical cooperation agreement among the National Council of Justice (CNJ), the Ministry of Infrastructure (MINFRA)/National Traffic Department (DENATRAN) and MJSP to modernize the Judicial Restriction System for Motor Vehicles (Renajud) and develop the auctions module; (iv) official letters sent to strategic actors, in order to request support for the project underway in Action 06/ENCCLA/2020: Public Prosecution Office (MPF), Council for Federal Justice (CJF), Solicitor General's Office (PGU), 27 heads of the Civil Police (PC), Federal Police (PF), DENATRAN, State Traffic Department

(DETRAN) in the states of Rio Grande do Sul, São Paulo, Minas Gerais, Santa Catarina and Paraná; (v) Actions to Disclose Asset Management Redesign; (vi) technical requirements for the development of the Check-In Project with SENAD's computerized asset management system; and (vii) Draft National Table of Goods.

- Action 07/2020 – Improve the mechanisms for sharing information among administrative oversight and control bodies, and among these bodies and the agencies working with criminal prosecution and administrative improbity, with a view to preserving legal security. Results obtained: (i) analysis of the performance and flow of information from the oversight and control bodies in relation to the system for preventing and combating money laundering; (ii) archives of initiatives and good practices; (iii) proposals for amendments to Decree No. 10.046, of 2019; (iv) ENCCLA Recommendation proposal for the dissemination of the Conecta.gov.br project; (v) Webinar “Information Flow in Public Administration”, held on May 14, 2020; (vi) Webinar on the Conecta.gov.br project, held on July 24, 2020; and (vii) Interoperability good practices workshop, held on October 6 and 7, 2020.

ENCCLA 2019

- Action 06/2019 – Prevent and combat corruption and money laundering committed by public officials by monitoring the evolution of wealth and assets in use. The Action had the following results: (i) situational analysis of the asset evaluation - cut out for the participants of the Action and State Audit Courts; (ii) draft of a technical cooperation agreement to be signed between the Association of Members of the Brazilian Courts of Accounts (ATRICON) and the Office of the Comptroller General (CGU) to share qualifying and remuneration databases for state and municipal civil servants; and (iii) draft of a decree to regulate the art. 13 of Law No. 8.429/92, which allows for the use of an electronic system to permit equity analysis.

- Action 07/2019 – Propose measure(s) to improve controls or restrictions on the use in the domestic market of cash, national or foreign, for the purpose of preventing illicit practices. The Action prepared a draft law which provides for the use and possession of cash and provides other measures for the consideration of the competent authorities.

- Action 08/2019 – Further studies on the use of virtual assets for the purpose of money laundering and terrorist financing, presenting (i) an assessment of good practices related to the investigation of the crime in various spheres; (ii) possible proposal for normative adequacy in investigative matters and criminal prosecution. Results obtained: (i) development of the product “Roadmap for Investigation Good Practices Related to Cryptocurrencies”; (ii) Request/consultation with the Brazilian Institute of Geography and Statistics (IBGE)/the National Classification Commission (CONCLA) on the possibility of creating a National Classification of Economic Activity (CNAE) class or subclass for brokerage firms or crypto exchanges; and (iii) development of a suspicious transaction report/notification model by brokers or exchanges.

- Action 11/2019 – Continue the development process of the Civil Police forces in investigating money laundering crimes. Results obtained: (i) New assessment by the civil police forces regarding the structure to face the crime of money laundering; (ii) Open Distance Learning (ODL) development at MJSP's National Secretariat of Public Security (SENASP) with the participation of collaborating content creators and reviewers of Action 11, aimed at improving investigations of money laundering crimes, with submission scheduled for the end of 2019; (iii) model regulation for the management of goods, values and services resulting from the perpetration of money laundering within the scope of the Civil Police; (iv) analysis of the statistical extraction models of the money laundering investigations carried out by the Civil Police in comparison with the assessment proposed in 2018 ENCCLA Action 9; (v) Identification of the minimum databases necessary for the development of investigations related to money laundering: National Financial System Customers' Registry (CCS), National Registry of Social Information (CNIS), General

Registry of Employed and Unemployed Persons (CAGED), National Registry of Companies (CNE), Annual Relation of Social Information (RAIS), ALTAS, Electoral Information System (SIEL), research system PLUTÃO and LAB CONTAS; and (vi) Serve as one of the foundations of the Judicial Police Strengthening Program (PFPJ), instituted by SENASP/MJSP.

- Action 12/2019 – Integrate notaries and registrars in combating and preventing crimes of money laundering and corruption. The Action resulted in the provision of the Disciplinary Board of the Courts No. 88/2019, which provides for the policy, procedures and controls to be adopted by notaries and registrars in order to prevent money laundering crimes, as provided for in Law no. 9.613, of 1998, and the financing of terrorism, provided for in Law No. 13.260, of 2016, and addresses other matters.

- Action 13/2019 – Propose regulatory changes and/or enhanced controls to prevent the use of front companies for money laundering and other illegal activities. Results obtained: (i) assessment of types of money laundering and corruption through the use of shell companies; (ii) assessment of international experiences in controlling the use of shell companies; (iii) assessment of possible weaknesses in the system of records of constitutive acts and social changes in the Commercial Boards, in the system of granting and canceling National Registry of Legal Entities Numbers (CNPJs) by the Federal Revenue Service and of state company registries, and in procedures for opening bank accounts by companies (under the approach for the attention to avoid fraud); and (iv) proposal(s) for normative improvement and/or measures for the strengthening of controls and mechanisms for the exchange of information and reports to the responsible bodies for the due investigations, with a view to avoiding the use of front companies for money laundering.

- Action 14/2019 – Prepare an assessment on money laundering resulting from tax crimes. Results obtained: (i) analysis that the numbers of cases involving tax crimes are limited as predicate to money laundering, according to the data collected by the SIF, the CJF and the MPF; (ii) holding of the seminar “Tax evasion as a predicate offence to money laundering” to draw the attention of the legal community to the issue; (iii) analysis of the inefficiency of the treatment of the registry on the money laundering predicate offence by the Judiciary, by the Public Prosecution and by the Tax Administrations; (iv) assessment of the material nature of the tax crime, imposed by law, as a difficulty in criminal prosecution; (v) assessment of the need for reexamination of the Binding Precedent 24 in the light of Law No. 12.683/2012, so that it does not constitute an obstacle to the criminal prosecution of money laundering, even with the mitigated accessibility of art. 2, § 1, of Law No. 9.613, of 1998, when the predicate offence is a tax crime and set forth in art. 1st, items I to IV, of Law 8.137, of 1990; and (vi) assessment of the damage for the effectiveness of complying with the FATF recommendations, due to the hurdles listed above.

ENCCLA 2018

- Action 07/2018 – Implement measures to restrict and control the use of cash. As a result, measures aiming to reduce the problems resulting from the use of cash have been identified, such as Circular BCB No. 3.839, of June 28, 2017, BCB Resolution No. 4.648, of March 28, 2018; and Normative Instruction RFB No. 1.761, of November 20, 2017. This Action also discussed the preparation of the first draft of the bill of law on the use of cash in operations and transactions carried out throughout the national territory, with comments and records of related consensus and dissent.

- Action 08/2018 – Further studies on the use of virtual currencies for the purpose of money laundering and eventually submit proposals for regulations and/or legislative adjustments. Results obtained: (i) draft proposal to amend Law No. 9.613, of March 3, 1998, focusing on the virtual assets segment; (ii) collection of jurisprudence - in preparation; and (iii) proposed new Action for ENCCLA 2019, with a focus on criminal law.

- Action 11/2018 – Improve the Civil Police action in investigating money laundering crimes. Results obtained: (i) assessment regarding the role of civil police in the investigation of money laundering crimes; (ii) Identification of a minimum structure in the Civil Police to promote the improvement of the performance in investigations of money laundering crimes. In this sense, it is necessary that the Civil Police: a. have access to the Bank Transfer System (SIMBA), by means of a technical cooperation agreement with the Poublic Prosecution Office; B. have a Technology Laboratory Against Money Laundering, through a technical cooperation agreement with the MJSP's National Secretariat of Justice; c. have access to the financial intelligence reports (FIRs), via a technical cooperation agreement with Coaf; d. insert subjects in police training and qualification courses aimed at investigating these crimes; e. maintain periodic routines and statistical control of the outcomes resulting from the investigation of the crime of money laundering; f. have guaranteed on their behalf the destination of the assets, rights and values recovered in police investigations of money laundering crimes whose forfeiture has been determined by the Justice, under the terms of § 1, of Article 7, of Law 9.613, of 1998; (iii) development of a distance training course, within the scope of SENASP, with the participation of collaborating content creators and reviewers of Action 11, aimed at improving the investigations of money laundering crimes by the judicial police; (iv) partnerships between the National Qualification and Training Program for the combat against Corruption and Money Laundering (PNLD) with the Civil Police. In total, 509 (five hundred and nine) Civil Police officers were trained by PNLD throughout 2018; and (v) Foster partnerships between the Civil Police and the Federal Public Public Prosecution to sign Technical Cooperation Agreements to access the SIMBA System.

ENCCLA 2017

- Action 07/2017 – Expand data sharing to fight corruption and money laundering. Results obtained: (i) legal consultation on aspects of Decree No. 8.789/2016, which deals with data sharing in the Federal Public Administration, with a view to facilitating its implementation; (ii) discussion about the possibility of changing Decree No. 8.789/16; however, the final proposal was not forwarded due to lack of consensus; (iii) disclosure of models for requesting data sharing, along with auxiliary text, contextualizing the distributed models and also informing about the steps of the procedure currently planned for data sharing provided for in Decree No. 8.789/2016.

- Action 09/2017 – Create instruments which foster international legal cooperation, allowing the formation of joint transnational investigation teams in the areas of combating corruption and money laundering. Results obtained: (i) draft of national regulation on Joint Investigation Teams (JITs); (ii) progress in the legislative internalization procedure of the Framework Agreement for Cooperation between the MERCOSUR States Parties and Associated States for the Creation of Joint Investigation Teams, 2010; (iii) favorable position on the possibility of creating and operating a JIT in Brazil based on the UN Conventions studied and also on the basis of the bilateral agreements already existing between Brazil and other States which deal with international legal cooperation in criminal matters, provided that in the document to be signed there are provisions which are adequate to the legal cooperation practices provided for in agreements already in force.

ENCCLA 2016

- Action 08/2016 – Map out information systems and databases useful for preventing and combating corruption and money laundering, with a view to: (i) disseminate the results obtained; (ii) share, when possible; and (iii) promote interoperability. A draft spreadsheet was prepared containing the list of databases and systems assessed and other information. The inventory itself will be a segment of a broader assessment of systems and databases which the Ministry of Planning has been carrying out, but which should only take place in 2017.

- Action 13/2016 – Improve procedures and controls related to operations involving cash, in order to mitigate risks of money laundering and embezzlement of public resources. Two normative proposals were elaborated (one to amend the complementary law, and the other an infralegal rule, an act which has the form of law, but not the force of law) and a recommendation to conclude a conduct adjustment term between the MPF, the CGU and some federal banks in order to implement changes in the form of custody and movement of transferred funds under Decrees No. 6.170/2007 and 7.507/2011.

Below are some of the most relevant actions of ENCCLA on the subject of combating corruption in recent years:

ENCCLA 2020

- Action 09/2020 – Prepare an analytical assessment of the federal, state and municipal bodies' structure for preventing corruption. A self-service platform was designed so that public managers, when answering an online questionnaire, can identify the risks to fraud and corruption in their institution, as well as draw up an action plan for improvement. Document templates for local adaptation will also be made available on the self-service platform. Due to the COVID-19 pandemic, it was not possible to start applying the questionnaire in public institutions. The Action will continue in 2021.

- Action 11/2020 – Foster the implementation of active transparency by making it available online, with easy access to instruments related to acts which result in public expenditure, at national level (in all federative levels), as a way of facilitating social control and hinder the practice of embezzlement of public resources and corruption. The Action resulted in three drafts of law: (i) proposal for a presidential decree containing minimum standardization of active transparency; (ii) Draft proposal for an ordinary law with provision for civil sanctions (administrative improbity); (iii) draft proposal for an ordinary law with provision for penal sanctions.

ENCCLA 2019

- Action 02/2019 – Create a flow of communications of transnational bribery cases. Several results were achieved, such as: (i) normative proposal for the adjustment of Decree No. 8.420/2015, which regulates Law No. 12.846/2013, with a view to confer competence in a more explicit way for CGU to edit norms dealing with the flow of communications on cases of transnational harmful acts; (ii) regulatory normative model of the Anti-Corruption Law (Law 12.846/2013) for states and municipalities, which addresses the issue of transnational crimes; (iii) list of public and private entities which are covered by the theme of transnational bribery; (iii) adoption of the *FalaBR* Platform as an official mechanism for receiving reports on the existence of evidence related to transnational bribery.

- Action 06/2019 – Prevent and combat corruption and money laundering committed by public officials by monitoring the evolution of wealth and assets in use. The Action (i) carried out a situational analysis of the asset evaluation - cut out for the participants of the Action and State Audit Courts; (ii) drafted a technical cooperation agreement to be signed between the Association of Members of the Brazilian Courts of Accounts (ATRICON) and the Comptroller General's Office (CGU) to share qualifying and remuneration databases for state and municipal civil servants; and (iii) drafted a decree to regulate the art. 13 of Law No. 8.429/1992, which allows for the use of an electronic system to permit equity analysis.

- Action 09/2019 – Map out the workflows, investigative administrative processes and procedures, and others, whose objective or possible outcome is to ascertain the occurrence of acts of corruption; hold extrajudicial liability or allow the legal responsibility of those responsible and the effective recovery of assets. The Action had the following results: (i) elaboration of a situational

assessment on the flow of investigative administrative procedures for acts of corruption; (ii) presentation of data in Panel in power bi - Statistical format, with the diagnosis made from the applied questionnaire and Panel in power bi format - Interaction among the control and anti-corruption agencies where it is possible to identify the level of connection among the responding and mentioned entities in the questionnaire; (iii) elaboration of an executive summary with the listed data - Textual presentation of the questionnaire's objectives and the results found, conclusions and identified problems; and (iv) presentation of a model Process for the Investigation and Treatment of Corruption Acts (BPMN Flow).

- Action 12/2019 – Integrate notaries and registrars in combating and preventing crimes of money laundering and corruption. The Action discussed, prepared and at the end submitted proposal to the CNJ which resulted in the provision of the Disciplinary Board of the Courts No. 88/2019, which provides for the policy, procedures and controls to be adopted by notaries and registrars in order to prevent money laundering crimes, as provided for in Law no. 9.613, of 1998, and the financing of terrorism, provided for in Law No. 13.260, of 2016, and addresses other matters.

- Action 14/2019 – Prepare an assessment on money laundering resulting from tax crimes. The Action prepared an assessment in which it was verified that the numbers of cases involving tax crimes are limited as predicate offence to money laundering, according to the data collected by the SIF, the CJF and the MPF. In order to discuss the relevance of the theme, the Action held a seminar on the topic, named “Tax evasion as a predicate offence to money laundering” to draw the attention of the legal community to the issue.

ENCCLA 2018

- Action 01/2018 – Prepare and approve the National Plan to Fight Corruption. The Action drew up the Plan of Guidelines to Combat Corruption based on several proposals collected at regional public events.

- Action 06/2018 – Consolidate the strategy to strengthen Corruption Primary Prevention. The Action achieved the following results: (i) definition of the governance system of the National Program for the Prevention of Primary Corruption - PNPPC; (ii) improvement of the structured data at www.todosjuntoscontracorrupcao (in progress); (iii) draft for public notice for public calls to be used within the scope of the National Program for the Corruption Primary Prevention; (iv) draft for Regulation of the Integral Action Seal to be used within the scope of the National Program for the Corruption Primary Prevention; (v) protocol of intent signed by representatives of the Action, as natural persons, at the meeting of 9/19/2018; (vi) delivery of the Integral Action Stamps at various events held by the employees of the Action 06/2018 and round of presentation (referring to the 2017 Notice), to publicize the proposals – *Acelera Startup* – Federation of Industries of the State of São Paulo (FIESP); (vii) Integration with the PNPPC of actions identified with primary prevention of corruption: National Council of the Brazilian Public Prosecutor's Office (CNMP) initiatives with the Public Prosecutor of the Federal District and the Territories (MPDFT).

ENCCLA 2017

- Action 01/2017 – Propose regulations to improve the governance and management processes to be adopted in all branches and spheres of the Federation, with a focus on combating fraud and corruption: (i) draft of a national law establishing a national integrity policy, sent to the office of the bill's rapporteur on the matter, with the Federal Court of Accounts (TCU) being available for advice to the Senator and clarification of doubts; (ii) ENCCLA recommendations for interested entities to learn about and disseminate the Guidance Manual for Contracting Health Services, published in 2016 by the Ministry of Health; (iii) Development of a distance course on integrity in Public Administration, which will be made available free of charge to managers of public agencies and entities in states and municipalities across Brazil, scheduled to end in 2018.

- Action 03/2017 – Establish guidelines for coordinated action by the Public and State Public Attorneys with the Public Prosecution Office, the internal and external control bodies and the Police, with a view to preventing and combating corruption. As products of the Action, the following were presented: (i) table/chart with suggestions for collaboration clauses separated by the prevention, detection and accountability axes, which will be forwarded to local and national institutions; (ii) recommendation that institutions should organize themselves in order to have sectors which work specifically with corruption, but which include in this area different forms of action to combat the complex social phenomenon. The document will be forwarded to local and national institutions. (iii) text with normative indication of forms of joint action, which will be released together with the Table/Chart; (iv) holding 3 (three) Regional Seminars.

- Action 06/2017 – Consolidate proposals to prevent the practice of corruption by promoting social integrity and education for citizenship. The Action presented the following results: Creation of the National Program for the Prevention of Primary Corruption (PNPPC), which will support all initiatives around three pillars: (i) “All Together Against Corruption” campaign; (ii) proposal bank; (iii) collaborative network; d) network with state, academia, market and civil society to support the PNPPC and to apply, replicate and expand the Bank of Proposals projects;

- Action 07/2017 – Expand data sharing to fight corruption and money laundering. Results obtained: (i) legal consultation on aspects of Decree No. 8.789/2016, which deals with data sharing in the Federal Public Administration, with a view to facilitating its implementation; (ii) discussion about the possibility of changing Decree No. 8.789/16; however, the final proposal was not forwarded due to lack of consensus; (iii) disclosure of models for requesting data sharing, along with auxiliary text, contextualizing the distributed models and also informing about the steps of the procedure currently planned for data sharing provided for in Decree No. 8.789/2016.

- Action 09/2017 – Create instruments which foster international legal cooperation, allowing the formation of joint transnational investigation teams in the areas of combating corruption and money laundering. The following were outcomes of the Action: (i) draft of national regulation on Joint Investigation Teams (JITs); (ii) progress in the legislative internalization procedure of the Framework Agreement for Cooperation between the MERCOSUR States Parties and Associated States for the Creation of Joint Investigation Teams, 2010; (iii) favorable position on the possibility of creating and operating a JIT in Brazil based on the UN Conventions studied and also on the basis of the bilateral agreements already existing between Brazil and other States which deal with international legal cooperation in criminal matters, provided that in the document to be signed there are provisions which are adequate to the legal cooperation practices provided for in agreements already in force.

- Action 11/2017 – Advance in the integration of strategies and operational methods of the State control bodies aiming to strengthen the fight against organized crime. The Action proposed the creation of a permanent group of strategic interinstitutional integration, which will act under the auspices of ENCCLA and necessarily associated with its purposes. The governance and the design of the performance of this group will still be the object of reflection and detail. The implementation will take place from January/2018.

ENCCLA 2016

- Action 08/2016 – Map out information systems and databases useful for preventing and combating corruption and money laundering, with a view to: (i) disseminating the results obtained; (ii) sharing, when possible; and (iii) interoperability. A draft spreadsheet was prepared containing the list of bases and systems assessed and other information. The inventory itself will be a segment of a broader assessment of systems and bases that the Ministry of Planning has been carrying out, but which should only take place in 2017.

- Action 11/2016 – Improve banking and fiscal secrecy rules, aiming to make the sharing of information between oversight, control, criminal prosecution and defense of public assets more agile and effective. Proposals were made for legislative changes that expand the current hypotheses for mitigating banking and fiscal secrecy, through changes in provisions of Complementary Law 105/2011 and the National Tax Code.