

EXECUTIVE SUMMARY

NATIONAL RISK ASSESSMENT

Brazil 2021

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



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Executive Summary

Brazil is a full member of the Financial Action Task Force (FATF/GAFI), an inter-governmental body whose purpose is to develop a global strategy to prevent and to combat money laundering, terrorist financing, and the financing of the proliferation of weapons of mass destruction (AML/CFT).

The FATF purposes are to develop standards and to promote the effective implementation of legal, regulatory, and operational measures for AML/CFT and, in cooperation with other international stakeholders, to identify vulnerabilities which could allow the abuse of the international financial system for illicit purposes.

As a policy-making entity designed to encourage the implementation of regulatory reforms in its field of work, FATF has developed a series of recommendations recognized as the AML/CFT international standard.

In the latest review of its Recommendations (finalized in 2012), FATF established a relevant milestone regarding the way money laundering, terrorist financing, and the financing of the proliferation of weapons of mass destruction should be prevented and countered, establishing the so-called “risk-based approach”, a mechanism in which countries must identify, assess, and understand the AML/CFT risks to which they are exposed and, subsequently, adopt, in accordance with the risks identified, proportionate and appropriate measures to mitigate them.

In this context, it was deemed appropriate to prepare a first exercise in the country of a National Risk Assessment (NRA), which would include the adequate survey of the threats and vulnerabilities of money laundering, terrorist financing and the financing of the proliferation of weapons of mass destruction (AML/CFT) which Brazil is most likely to confront.

Thus, the Working Group for the National Risk Assessment of Money Laundering, Terrorist Financing, and the Financing of the Proliferation of Weapons of Mass Destruction (WGNRA) was established in accordance with the provisions of Decree No. 10.270, of March 6, 2020.

In this context, Brazil undertook its first NRA taking into consideration the systematic assessment of threats, vulnerabilities, and capability to prevent and combat money laundering, terrorist financing and the financing of proliferation.

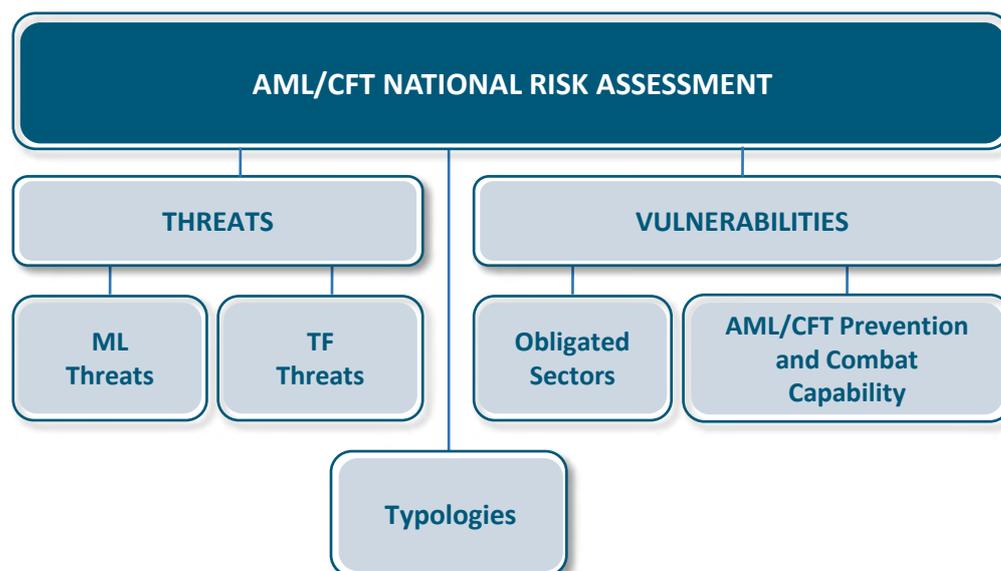
The 2021 National Risk Assessment of Money Laundering, Terrorist Financing, and the Financing of the Proliferation of Weapons of Mass Destruction (NRA) is the outcome of the research to identify, assess, and understand these risks in the country. It is a relevant national instrument to subsidize actions by competent bodies and entities in terms of preventing and combating money laundering, terrorist financing, and financing of proliferation of weapons of mass destruction – AML/CFT.

1 NRA Methodology

The NRA methodology consists of a conceptual framework and criteria used by WGNRA for the identification, assessment, and understanding of AML/CFT risks in Brazil.¹ The NRA methodology comprises procedures, tools, surveys, parameters, consolidation criteria, information flow structures, role structures and accountability.

There were five large groups of procedure, called *macro-processes*, which guided the implementation of the work, as shown in the figure below.

Figure 1 – Analytical Structure for the National Risk Assessment



This NRA uses several concepts, as defined in the methodological summary. Four of these terms also deserve to be highlighted here:

- **Threats:** person, group of people or activity with the potential to cause harm to the state, society or the economy, that is, factors beyond the control of the authorities or economic sectors;
- **Vulnerabilities:** failures or weaknesses in regulation, AML/CFT control or repression systems, which threats may take advantage of;
- **Impact:** damage caused by threat, either financial loss or misconduct in the business environment;
- **Risk:** resulting from Threat and Vulnerability variables, and its impact is responsible for defining the priority in the mitigation of certain risk in prejudice to another.

It is worth emphasizing that this work assessed not only technical compliance, that is, the specific requirements of each sector, area or activity but also specially the effectiveness of AML/CFT system.

This work had the participation and collaboration of more than two dozen governmental bodies, the private sector, and civil society with the scope not only to put the country into full compliance with the international standards but also to leverage the development and practical and

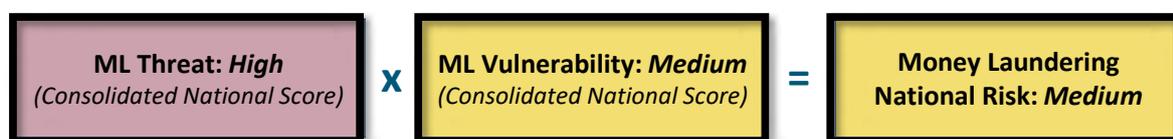
¹ The methodology arose from a proposal prepared by the Coaf Special Staff, instituted by the Coaf President through Ordinance No. 1.258, of January 15, 2020, with the purpose to complete the development of formal proposals for methodology and work plan to be employed in the NRA implement procedures, as well as to continue the corresponding activities. The final outcome of its works was approved by Ordinance No. 12.625, of June 18, 2020 – the National Risk Assessment Methodology, which WGNRA received and adjusted according to the applied methodology.

effective implementation of the AML/CFT national system based on risks effectively identified by a specific methodology. See below the overall outcomes of the work and the conclusions of each one of its main levels.

2 ML National Risk

As described in the methodology, ML National Risk presented below refers to the results obtained from ML Threat and Vulnerability variables. In the context of vulnerabilities, it was considered the vulnerability consolidated score, which represents the result of the Sectorial Vulnerability, with weighted representativeness and materiality included, and the country’s AML/CFT Control and Combat Capability. In this context, we have:

Figure 2 – ML National Risk Calculation



By assessing the risk based on the score obtained for ML threats, and the consolidated score of the vulnerability (resulting from the sectorial vulnerability and combat capability), it was achieved the following mathematical outcome of the analysis involving the consolidation of the threats and vulnerabilities, with considerations of representativeness and materiality included:

Figure 3 – ML National Risk Classification

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 explained above, in Brazil, the General Risk of money laundering is **MEDIUM**. The outcome obtained was influenced, in the first place, by the inputs regarding the threats, which were considered high, particularly for the threats of corruption, drug trafficking, criminal organizations, financial crimes, and tax evasion, all of them considered Very High.

The Federative Republic of Brazil faces the challenge to fight against ML from a plurality of tools and mechanisms which, despite its indisputable achievements on several fronts, require more depth, versatility, coordination, and effectiveness. The aspects linked to the consolidated vulnerability, which is comparatively lower than the score obtained for the threats, appear as recognized strengths. For the calculation, all Sectorial Vulnerabilities, rated as medium, were taken into consideration and added to the National Combat Capability, whose rating was considered high, particularly because of legal aspects and the operational capacity of bodies related to the combat against, detection, financial intelligence, investigation, prosecution and freezing of assets linked to criminal activities.

3 ML Threat Summary

Among the diversity of ML crimes perpetrated in, in connection with or from the Federative Republic of Brazil, the most relevant are as follows:

- a. **Corruption:** According to this analysis, corruption is the most serious sort of crime in the country. This threat is repeatedly perpetrated with the participation of several agents involved: 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;
- b. **Drug Trafficking:** Drug trafficking remains as one of the most common predicate offences for money laundering activities in Brazil. It is a high-occurrence crime in the country, and the main cause of imprisonment in Brazil. In general terms and based on recent police operation records related to combating drug trafficking, the assessment that this threat has a national impact is corroborated, being more specialized in some regions, depending on the way of transportation adopted (air, sea, road transport). It is usually materialized through complex and organized structures (either as a predicate offence or in the subsequent money laundering), and generates large financial resources for its perpetrators, often reinvested in the criminal structure and logistics;
- c. **Organized Crime Syndicates:** Brazil has extremely dangerous criminal organizations with thousands of affiliates, operations in neighboring countries and with relevant financial transactions. These activities involve the traffic of great quantity of illegal goods, mainly drugs and weapons. Among the criminal organizations analyzed are the First Command of the Capital (*Primeiro Comando da Capital*) and Red Command (*Comando Vermelho*);
- d. **Financial Crimes:** They refer to crimes perpetrated by means of complex and organized structures (either as a predicate offence or in the resulting money laundering) nationwide. Although different types of crime can be included in the designation “crimes against the national financial system”, those related to money laundering *per se* and tax evasion stand out;

- e. **Crimes linked to tax evasion:** The threat of tax evasion happens throughout the country, in the municipal, state, district and federal levels in different degrees. Tax evasion is a problem which involves companies of all sizes: from the small ones to the multinationals. The tax evasion assessment detected different levels of sophistication, which may encompass cases of transactions of company funds in natural persons' accounts, and also the use of complex corporate arrangements including parties in tax haven jurisdictions or the participation in professional networks for the incorporation of corporate companies in order to issue fake sales invoices. Cases have been identified in which there was the participation of structures and/or professionals headquartered abroad, hampering the understanding of the entire criminal organization structure.

4 TF National Risk

In order to develop the analysis, first of all, TF threats were divided into two main types: “threat actors” and “threat activities”. The “threat actors” category encompassed the analysis of possible connections of domestic or international organizations with Brazil, their facilitation networks, individuals and populations somehow potentially related to the terrorist organizations. The “threat activities” category entailed any legal or illegal activities with potential to be used to finance terrorist activities or organizations.

Among the threats posed by international groups, the analysis of the following groups was prioritized: Al Qaeda and its affiliates, Islamic State and affiliates, Taliban, and others threat actors, with emphasis to lone actors, non-Islamic violent extremist groups, foreign terrorist fighters, other non-listed organizations and expatriate populations. Please, see below a list according to the obtained results.

TF THREAT RANKING TERRORIST ORGANIZATIONS AND OTHER ACTORS	
Threats	Assessment
Recruitment, training, and facilitation networks Diaspora Population	Medium
Islamic State of Iraq and the Levant, Islamic State of Iraq, and Syria, Daesh, ISIS or ISIL Al Qaeda (Al Qaïda, Alcaida, The Base, The Foundation - Central organization) Non-Islamic radical extremist groups Al-Nusrah Front for the People of the Levant (Jabhat Fateh al-Sham or Jabhat al-Nusrah) Small terrorist cells Lone actors Foreign terrorist fighters – FTFs	Low

In addition, as mentioned, the analysis comprised activities which were likely to be used for TF and would require, as the case may be, greater attention to avoid any use of such criminal activities for terrorist financing purposes. Against this backdrop, the following potential activities stand out: triangulations through smuggling of products or foreign trade, donations from individuals or legal entities, human trafficking, and piracy of products. Please, see below a list of potential TF threat activities.

Ranking of potential financing activities most likely to be used in the country:
Smuggling of products
Trade-based terrorist financing
Donation from individuals
Donation from Legal Entities
Extortion of businesses and/or local and diaspora populations
Human trafficking
Piracy
Drug Trafficking
Self-financing
Smuggling of cigarettes
Smuggling of precious stones
Smuggling of migrants
Credit card fraud

As described in the methodology, the TF national risk is calculated based on the TF threat variables listed above, as well as the sectorial vulnerabilities and combat capability. In the calculation of the vulnerabilities, the country’s consolidated vulnerability score took into consideration the representativeness and materiality of each sector and/or activity. See below the graphic exhibition.

Figure 4 – TF National Risk Calculation

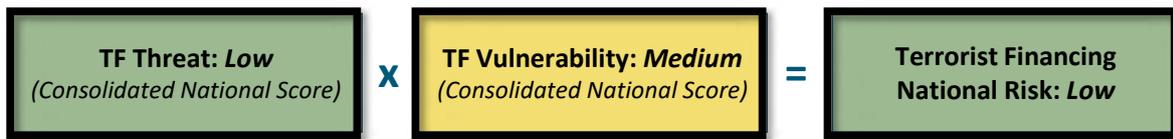


Figure 5 – TF National Risk Classification

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 described, the TF General Risk of the Federative Republic of Brazil is **LOW**. In regard to terrorism and its financing, Brazil has demonstrated the capacity to detect and identify possible operations related to terrorists or their financing; the legal milestone; and the operational capability to investigate, pursue, and convict for any TF crimes, with specialized units for combating terrorism in several institutions such as the Brazilian Intelligence Agency (ABIN) and the Federal Police (PF), for instance. Using the existing capability, it was detected and prosecuted some occasional TF cases.

In general, direct links between the most relevant international terrorist organizations and the country have not been identified even though occasional cases of radicalization have been detected, especially during the period of the major sports events which occurred in the country between 2014 (World Cup) and 2016 (Rio de Janeiro Summer Olympic Games). With the advent of global events, practices of international cooperation on TF activities were incorporated and improved.

In brief, no significant local risks were detected, and it can be concluded that the main threats refer to foreign terrorist organizations operating abroad which seek to exploit some of the country's vulnerabilities to carry out TF activities.

Despite the national general law to combat TF is closer to international standards, Brazil also has a normative deficit of regulation and effective supervision, especially regarding the Non-Profit Organizations (NPOs), which shall be subject of coherent and priority work, proportional to the risks.²

5 Summary of AML/TF Vulnerabilities

5.1 Sectorial Vulnerabilities

According to the methodology applied, and based on sectorial risk assessments, the assessment of the vulnerabilities of each sector considering its activities was calculated. See below a brief summary of the vulnerabilities identified by sector:

- a. **Banking and Non-banking Financial Institutions:** The country has a widespread service network in the financial sector. At the end of 2020, the total assets of banking and non-banking financial institutions totaled over R\$ 9.7 trillion, and 94% of the corresponding amount belong to the banking sector. In general, this sector shows the medium-weighted vulnerability of its use for ML/TF purpose, and the main risk activities are: Exchange (High), Prepaid Payment Account (Medium), Current Account/Savings Account (Medium), Postpaid Payment Account (Medium), and Consortium (Medium). Among those assessed in Sectorial Risk Assessment (SRA), the products offered in the foreign-exchange market were the only to present high vulnerability of use for ML/TF purposes;
- b. **Securities:** The general score of the securities sector presented a low weighted vulnerability for ML/TF purposes (occurrence of the sector in the Overall Score), as SRA conducted by CVM, the Brazilian Securities and Exchange Commission. Notwithstanding, as described in the SRA, two sectors presented medium vulnerability: Market and Intermediaries, and Investment Funds. Among the main vulnerabilities are the difficulty to execute the due

² About NGOs, even before the conclusion of the NRA, the topic was included in the Brazilian National Strategy to Combat Corruption and Money Laundering (ENCCLA) for its treatment during 2021 aiming to expand research on Terrorist Financing (TF) issues, and present a compilation of good practices related to the prevention, detection, investigation, and repression of the crime. One of the outcomes expected is to improve the knowledge of several bodies on the theme of TF, including by mapping the most vulnerable non-profit organizations. This ENCCLA Action counts on the collaboration of over a dozen public and private bodies and agencies.

identification of the ultimate beneficial owner of non-resident investors (for instance, those whose characteristics and legal nature hamper the identification of the beneficial owner), the lack of maturity of the service providers which have recently begun their activities in the capital markets, and could neither have their AML/CTF structure tested nor a history of performance validated by the regulator;

- c. **Insurance and Pension Plans:** The sectors under the Superintendence of Private Insurance (Susep) supervision were considered with low vulnerability for ML and TF risks, according to SRA carried out by the body. Despite this, funds accumulated in supplementary pension products, such as the VGBL (“*Vida Gerador de Benefícios Livres*” or Redeemable Life Insurance) and the PGBL (“*Plano Gerador de Benefícios Livres*” or Plan Generator of Benefits) and also capitalization-structured products, are considered of higher risk and priorities for supervision. In its sectorial risk assessment, the pension plan sector also concluded that the sector’s vulnerability for ML/TF purposes is low;
- d. **Other regulated sectors:** For the purposes of this report, the category of other regulated sectors encompasses the Factoring sector, Virtual Assets Service Providers sector, and all Designated Non-Financial Business and Professions (DNFBP). Among these sectors, considered as higher vulnerability, are:
 - i. *Virtual Asset Service Providers (VASP)* – in Brazil, the virtual assets sector is neither regulated nor supervised for AML/CTF purposes, responding only to the tax regulation;
 - ii. *Real Estate Sector*— the ML/TF real estate vulnerability is high. If, on the one hand, the real estate market moves a great part of the Brazilian economy and is exposed to several situations which increase its exposure to ML/TF, such as transactions with very high-risk customers or the use of interposed persons or complex legal structures to conceal the real beneficiary of the transaction, on the other hand, it is observed a low knowledge of the sector about its AML/CTF obligations;
 - iii. *Factoring Sector* – This sector has a high-weighted vulnerability for money laundering and does not have a regulatory or supervisory agency with full legal powers to apply preventive measures to this activity in order to comply with FATF recommendations;
 - iv. *Precious Metals and Jewels Sector* – In Brazil, the weighted vulnerability of the precious metals sector for AML/CTF purposes was rated as medium. Also, this sector is not regulated for AML/CTF purposes in all levels of the market chain, because ANM, the Brazilian National Mining Agency, has not published its specific regulation yet. Furthermore, the vast exploitable territorial extension for gold and precious stones, the difficulties inherent to identify and combat illegal mining, and the lack of knowledge on AML/CTF obligations by a large part of the members of the sector are factors supporting such vulnerability;
 - v. *Physical Transportation of Cash* – The vulnerability of the cash transportation sector was considered medium for the purposes of ML/TF. The use of cash for money laundering is a well-known typology. The combination of possession and transportation of a large amounts of cash and the provision of financial services for companies, such as the payment of invoices, has made this sector attractive to those seeking untraceable cash.

5.2 Vulnerabilities Combat Capability

The survey of the vulnerabilities referring to the country's AML/CFT Prevention and Combat Capability followed its own system, i.e. the analysis did not start from a specific threat, but from a broader approach, an overlook on the existing preventive and coercive system framework to counter the threats, focusing on powers and institutional proceedings implemented and effectively able to achieve the expected outcomes. In this sense, the analysis showed the following outcomes, in brief:

- a. **Laws and Criminalization pillar:** The general score achieved of 0.98 (close to excellence) reflects the strengths particularly related to the adjustment of the national legal framework to the international standards provided by FATF Recommendations. It should be highlighted that Brazil has adopted a 4th generation ML legislation, whereby concealing and disguising any and all assets linked to criminal activities of any predicate offence can be considered a ML offence. Likewise, it was verified that the incorporation of the main international instruments and secrecy laws, Customer Due Diligence (CDD), confidentiality, and reporting of operations to the Council for Financial Activities Control (Conselho de Controle de Atividades Financeiras – COAF, the Brazilian Financial Intelligence Unit) are consistent with the elements and requirements of the international standards. It is worth emphasizing some opportunities for refinement in items related to the topic “Regulated Sectors (Regulation and Supervision),” with room for improvement of Law No. 9.613/1998 in the definition of the regulated entities and the assignment of regulators and supervisors for some sectors of lesser relative relevance and in the condition to create a framework for activities related to virtual assets transactions and the adequate supervision of the stakeholders involved in this sector;
- b. **AML/CFT National Cooperation pillar:** The general score achieved of 0.8 (very high) reflects the strengths especially related to the institutional articulation which the National Strategy for Corruption and Money Laundering Combat (ENCCLA) promotes, as well as the public policies promoted by the Ministry of Justice and Public Security (MJSP). It is worth emphasizing some opportunities for improvement in items related to the combat against terrorism and its financing, such as the structuring of an inter-institutional public policy on this issue, encompassing several sectorial initiatives, and also the need to increase the control mechanisms on Non-Profit Organizations in order to better identify any activities related to these crimes;
- c. **International Cooperation pillar:** The general score achieved of 0.84 (very high) shows strengths especially from the normative and institutional legal perspective, in particular a solid legal foundation for the formulation of cooperation requests (12 multilateral treaties and bilateral treaties on criminal matters with more than 20 different jurisdictions). Also, it is worth emphasizing the established institutional force and powers of the central authority (Department of Assets Recovery and International Legal Cooperation – MJSP) and specific agencies of international cooperation both in the Federal Prosecution Service and the Federal Police. Furthermore, it is noteworthy that investigative and confidentiality techniques are available for the international cooperation, including actions to prosecute and combat the main threats identified. It is worth emphasizing some opportunities for general improvements in items related to statistics, structure for the performance of several aspects of the international cooperation and the effectiveness of the exchange of information according to the sought-after purposes;

- d. **Financial Intelligence pillar:** The general score achieved of 0.88 (very high) reflects strengths particularly related to the great capability reported concerning the aspects regarding the treatment of the information. The safety of the information is another highlight due to the safe system for exchanging information with competent authorities exclusively employing an encrypted electronic medium, the Electronic System of Exchange – SEI-C, only accessible via digital certificate. The Financial Intelligence Reports (RIFs, in their abbreviation in Portuguese) have their safety mechanisms which allow to identify the competent authority who received them, the date and time of access, and the document authenticity. Finally, the dissemination of information, either spontaneously or at request, and the reply to requests for information are both significant. As an improvement opportunity, it can be mentioned the quality of the information received by Coaf, especially in sectors without regulation, even though they spontaneously report to Coaf;
- e. **Investigation and Indictment capacity pillar:** The general score achieved of 0.74 (high) reflects strengths especially from the point of view of the information gathering among national bodies, information access powers, investigation and prosecution levels, as well as the possibility, quality, and use of the information from the FIU (Coaf), which had the better average among these items. Regarding the connection between the investigation and prosecution in relation to the main threats, it was verified more significant outcomes in ML connected to corruption and financial crimes. It is worth emphasizing some opportunities for general improvements in items linked to statistics, given the difficulty to obtain and update information related to the different stages of the procedure. Regarding the link to the main threats, the profile related to Tax Evasion was the one which presented the lowest comparative outcomes;
- f. **Trial and conviction capacity pillar:** The general score achieved of 0.67 (medium-high) demonstrates the strengths, especially referring to the specification and compliance with Judicial Branch National Goals. Also, it is noteworthy the progressive increase of non-criminal procedures. It is worth emphasizing some opportunities for general improvements in items related to statistics, which is expected to be mitigated when the project conducted by the National Council of Justice (CNJ, in Portuguese) is concluded. In addition, it is necessary to adjust the parameters used to gather statistics according to the FATF's requirements. Regarding the link with the main threats, a profile related to Tax Evasion was the one which had the lowest score in the assessment, as it was observed a high occurrence of liability extinction, higher than 50%;
- g. **Assets forfeiture and recovery pillar:** the general score achieved of 0.71 (high) reflects strengths, especially related to the capacity to freeze assets during the investigation and the criminal prosecution, including the possibility to do it in a preliminary stage during the investigation. The frozen amounts show the frequent use and effectiveness of this mechanism. It is worth emphasizing some opportunities for improvements in items linked to the statistics, given the difficulty to obtain and update information related to the criminal forfeiture at the end of the criminal prosecution. Regarding the effectiveness of the final forfeiture of assets, the participating bodies stated that the Brazilian legal framework referring to criminal forfeiture could be considered appropriate to produce the intended effects, but the long and time-consuming criminal procedure in Brazil often jeopardizes the repatriation of the assets located abroad;

- h. **Legal entity transparency and customs control pillar:** The general score of 0.64 (medium-high) in this pillar reflects the existence of strengths and relevant opportunities for improvements. Among these strengths, it is worth emphasizing, for instance, the existence of several actions in the country towards the promotion of a greater transparency for legal entities: the prohibition of certain types of corporations, such as trusts; an environment for timely consultation of legal entities registry information; and the requirement to maintain this record updated. Regarding customs control measures, it is worth emphasizing the existence of customs controls for the transportation of funds, such as the electronic traveler's declaration of goods system and the international transportation of funds statement. Regarding the opportunities for improvements, it is worth emphasizing the possibility of a type of secret partnership named *Sociedade em Conta de Participação* – SCP in the country. In addition, about the cross-border transport of cash and bearer negotiable instruments, there is no normative provision for the customs authority to determine the temporary withholding of the funds even upon suspicion of ML/TF. There is only an obligation to submit a document showing the legal origin of the funds when they leave the country;
- i. **National Financial System Supervision pillar:** The final assessment resulted in a score of 0.86 (very high), arising from the continuous work developed by the supervisory bodies over the last twenty years, and characterized by its comprehensiveness and constant evolution. In this regard, it is worth emphasizing the enactment of new AML/CFT rules by the Central Bank of Brazil (BCB), the Brazilian Securities and Exchange Commission (CVM), the Superintendence of Private Insurance (Susep), and the National Superintendence of Complementary Pensions (Previc), coordinating the procedures of these bodies with the principle of the Risk-Based Approach (RBA) in a clearer and more objective way. Another highlight is the alignment of the regulated entities regarding customer due diligence procedures, which are subject to continuous follow-up by the supervisory bodies and were subject of special attention in the review procedure of the rules. Likewise, the positive assessment on the aspects related to the wire transfers, including the incorporation of information on senders and beneficiaries, and the maintenance of their records should be noted, due to its relevance in the process of tracking illegal funds. Concerning the opportunities for improvement, it is urgent to advance the legislation and regulation procedures for the Virtual Asset Service Providers (VASPs) sector, including it in the list of regulated sectors under Law No. 9.613, and defining its supervisory body for AML/CTF purposes, in line with the best practices provided in the FATF Recommendations, since the absence of supervision substantially increases the risk of its use to carry out illegal activities;
- j. **DNFBP Supervision pillar:** The final assessment of this pillar resulted in a score of 0.56 (medium). Primarily, it was observed a great heterogeneity in the answers of several DNFBP sectors regarding the implementation of AML/CFT measures. While some of these sectors are more advanced regarding the regulation and supervision, including with the application of the risk-based approach to supervision, others do not even have any specific rules for AML/CFT, for instance, the sectors regulated by the National Mining Agency (ANM), the National Bar Association (OAB), the Ministry of Tourism (MTUR), and the Ministry of Agriculture, Livestock and Food Supply (MAPA). Furthermore, the effectiveness of the implementation of some measures by the regulated entities, such as customer due diligence (CDD), and record keeping, is not properly monitored by some of these supervisors;

- k. **Correctional and integrity pillar:** The general score achieved was 0.8 (very high) and especially reflects the participation of State defense bodies, such as the Federal Police (PF) and Federal Prosecution Service, both under Federal and State levels, in the Office of the Comptroller General (CGU) special joint operations. CGU, the central body in the Federal Executive Branch Correctional System (SISCOR), only in the year of 2020, dismissed over 450 civil public servants after conviction, about 67% of these cases resulting from cases of corruption. Another highlight related to prevention actions is the release of the Anticorruption Plan for the period 2020-2025, prepared to structure and carry out actions to improve, in the Federal Executive branch, mechanisms for the prevention, detection and accountability for acts of corruption by enhancing anti-corruption legislation and following international recommendations;
- l. **Countering Terrorist Financing pillar:** The general score achieved of 0.64 (medium-high) consolidates the national aspects identified in the topics related to the capabilities for detection, identification, investigation, and processing of potential TF actions and implementation of financial sanctions. On the other hand, the part of the assessment devoted to the Non-Profit Organizations (NPOs) had negative mentions, demanding a coherent work with a suitable RBA;
- m. **Counter proliferation of weapons of mass destruction pillar:** The general score achieved of 0.77 (high) consolidates the national aspects identified in the following sections: “international treaties and agreements”, “monitoring”; “export control”; “dual technology”; and, finally, the aspects related to the financial sanctions regarding the financing of proliferation. Except for “contracts, agreements or previous obligations”, all other sections constituting the financing of the proliferation of weapons of mass destruction pillar had positive mention. The subitem “contracts, agreements or previous obligations” presents challenges and opportunities for improvement upon the elaboration of specific rules related to the theme.

5.3 Transversal Factors

Some transversal factors equally influence the Brazilian AML/CTF risks. One of these factors is the long land border with over 15,000 kilometers and over 7,300 kilometers of maritime border. The difficulty for inspection is enhanced by its high level of porosity, which aggravates the vulnerability of the region regarding the cross-border crimes, such as cocaine production and trafficking.³

The relative informality of the economy⁴ and the use of cash⁵ were equally considered as transversal factors.

3 UNODC's 2019 World Drug Report established that 70% of 34 areas of cocaine plantation in 2017 belonged to Colombia, 20% to Peru, and 10% to the Plurinational State of Bolivia, all border countries with Brazil. According to the same Report, Brazil and the Southern Cone, on the other hand, remain as transportation route of drugs to Europe. <https://www.unodc.org/topan/es/BorderControl/drug-trafficking.html>.

4 The informality of the Brazilian workforce, considering the employees without work records, freelancers without the National Taxpayer's Identification Number (CPF), and small entrepreneurs without Corporate Taxpayer's Registry (CNPJ), was on a level of 33% in 2019, according to data from the Continuous National Household Sample Survey (PNADC), of the Brazilian Institute of Geography and Statistics (IBGE). In the same year, the Brazilian Institute of Ethics in Competition (ETCO) and the Getúlio Vargas Foundation's Brazilian Institute of Economy (Ibre), published a research estimating the so-called “informal or grey economy” in 17.3% of the national GDP, calculated in R\$ 7.257 trillion that year. Therefore, the total of goods and services generated in the informal economy would be estimated in approximately R\$ 1.2 trillion.

5 The use of cash for high value transactions and the difficulty to define the origin of the funds are vulnerabilities constantly mentioned by several supervisors related to their sector. Also, the topic “cash” is frequently present in typologies already identified related to money laundering and terrorist financing.

Another transversal topic refers to the vulnerability constantly referred to in several Sectorial Risk Assessments (SRAs) and by investigation and prosecution bodies related to the difficulty to identify the beneficial owners of the most complex and professional transactions, more importantly the use of shell companies and figureheads to facilitate or enable the money laundering.

6 Typologies

The third NRA macro-process is called “Typologies”, which aims to reinforce and provide examples to the analyses produced in the AML/CFT National Risk Assessment, identifying “HOW TO”, i.e. the means, structures, formats and arrangements which the ML/TF threats have used to carry out their operations in the country and which sectors and control systems may be affected. According to the corresponding Annex, 62 previously-identified typologies have been submitted including the trends and methods relating to the main threats and vulnerabilities presented. The final product of this macro-process is both a NRA annex and a special edition of a guide named *Casos e Casos* (Cases and Cases) published by the Council for Financial Activities Control (COAF) aiming to promote the dissemination and raise awareness in the AML/CFT community.

7 ML/TF risks identification and treatment mechanisms of before the NRA

It is also worth mentioning that, though this document represents the country’s first ML/TF national risk assessment exercise, it is important to point out that since 2003 Brazil has established a robust mechanism for the coordination and the 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), as previously described.

As explained in the specific part, the main practical outcomes resulting from this institutional articulation consist in measures taken to implement public policies, by means of submitting policy proposals, improving administrative structures, preparing 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 National Training and Qualification Program for the Combat Against Corruption and Money Laundering (PNLD), the Investigation System for Banking Transactions (SIMBA), and the layout standardization to lift the bank secrecy and the subsequent creation of the National Financial System Customer Registry (CCS); the initiative to regulate the declaration of assets and funds which comprise public officials’ personal wealth; the creation of the Seized Assets National System (SNBA), including a discussion and proposal which enabled the enactment of Law N. 13.810, of March 8, 2019, regarding Targeted Financial Sanctions, as well as several other initiatives.

8 NRA priority actions

As the NRA methodology establishes, based on the main Threats and Vulnerabilities identified and weighed during all the assessment process, there should be a priority treatment of actions for the progressive improvement of the AML/CFT system in the country. It is emphasized that the prioritization exercise carried out by the WGNRA is the main objective of the AML/CFT National Risk Assessment and intends to better allocate national resources to prevent and counter ML, TF and PF.

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.

Recommendations of the Joint Public Action to be developed by several bodies and/or sectors:

- **Virtual Assets** – To set up a regulatory framework for Virtual Assets Service Providers (VASPs) in line with the best practices provided by FATF (Recommendation 15);
- **Cash** – To evaluate the adoption of restriction measures and control for the use of cash in Brazil;
- **Beneficial owners** – To 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** – To 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** – To evaluate measures for AML/CTF improvements in the sector particularly regarding the most commonly used typologies;
- **Factoring** – To evaluate measures for AML/CTF improvement in the sector particularly regarding the most commonly used typologies;
- **Precious Metals** – To evaluate measures for the improvement of the supervision in the mining and trade of precious metals and stones activity, aiming to set up a AML/CTF regulatory framework for the sector;
- **Customs control** – To improve dissuasive AML/CTF measures in customs control;
- **Tax evasion** – To improve dissuasive AML/CTF measures to counter tax evasion;
- **Assets Recovery** – To improve measures to enable more effectiveness in the repatriation of assets located abroad;
- **Risk-Based Approach** – To 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** – To promote studies to evaluate the risks connected to the NPO and define measures for high-risk entities;
- **Criminal Forfeiture Statistics** – To 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 presents a legislative, regulatory and supervisory deficit, particularly in DNFBP sectors, which should be subject to a coherent and priority effort, proportional to the risks identified. In this scenario, we listed the main actions to mitigate the identified risks in the following sectors:

- **Accountants** – to raise awareness of the relevance of AML/CTF measures in the sector and to implement a AML/CFT risk-based supervision procedures;
- **Economists** – to raise awareness of the relevance of AML/CTF measures in the sector and to implement AML/CFT risk-based supervision procedures;
- **Lawyers** – to raise awareness of the relevance of AML/CTF measures in the sector, to enact a regulatory framework, and to implement AML/CFT risk-based supervision procedures;
- **Fairs and Artistic Events** – to raise awareness of the relevance of AML/CFT measures in the sector, to enact of a regulatory framework, and to implement AML/CFT risk-based supervision procedures;
- **Wildlife trade** – to raise awareness of the relevance of AML/CFT measures in the sector, to enact a regulatory framework, and to implement AML/CFT risk-based supervision procedures;
- **Works of Art** – to increase the knowledge of supervised actors about the importance of AML/CTF measures in the sector; to implement measures on the part of the National Institute for Historical and Artistic Heritage (IPHAN) to mitigate the difficulties in the definition of the value of a work of art, and the constraints on the proof of authenticity, lack of warranties of origin and source for the works of art; to adopt measures to mitigate the limitations in the exchange of information with prosecution bodies which could be directed to actions of more effective inspections;
- **Real Estate Brokers** – to 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** – to raise awareness of the relevance of AML/CFT measures in the sector and to implement AML/CFT risk-based supervision procedures;
- **Notary Offices** – to 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;
- **Cross-border transport of cash and bearer negotiable instruments control activities** – to foster studies aiming to create a specific procedure to report to Coaf on suspicious activities identified in the cross-border control of cash and bearer negotiable instruments, and also to include the requirement for information on bearer negotiable instruments.