

## Sports M&A – Recent Changes on the Legal Framework of Investments in Brazilian Football Clubs



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→ **National law – Corporate law – Governance – Broadcasting rights**

*Normative Ruling no. 81/2020, 15 June 2020*

A new Brazilian Normative Ruling issued in June 2020 has expressly authorized the conversion of civil associations into corporate entities, allowing new forms of investments and M&A transactions involving Brazilian football clubs.

### **Introduction – New Scenario for Investment in Brazilian Football Clubs**

On 15 June 2020, the National Department of Corporate Registry and Integration (*Departamento Nacional de Registro Empresarial e Integração* - DREI), the federal body that regulates the public registries of corporate entities in Brazil, published new Normative Ruling no. 81/2020 (Normative Ruling), that has substantially changed the general guidelines for the public registry of corporate entities. The Normative Ruling has its main grounds in the Brazilian Economic Freedom Act (Law no. 13.874/2019), and due to such regulation, the market for investment in Brazilian football clubs has been indirectly but significantly impacted.

Due to the Normative Ruling, a brand new and unexpected possibility of converting<sup>2</sup> civil associations into corporate entities has emerged. There are two main reasons that such possibility is considered unexpected: (i) historically, the competent Brazilian authorities for registering legal entities - the Civil Registry of Legal Entities (competent for registering non-corporate entities) or the Board of Trades (competent for registering corporate entities) - had agreed that the transformation of civil associations into corporate entity (and *vice versa*) was only possible in

cases expressly set forth by law; and (ii) due to (i), the Brazilian federal legislative bodies are in the process of formulating legislative bills that aim to, among other matters, regulate the possibility of transforming the Brazilian football clubs organized as civil associations into corporate entities.

In this sense, the changes brought by the Normative Ruling represent an important development for Brazilian football clubs, as the conversion of civil associations into corporate entities is now a viable alternative for the structuring of investment in such clubs. As an example, there is the case of the conversion of *Red Bull Bragantino* (formerly *Clube Atlético Bragantino*, originally incorporated as a non-profit civil association) into a limited liability company, whose conversion process was concluded at the end of August 2020. Such conversion was made possible by virtue of the new Normative Ruling.

Due to the legal framework change mentioned above, the purpose of this article is to evidence the relevance of the Normative Ruling for the football environment, especially with respect to the expansion of the alternatives for investment in Brazilian football clubs.

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<sup>2</sup> Normative Ruling no. 81/2020 adopts the expression “conversion” instead of “transformation”.