



SAF

FOOTBALL
CORPORATION

DEMAREST



A hand is shown holding a soccer ball. The background is a composite image featuring a city skyline at night with illuminated buildings and a starry night sky. The overall color palette is dominated by dark blues, oranges, and blacks.

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WHAT ARE THE OBJECTIVES OF THE SAF?

The SAF was instituted in order to modernize Brazilian football with the promise of:



Establishing clear rules and legal certainty for investors;



Being a modern vehicle that meets market demands;



Exercising transparency obligations and high level of corporate governance;



Implementing mechanisms for restructuring football clubs, including tax benefits and debentures;



Creating opportunities to settle club debts.



Evolution of the corporate types



CLUB

Not-for-profit organization

Several debt relief and benefit programs have failed to prevent the occurrence of unprofessionalism and mismanagement in football.



COMPANY CLUB

Business corporation

The proposed rules for the migration from an associative model to professional management did not generate the desired effects, mainly due to the lack of mechanisms to address the enormous debts of the clubs and attract investments seeking a professional management model.



SAF

Business corporation

The new SAF Law proposes to implement mechanisms to settle clubs' debts in structures that implement professional and transparent management and attract investments.



Incorporation of SAF



Mandatory Transfers:

- Rights and duties in the relationship with federations and confederations and leagues;
- Contracts with professional athletes; Image Use Licensing Agreement; Any other contracts linked to football activity;
- Image use license agreements;
- Any other contracts linked to football activity.



Optional Transfers (use can be through lease agreements, assignment of right of use, etc):

- Intellectual property (symbol, emblem, trademark, brand etc.);
- Real estate (stadium, training center, etc.);
- Other assets that are related to football activity.

CLUB
COMPANY CLUB



Asset
Contribution
“Drop-Down”

SAF



Prohibited Transfers:

- Assets and rights unrelated to football activity.



Unless there is a specific contractual rule, such transfers do not depend on lender approval.



Other forms of incorporation

Spin-off, Transformation, Incorporation by an individual, legal entity or fund



Spin-off / Club Transformation:

- Challenges of converting members into shareholders;
- Requires complete segregation from other existing activities.



Creating SAF without linking to an existing team

- Challenge of operating SAF without intangible assets (brand, fans);
- Process for participation in championships and federations and sports administration entities.



Structuring of SAF projects

SAF transactions are atypical as the seller's motivation is not just to get the best price, but fundamentally to ensure that the football team performs as best as it can in the future.

The legal structuring of the SAF involves several challenges to reconcile the interests of Clubs and investors. We highlight the following:

Club Debt

- Audit in a complex and unorganized environment;
- Alternatives proposed by the SAF (Centralized Enforcement System and judicial or extrajudicial reorganization);
- Succession and statutory allocation of revenues;
- Club debt management.

Defining the scope of the contribution

- Negotiation of assets, liabilities, goods and rights to be transferred;
- Assets whose title will be transferred;
- Assets whose title will be retained and use granted;
- Obligation of agreement for the use of real estate;
- Relevant tax issues;
- Prior termination of football-related contracts that should not be transferred to SAF.

Post-sale shareholder relationship: Investor and Club.

- Level of Club interference in SAF decisions;
- Compulsory vetoes obligated by law;
- Shareholders Agreement;
- Mandatory maintenance of club participation for as long as there is indebtedness;
- Real estate lease agreements (stadium and training centers);
- Trademark or brand use agreements and royalty payments;
- Options to buy and sell at certain events.



Purchase Price and Investment Commitment.

- How much is paid to the Club for SAF (cash + debt assumption);
- How much is required as a minimum contribution to the SAF;
- Minimum expenditure commitment;
- Minimum payroll commitment of athletes and coaching staff;
- Financing.

Complex club approval process.

- A widely-held membership system for the approval of resolutions;
- Little agility and flexibility for decision making;
- High level of participation by fans and press in the processes.

Forms of capitalization

1. Debt Structure

a. 'Fut' Debentures

- i. Bill that provided for privileged tax treatment was vetoed
- ii. There are certain requirements for its creation;
- iii. Market access with better conditions than ordinary financing lines.

b. Regular Financing

- i. Greater supply of financing outside the associative regime;
- ii. Greater capacity for structuring a guarantee package;
- iii. Independent management provides for greater security to financial institutions.

2. Equity Interest

a. Direct Investment

- i. Possibility of capitalization with goods or assets;
- ii. Partial or total assumption of debt as possible mechanism for acquiring participation;
- iii. Different structuring possibilities (for example: holding company, investment fund, etc.)

b. Public Listing

- i. There is no prohibition for SAFs to become public companies;
- ii. It could be a future step in the football market.



How to deal with Club indebtedness?

General rule of succession:

An SAF is **not liable** for the club's obligations prior or subsequent to its incorporation.



EXCEPTION

Obligations related to the activities of its **corporate purpose**.



COURTS' POSITION

the concept is relatively generic and the courts will set the parameters for succession.

The Law establishes two legal alternatives for structuring the SAF's indebtedness:

Centralized
Enforcement System
RCE

and

Judicial or
extrajudicial
reorganization

Condition precedent in the investment agreement:

Implementation of the centralized enforcement system or judicial/extrajudicial recovery.



Centralized Enforcement System (“RCE”):

- Enables the Club to concentrate in court the revenues allocation and enforcement for payment of debts;
 - Mandatory SAF resources allocated to creditors:
 - » Allocation of 20% of SAF’s revenues to pay lenders (can be reduced to 15% if 60% of liabilities are paid within 6 years);
 - » 50% of dividends and other withdrawals from the Club as shareholder of SAF.
 - Adjustment of civil and labor debts by SELIC;
 - SAF’s subsidiary liability for civil and labor debts if the Club does not meet the payment deadline;
- **There is no legal treatment on succession of tax debts;**
 - **There may be negotiation with creditors for changing the payment conditions defined by the SAF Law;**
- **Payment of RCE debts: A period of 6 years will be granted for the payment of the club’s RCE debts. If the Club proves that it has paid off at least 60% of the debt within this period, the term can be extended for another 4 years.**
 - No foreclosure of assets of the club or of the original legal entity while the creditors’ plan is being fulfilled.



Judicial or extrajudicial reorganization

- Adhesion of the Club to judicial or extrajudicial recovery;
- The recovery plan requires approval from lenders in different classes;
- The contribution of Club assets to the SAF can be structured through an Isolated Production Unit (“UPI”);
- SAF-UPI does not succeed Club debts;
- Subject to the approval of the creditors, the plan should freely structure the Club’s revenues for payment of the lenders (purchase price, dividends, real estate leases, player sales, royalties for brand use, etc.);
- Legal security: This is an already widely-used institute that has existed for more than 15 years;
- Stay period: Club can benefit from a period of at least 180 days without undergoing restriction orders while negotiating the plan with its creditors, in addition to being discharged, until the plan is approved, from the payment of bankruptcy claims;
- Tax benefits: possibility for the Club to adhere to the modality of special installments payments for agents under judicial reorganization.

Governance and transparency obligations

Structure with a high level of governance and independent professional management of the Club:

- Obligations of the Brazilian Corporation Law applied subsidiarily;
- Mandatory permanent functioning of the Board of Directors and the Audit Committee;
- Board of Officers with exclusive dedication;
- Restrictions on appointing managers with positions in the Club;
- Prohibition on the holding of control in another SAF by the SAF’s controlling shareholder;
- Voting restriction for shareholders with 10% or more of voting capital who hold shares in another SAF.

Publishing Obligations:

- Shareholder with 5% or more of the capital will have the obligation to inform the final beneficiary;
- Publication and monthly update of corporate documents, management information and management reports;
- A Club under judicial or extrajudicial reorganization or in the Centralized Enforcement System must update the list of lenders on a monthly basis.



The Club's role in SAF

The company club or club that creates the SAF may be a single, majority, or minority shareholder, and may sell its entire participation if it has no debts incurred prior to the creation of the SAF.

Clubs holding Class A Shares will remain mandatorily involved in relevant matters of the SAF's operation.

Provided that it remains with 10% of the voting or capital stock, the Club shall have a veto right for the following matters:

- i. transactions with real estate or intellectual property rights contributed by the Club;
- ii. corporate reorganizations;
- iii. termination of SAF;
- iv. participation in competitions (entry into leagues).

As long it remains with any percentage, the Club will have a veto right for the following matters:

- i. change the SAF name;
- ii. change of signs (emblem, brand, anthem, etc);
- iii. change of municipality.

It is expected that other matters will be set out in a Shareholders' Agreement to ensure the interests of shareholders.



Tax aspects in SAF

Specific Tax Regime for Football (“RTEF”)

Specific tax treatment which the SAF will be subject to.

Single Monthly Collection

In general, the SAF will be subject to a single monthly payment (through a single collection document), which will include the following taxes: **IRPJ, CSLL, PIS, COFINS and Pension Contributions.**

First 5 years:

Collection of 5% on the monthly revenues received

All revenues received by the SAF, including those from prizes and fan member programs. Excluded revenues from the assignment of sports rights of athletes.

From the beginning of the 6th year on:

Collection of 4% on the monthly revenues received

(Included revenues from the assignment of sports rights of athletes).

Mandatory Taxes

RTEF does not exclude SAF’s obligation to pay the following taxes (if applicable):

- i. IOF;
- ii. Income tax on investments in fixed or variable income;
- iii. Income Tax on capital gains - disposal of fixed assets;
- iv. FGTS;
- v. Other contributions instituted by the Federal Government; and
- vi. ISS, IPTU, ITBI and ITCMD.

Tax Settlement

The SAF Law establishes that priority shall be given to the **analysis of tax settlement proposals**, related to the original club or legal entity with tax liabilities prior to the establishment of the SAF and that have not yet been included in refinancing programs.



Tax aspects: comparative

CLUB MEMBERSHIP	
TAX	RATE
IRPJ and CSLL	Exemption
PIS	1% (on payroll)
COFINS	Exemption
Contrib. Prev.*	5% (on certain revenues**)
ISS	2 - 5%
Total load	Federal Tax: 6% Municipal Taxes: 2 - 5%

* Includes payroll contribution and SAT/RAT contribution

** 5% withholding of the resulting gross revenue:
a) of the shows;
b) sponsorships; c) brand licensing; d) advertising;
e) sports broadcasting.

COMPANY CLUB	
TAX	RATE
IRPJ and CSLL*	34%
PIS*	9,25%
COFINS*	9,25%
Contrib. Prev.	≈28,8%**
ISS	2 - 5%
Total load	Federal Tax: ≈72,05% Municipal Taxes: 2 - 5%

* Costs and expenses can be deducted from the IRPJ and CSLL calculation basis, as well as credits can be compensated in the PIS and COFINS calculation, which reduces the tax burden.

** Incidence on the total remuneration of employees and freelance workers who provide services to the Club.

SAF	
TAX	RATE
IRPJ e CSLL	First five years: 5% incidence on the monthly income received
PIS	
COFINS	
Contrib. Prev.*	From the sixth year on: Collection of 4% on the monthly revenues received (Included revenues from the assignment of sports rights of athletes).
ISS**	2 - 5%
Total load	Federal Tax: (first 5 years): 5% Federal Taxes: (after 5 years): 4% + athlete sales revenues Municipal Taxes: 2 - 5%

* Includes contribution on payrolls, contribution to SAT/RATT and contribution on payment of self-employed workers and managers.

** There are several discussions regarding the tax incidence of ISS on revenues earned by football clubs (i.e. there are precedents ruling out the incidence of ISS on (i) assignment of rights of use and commercial exploitation of image and (ii) fan member program).



Compliance

Implementing compliance mechanisms is a beneficial measure for both the Club and the SAF.

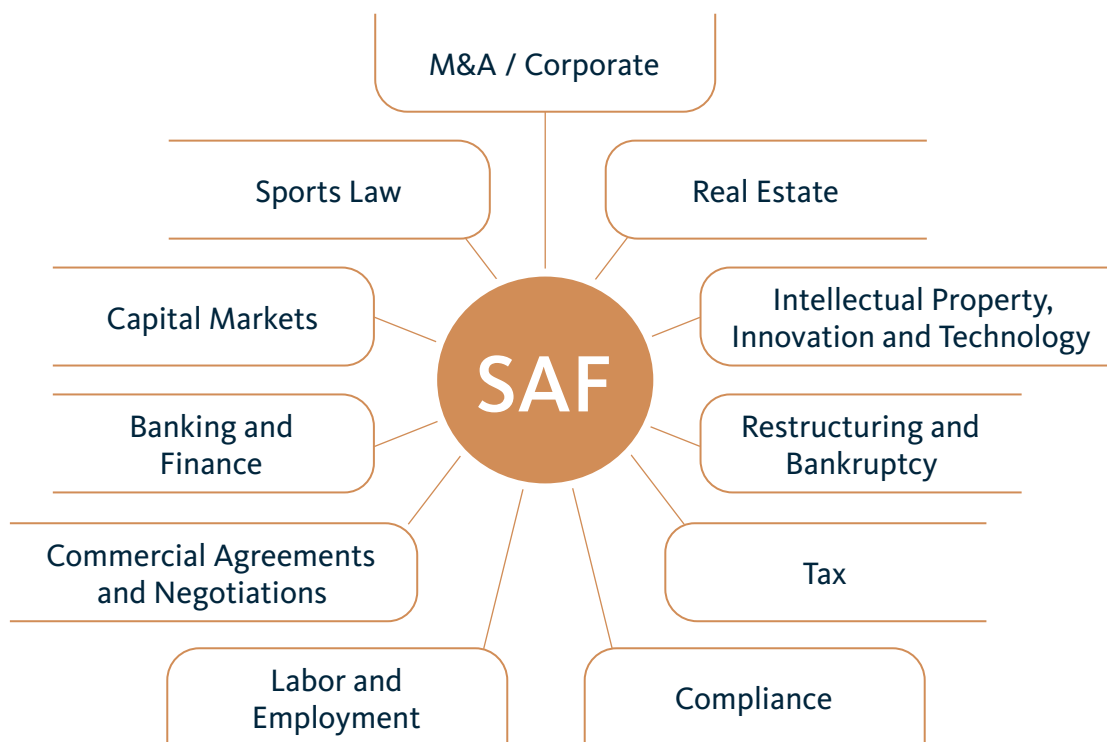
- **Conflict of Interests and Related Parties:** Procedures aimed at the mitigation of risks arising from relationships between managers/ advisors of the Club/SAF and their respective stakeholders, for example, suppliers, sponsors, investors, fans, technical commission, players, among others.
- **ESG:** Policies aimed at combating all kinds of oppression and discrimination in football, especially racism, homophobia and sexism.
- **Complaints Channel:** Procedural mechanisms to collect and process complaints for investigation and possible punishment for misconduct that may result in damages (reputational or proprietary) to the Club or SAF. The external channel must ensure anonymity to those who file a complaint in order to protect them from retaliation.
- **Protection against money laundering:** Procedures and mechanisms aimed at safeguarding the institution against suspicious operations that may be considered money laundering.
- **Compliance Audit:** Audit carried out prior to the transaction in order to mitigate risks regarding money laundering, corruption and other legal risks. In light of the above, the Club must carry out an audit to verify the investor's history. Likewise, the external investor must carry out an audit to verify potential risks and contingencies associated with the Club.



Legal Counsel for SAF Projects

In order for a SAF project to be successful, it is fundamental that legal support involves an integrated analysis of different areas of law.

At Demarest, we have a multidisciplinary team with in-depth knowledge on the subject and with experience recognized by the market and by specialized rankings in the different areas involved:



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