



## Brazil's Congress AI regulation expected to provide legal certainty for businesses

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- Draft proposes risk-based regulation of AI systems
- Bill supported by local developers
- Not seen as harming M&A activity

Brazil's Senate is analyzing an artificial intelligence (AI) regulation which, if approved, is expected to provide legal certainty to technology companies and a safer experience for users, according to industry sources, investors and M&A advisors.

The AI draft bill need to be introduced as a proper bill in the Senate, said Bruno Bioni, founder and director at Sao Paulo-based organization Data Privacy Brasil and one of the 18 members of a committee of legal experts set by the Senate to consolidate the draft from three prior bills.

"In the long-term [the AI law] will help M&A because it sets rules," said Jan Krutzinna, CEO and founder at ChatClass, a Sao Paulo-based AI-powered platform which uses audio recorded in WhatsApp messaging software and analyzed by Natural Language Processing (NLP) to teach languages or professional skills for workers.

"A law will provide greater certainty on how to operate this new part of the economy," Krutzinna said, noting that there is the risk of "exaggerating and creating a stricter law. The governments are worried about AI impacts, it is fully justifiable. So, the [AI] law is unavoidable," he added.

Livia Brandini, CEO and founder at Rio de Janeiro HRtech Kultua, supports the bill and says that it will not negatively affect the company. "It is necessary to have limits and regulations for the uses of technology, because we are responsible for the data we collect," Brandini said. Kultua uses AI and Natural Language Processing (NLP) to analyze a company's culture from the answers given by its employees in direct speeches.

Rafael Kenji, CEO at Belo Horizonte-based corporate venture builder firm FHE Ventures, considers the AI law necessary to organize, supervise and assure that the technology will be used safely. "We are entering a new era, with AI and big data technologies, ChatGPT achievements and more valuable data analysis," Kenji said.

After passing the Senate, the bill would need to be voted by the House of Representatives (Câmara dos Deputados, in Portuguese), and signed into law by the president to take effect.

Compared to the preceding three bills, the draft has made significant progress on protecting individual rights and providing

**ION** PROPRIETARY

**Sector:** Computer Software  
**Topics:** Cybersecurity, Data Privacy, Intellectual Property

**Grade:** Confirmed

### Companies

Alphabet Inc (Parent Of Google Inc Among Others)  
Company Record Pending  
OpenAI, Inc.  
Other Equity Provider  
Microsoft Corporation  
Nuvini  
Private Equity House  
Mercato Partners Acquisition Corporation  
Auddas  
ChatClass  
FHE Ventures Participacoes Ltda.  
Kultua Solucoes Em Pessoas E Cultura

There are no files associated with this Intelligence

legal certainty for the companies which develop or use AI, Bioni said. The draft bill has more legal provisions and seeks to make their enforcement more predictable, he added.

However, there is the possibility of the Senate postponing the voting, said Julian Tonioli, CEO at Sao Paulo-based M&A boutique Auddas, who considers the AI bill draft “too shallow and too broad.”

Tonioli is “very skeptical” about the ability, effectiveness and benefits of regulating technologies and innovation. “Free market presupposes a freedom of action which is hard to be modulated by laws,” Tonioli said.

#### Risk-based and asymmetrical rules

Brazil's AI draft bill is risk-based and asymmetrical, regulating more strictly the systems which pose greater risks to society and imposing a light regulatory burden on those classified as low-risk, Bioni said.

Under the bill, an authority would be set up to regulate excessive-risk AI systems, he added.

Brazil's AI draft bill gives a vote of confidence to economic agents by allowing them to classify the risk of their AI systems, thus setting up a governance network, Bioni said. The draft bill has mechanisms to reward responsible agents rather than simply punish deviant conduct, Bioni added.

The draft bill is also based on the principle that some individual rights, such as the right of transparency, are non-negotiable, no matter the risk of the AI system, Bioni said. People have the right to know that they are interacting with an AI-based system rather than a human, Bioni noted.

Joao Silva, CEO at Sao Luis-based corporate venture builder Aduela Ventures, pointed out that it is important watching how the decisions and recommendations made by AI algorithms could affect consumers or harm privacy rights. “If so, the developer should be held accountable for it,” Silva added. “And this is key, because the AI bill could lock the market instead of developing it.”

The regulation should not inhibit the development of new technologies, added Pierre Schürmann, CEO and founder at Sao Paulo-based holding of software-as-a-service (SaaS) companies Nuvini. Schürmann recalled the lawsuits that Microsoft faced after it embedded the Internet Explorer browser to its Windows operational system in the 1990s.

AI technologies which disregard people's privacy or democratic values could be affected by the law, Kultua's Brandini added. “Investors in their right mind will not put money in a business with those problems,” she noted. Kultua plans to analyze the definitive bill and make adjustments to comply the law if necessary, the CEO added.

M&A activity in Brazil's technology sector would not be affected by the AI regulation, Auddas' Tonioli said. He noted that the intellectual property of the data handled by the AI systems should be a matter of deeper analysis.

“Innovation is always ahead of regulation and the governments seek to regulate novelties,” said ChatClass’ Krutzinna.

### AI effects on M&A

The AI wave heated in November, when San Francisco-based OpenAI launched ChatGPT, a generative pre-trained transformer software able to create text from simple queries.

“Since the mobile phone, I have never seen such a transformation. And it is only the tip of the iceberg,” said Nuvini’s Schürmann.

In January, Redmond, Washington-based Microsoft [NASDAQ: MSFT], which invested USD 1bn in OpenAI in 2019, added ChatGPT technology to its search engine Bing and announced a new “multibillion dollar” investment, valuing OpenID at roughly USD 29bn.

On 21 March, Mountain View, California-based search and online services conglomerate Google [NASDAQ: GOOGL] unveiled a new version of its AI-powered chatbot *Bard*, introduced on early February. At first available only for a few US and UK users, *Bard* is Google’s response to ChatGPT.

In Brazil, tech investors like Aduela Ventures, FHE Ventures and Nuvini are actively eyeing and investing on businesses powered by AI systems.

After its recent merger with Utah-based SPAC Mercato Partners, Nuvini is eyeing AI businesses to expand its business-to-business (B2B) companies portfolio, Schürmann said. So far, it did not find a suitable one, he said. “Nuvini is seeking those businesses to better understand them.”

In turn, ChatClass eyes a new funding round within a year, according to CEO Krutzinna. It was seeking a fundraise in 2021, as reported.

### Using AI on M&A dealmaking

When analyzing an AI-related target, investors should run a technical diligence to identify potential risks, such as racial, gender, and political biases, or disrespect for privacy, said Aduela Ventures COO Bruno Nogueira.

“PE and VC firms should perform a very assertive technical diligence before putting money in a company which says it uses AI, but it does not [really use],” Nogueira said.

Aduela is in talks with a Curitiba-based startup which recommends videos streamed by different platforms. “We performed a technical diligence to check if it has any discriminatory mechanism,” said Nogueira, who has a Masters in Computing Sciences.

Aduela asked the target how its machine learning chooses the cross-platform video content it recommends to its users, how the algorithm learns down the road with users’ inputs, the transparency of users’ data collection, and if the company shares their data with other parties, according to the COO.

Nogueira also recommends that investors scrutinize the AI technologies' decision trees used to generate outputs for users, as well as how those trees' knots are connected to each other in neural networks, and how they evolve down the road.

AI is also a technology that M&A dealmakers could use to improve processes and speed up talks, said Julian Tonioli, CEO at Sao Paulo-based M&A boutique Auddas. The firm is "embryonically analyzing those tools," in tasks such as initial analysis of target scouting, assets qualifying, transactions diligences, strategic decisions, corporate governance, and integration.

M&A advisors and lawyers which analyze dozens or hundreds of deals per year, "could have relevant efficiency gains using those applications," Tonioli noted.

Kultua's AI- and NLP-powered system also could help an investor to understand and adequate the acquired target integration process, CEO Brandini added. The answers given by a company's employees generate insights which Kultua uses to provide recommendations to transform a company's enterprise culture, she added.

by Max Gonzales and Camila Pavanelli in Sao Paulo

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