

Financial Sector | Impact of the Magnitsky Act and Brazil–US Tensions

August 22, 2025

Shares of Brazil's major banks fell sharply on Tuesday (Aug 19), wiping out roughly **R\$40 billion in market value**. The move reflected a decision by Supreme Court Justice **Flávio Dino**, who ruled that foreign laws and court orders have no immediate validity in Brazil – an interpretation widely seen as an indirect reference to the **Magnitsky Act**, recently applied against Justice **Alexandre de Moraes**. The U.S. sanction prevents Moraes from holding accounts and investments in institutions connected to the American financial system, and the Supreme Court's ruling created a deadlock: while Washington reaffirmed that no foreign court can override its sanctions, Brazilian banks now face the dilemma of whether to comply with domestic law or adhere to international rules with extraterritorial reach.

This situation has heightened risk aversion in financial markets by exposing the banking sector to potentially significant consequences. Institutions with **operations or assets in the U.S.** remain obliged to follow U.S. law, under penalty of **asset freezes, restrictions in the dollar payment system, and higher international funding costs due to the cascading effect of commercial isolation** should they fail to comply with external requirements. At the same time, disregarding the Supreme Court's decision could trigger domestic penalties, increasing the perception of legal instability and reinforcing uncertainty surrounding the banks' activities.

Banco do Brasil
(BBAS3 BZ Equity)
Recommendation: HOLD
Target-Price: R\$ 22,00
Upside: +11,73%

Santander
(SANB11 BZ Equity)
Recommendation: BUY
Target-Price: R\$ 34,30
Upside: +29,43%

Bradesco
(BBDC4 BZ Equity)
Recommendation: BUY
Target-Price: R\$ 15,79
Upside: +22,23%

Itaú
(ITUB4 BZ Equity)
Recommendation: BUY
Target-Price: R\$ 43,80
Upside: +20,43%

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Magnitsky Act

The **Global Magnitsky Act** (2016) allows the United States to sanction foreign individuals and entities involved in **serious human rights violations** or **significant corruption**.

The sanctions have an **extraterritorial reach**, as they apply to any operation involving **“U.S. persons”** — U.S. individuals or entities, including banks, brokers, clearing systems, and card issuers. Enforcement is carried out by the U.S. Treasury Department through the **Office of Foreign Assets Control (OFAC)**, which has already imposed multibillion-dollar fines on foreign banks in similar cases.

The measures include:

- **Travel bans to the U.S.:** blocking or revoking previously issued visas.
- **Asset freeze:** blocking of assets, accounts, and investments located in the U.S. or transiting through the U.S. financial system.
- **Prohibition of financial transactions:** any operation routed through U.S. institutions (or their subsidiaries) is subject to blocking. This directly affects dollar-denominated transactions, as they almost always pass through correspondent banks in the U.S. Additionally, there is an important component in retail finance: **the main credit card brands (Visa, Mastercard, and Amex) are American companies**. In practice, a person sanctioned by the Magnitsky Act may be prevented from using cards issued by these networks, even if supplied by Brazilian banks, since transaction processing depends on systems under U.S. jurisdiction.

- **Secondary sanctions:** third parties that facilitate or attempt to circumvent these restrictions may also be penalized, including **multibillion-dollar fines** (e.g., BNP Paribas, which paid USD 8.9 billion for violating U.S. sanctions).
- **50% rule:** companies controlled by 50% or more by sanctioned individuals are automatically blocked, as has been verified in previous OFAC rulings.

Alexandre de Moraes and the Supreme Court Decision

In Brazil, Supreme Court Justice **Alexandre de Moraes** was included in the U.S. list of sanctioned individuals, **preventing him from holding accounts, investing, or carrying out transactions** involving institutions linked to the American financial system. This created an immediate impasse for **Brazilian banks**, as even basic services such as credit card usage could, in theory, be affected.

The issue was further aggravated by a ruling from Supreme Court Justice **Flávio Dino**, who stated that **foreign laws and court decisions have no automatic effect in Brazil** — they are only valid once ratified domestically. Although the case at hand addressed a different matter, markets interpreted the decision as an indirect form of protection for Moraes.

On August 20, **Moraes** himself stated that Brazilian banks could be **penalized domestically** if they froze assets in the country based on foreign sanctions without judicial ratification. The statement reinforced the dilemma: institutions are simultaneously exposed to **secondary sanctions in the U.S.** and to **legal action in Brazil** if they choose to comply with external measures.

The situation gained further visibility on August 21 with reports that **Banco do Brasil had blocked an American-branded credit card**

held by Moraes due to the Magnitsky Act sanctions. According to news outlets, it remains unclear which brand was involved, but the Justice was reportedly offered a replacement card not tied to U.S. jurisdiction. The case is symbolic as it shows that, even without an official announcement, Banco do Brasil has complied with U.S. law by restricting the use of a product linked to an American payment network subject to sanctions.

Impact on Banks

Secondary Sanctions. Should Brazilian banks fail to comply with the restrictions imposed, they would be subject to penalties that, although enforced abroad, have the potential to directly compromise their operations in Brazil.

- **Loss of access to the U.S. financial system.** Banks may be excluded from the dollar market, lose relationships with correspondent banks, and even be banned from operating in the U.S.
- **Freezing of assets and blocking of transactions.** Assets held in institutions under U.S. jurisdiction may be frozen, and new transactions — particularly in dollars — may be blocked.
- **Fines and financial penalties.** Even indirectly, banks can be subject to multibillion-dollar penalties; the case of BNP Paribas (USD 8.9 billion fine for sanctions violations) is an extreme example.
- **“Over-compliance” and service withdrawal.** As a precaution, many U.S. companies may restrict or terminate relationships with Brazilian institutions deemed high risk, even if the sanctions are personal. This could compromise banks’ access to **critical services** such as **cloud providers, corporate softwares**, and **payment processors**, while also causing delays in international transactions and higher operating costs.

- **“Cascade effect”**. If Bank A services a sanctioned individual while maintaining a relationship with Bank B, the latter may also be deemed **“contaminated”**, even without direct ties to the sanctioned party, under the argument that it could be indirectly facilitating prohibited transactions. In such cases, both become subject to secondary sanctions, broadening the reach of the Magnitsky Act. This suggests that a contaminated person, whether natural or legal, can consequently affect all other companies that may be related to them. As a result, the law's sanctions generate a **domino effect**, in which companies, in order to avoid sanctions, distance themselves from the primary sanctioned party, leading to the isolation of that party. For this reason, the financial impact cannot be restricted only to direct sanctions but must also include **foregone revenues** resulting from the termination of such relationships.

Banco do Brasil, Bradesco, Itaú, Santander and BTG

Banco do Brasil, Bradesco, Itaú and BTG Pactual have **subsidiaries and offices in the U.S.**, which exposes them directly to U.S. regulation in their operations. **Santander Brasil**, in turn, does not operate directly in the U.S. However, as it is controlled by the **Spanish parent company**, which maintains significant operations in the U.S., it can still be affected by compliance decisions at the group level, reducing its autonomy in scenarios of heightened regulatory risk.

In addition, all banks carry **significant indirect exposure**: dollar settlements rely on U.S. correspondent banks, client transactions are processed through **American card networks** (Visa, Mastercard, Amex, Diners, etc.), and external funding often

involves intermediaries under U.S. jurisdiction — channels that increase vulnerability to **extraterritorial sanctions**.

Conclusion and Possible Outcomes

The most pragmatic course of action for banks is the **closure or segregation of accounts held by sanctioned clients**, a practice already supported by Brazilian case law (STJ) and one that reduces the risk of penalties in the U.S. In the short term, institutions should **reinforce compliance policies** and review sensitive relationships. In the medium term, outcomes will depend on two possible paths: (i) **flexibility or clarification from the U.S.** regarding the scope of sanctions, or (ii) a **conflict escalation**, with direct implications for dollar funding, spreads, and overall risk perception in the sector.

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