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Financial Intelligence Authority
Autorità di Informazione Finanziaria (AIF)

Palazzo San Carlo
Vatican City State

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PRESENTATION

In the year 2013, as of the first months of Pope Francis' pontificate, the Holy See has updated and consolidated the measures aimed at preventing and countering money-laundering and terrorism financing, in line with the objectives pursued in the previous years under Pope Benedict XVI's pontificate.

The Apostolic Letter issued “*Motu Proprio*” on 11 July *On the jurisdiction of the judicial bodies of the Vatican City State in criminal matters* and the Apostolic Letter issued “*Motu Proprio*” on 8 August, *for the prevention and countering of money laundering, financing of terrorism and the proliferation of weapons of mass destruction*, were actually issued last year.

The aforementioned sources lay the pillars for a new legal framework, as established by Decree No. XI of 8 August 2013 issued by the President of the Governorate of the Vatican City State, and enforced by the Law dated 8 October 2013, regarding transparency, supervision and financial intelligence, whereby a second decisive reform was approved, following the first one adopted in the year 2012.

AIF's institutional mandate was consolidated by means of the Apostolic Letter issued “*Motu Proprio*” by Pope Francis on 15 November, which approved the new Statutes and extended the Authority's competences. These were actually subdivided in two main “pillars”: financial intelligence and supervision, where the latter also includes prudential supervision of the subjects and entities that perform professional activities of a financial nature.

The decisive actions taken, which consolidated the internal system of the Holy See and Vatican City State confirm the strength of purpose of the Holy See in providing the international community its support to counter illegality in the financial sector, sharing the best practices and most recent standards in the field.

The year 2013 actually saw AIF become member of the *Egmont Group*, the global network of financial intelligence units, and the stipulation of Memoranda of Understanding with the financial intelligence units of various Countries, for the purposes of collaboration and exchange of information. From a broader perspective, in the same year *the «Progress Report»* concerning the Holy See and Vatican City State was approved by the *Committee of Experts on the evaluation of anti-money laundering measures and the financing of terrorism of the European Council* (MONEYVAL).

Following these legal, institutional and, most and foremost, moral paths, AIF conducts its activity aware of the strategic role that it plays on a domestic and international level, and, last but not least, the key role played to support the Holy See and its mission worldwide.

RENÉ BRÜLHART
Director

PART I

THE ACTIVITIES OF THE FINANCIAL INTELLIGENCE AUTHORITY WITHIN THE INSTITUTIONAL AND ECONOMIC-FINANCIAL FRAMEWORK OF THE HOLY SEE AND VATICAN CITY STATE

I) GENERAL FRAMEWORK

1.1. Introduction

The *Financial Intelligence Authority* (hereinafter «AIF») is the central institution of the Holy See / Vatican City State (hereinafter «SCV») for financial intelligence and supervision, both for prudential purposes and for the prevention and countering of money laundering and financing of terrorism.

Established by Pope Benedict XVI with the Apostolic Letter issued “*Motu Proprio*” on 30 December 2010, and reformed by Pope Francis in 2013, it has its headquarters in SCV, at Palazzo San Carlo. By legal *status* it is an Institution connected to the Holy See - pursuant to Articles 186 and the following of the Apostolic Constitution “*Pastor bonus*” and is fully autonomous and independent.¹

By virtue of Law No. V of 7 June 1929 *on the economic, commercial and professional legal system* a public regime governs the SCV economic, commercial and professional sectors, there including the financial sector.

Accordingly, the SCV does not have a free market economy. In particular, no private institutions or operators are working in the financial sector. There are, however, entities that, within the scope of their institutional activity, perform some activities of a financial nature that are relevant for the purposes of the anti-money laundering rules enforced in the Vatican City, and that, as such, are subject to AIF's supervision. Relevant activities of a financial nature may therefore be located in the broader framework of the main institutional activities of the entities concerned.

Compared to private or free market systems, the public regime system established in the SCV allows us not only to limit the number of operators, but also to contain the complexity and extent of relations and operations or transactions, as well as the associated risks of money laundering and financing of terrorism.

The domestic SCV system and AIF's activity meet the dual requirement of adherence to the European and international parameters and objectives and, at the same time, of consistency with the economic and financial framework of the SCV, as well as with the actual and inherent risks.

1.2. Regulatory framework

On 8 August 2013, the President of the SCV Governorate adopted Decree No. XI providing the rules that govern transparency, supervision and intelligence in financial matters. The Decree came into force on 10 August and was confirmed by virtue of Law No. XVIII (hereinafter «Law No. XVIII») issued by the Pontifical Commission for the Vatican City State on 8 October 2013 and immediately enforced.

In order to further assure compliance of the SCV's anti-money laundering system with the international parameters, and following the first reform of the year 2012, Law No. XVIII introduced a second reform by means of which the original system, based on Law No. CXXVII of 30 December 2010, has been fully replaced

¹See articles 1 and 2 of the Statutes and *infra* I, II, 2.1. and 2.2.

1.3. Institutional framework.

On the same 8 August 2013, Pope Francis promulgated the Apostolic Letter, issued "*Motu Proprio*", for the prevention and countering of money laundering, financing of terrorism and the proliferation of weapons of mass destruction. The Apostolic Letter further established that the dicasteries of the Roman Curia and the other bodies and entities directly dependent on the Holy See, as well as the non-profit organizations having a legal status pursuant to Canon law and registered office in the SCV (these latter were not included in the previous legislation) are bound to comply with the SCV laws as regards: measures for the prevention and countering of money laundering and financing of terrorism; measures against subjects that threaten peace and international security; prudential supervision of the subjects and entities performing a professional activity of a financial nature. The same "*Motu Proprio*" reaffirms the competence of the judicial governing bodies of the Vatican City State in relation to the aforementioned subjects and matters.² Finally, the same letter established the Financial Security Committee (hereinafter «CoSiFi») with the aim of coordinating the competent Authorities of the Holy See and SCV in the field of prevention and countering of money laundering, financing of terrorism and the proliferation of weapons of mass destruction.³

The strengthening of the regulatory framework of the Holy See/SCV and the consequent extension of AIF's field of competence required a reform and a reorganization for compliance of the Authority.

Therefore, on 15 November 2013 Pope Francis promulgated a second Apostolic Letter, issued "*Motu Proprio*", which approved the new Statutes of AIF, which came into force on the following 21 November.⁴

1.4. International framework

On 9 December 2013, *the Plenary Meeting of the Committee of Experts on the Evaluation of anti-money laundering measures and the financing of terrorism (MONEYVAL)* at the Council of Europe approved the «*ProgressReport*» of the Holy See/SCV in relation to the adherence of the internal system to the recommendations of the Financial Action Task Force («FATF»).

With the said Report, the Plenary Meeting acknowledged the progress made by the Holy See/SCV both in terms of legislation and actual operations of its anti-money laundering system.

² In this regard we may remind that, in July 2013, in order to support the international judicial cooperation in criminal matters, Pope Francis promulgated the Apostolic Letter, issued "*Motu Proprio*" on the jurisdiction of the judicial bodies in the SCV in criminal matters. The Letter, which further confirms the commitment of the Holy See in this regard, already expressed through the subscription of several international conventions in this field, aims at expanding the same jurisdiction to cover the new types of crimes connected with transnational organized crime.

³ See, *infra*, I, II, 2.2.3., letter c).

⁴ See, *infra*, I, II, 2.1.

As far as AIF is concerned, on a multilateral level, on 3 July 2013 the Authority was admitted as member of the *Egmont Group* during the Group 21st Plenary Meeting, held in Sun City (South Africa).

The Egmont Group is a global *forum* that is currently comprised of the financial intelligence units of 139 Countries and jurisdictions, and within which rules and fair practices for international cooperation and reciprocal exchange of information are shared.

On a bilateral level, in the year 2013, AIF subscribed Memoranda of Understanding aimed at exchanging information with the same Authorities in the following countries: Slovenia (15 April), United States (7 May), The Netherlands (5 July), Italy (26 July) and Germany (4 December).

II) INTERNAL ORGANIZATION AND FUNCTIONS OF THE FINANCIAL INTELLIGENCE AUTHORITY

2.1. Internal organization

In order to upgrade AIF's organization following the reform of the legislation on the prevention and countering of money laundering and financing of terrorism, on 15 November 2013 Pope Francis approved, by means of "*Motu Proprio*", the new Statutes of AIF, which specify and extend the institutional tasks of the different bodies: the Board of Directors (that outlines the general policy rules and the fundamental strategies of the Authority), the Chairman (who chairs the Board of Directors, is the legal representative of the Authority and has the power to sign) and the Director (who steers, organizes and monitors the activities of the Authority).

In addition, by means of this deed, the Authority operations have been divided into two Departments:

- a) The *Financial Intelligence Office*;
- b) The *Supervision and Regulation Office*.

In the year 2013, AIF was chaired by Cardinal Attilio Nicora and steered by Mr René Brühlhart.

The members of the Board of Directors were Prof. Giuseppe Dalla Torre, Prof. Claudio Bianchi, Prof. Marcello Condemi, Dr. Cesare Testa and by Attorney Francesco De Pasquale.

2.2. Functions

To provide continuity with the previous regulatory organization, AIF's functions may be grouped in "two pillars", i.e. the financial intelligence activity and the supervision and regulation activity. Following the prescriptions given both in the "*Motu Proprio*" of 8 August 2013 and in Law No. XVIII, the latter activity now also comprises both the supervision and regulation for the prevention and countering of money laundering and financing of terrorism, as well as prudential supervision and regulation of the subjects and entities performing a professional activity of a financial nature.

In addition, applicable legislation acknowledges a number of major functions of AIF, among which the collection and analysis of the declarations of cross-border transportation of currency in amounts equal to, or higher than EUR 10,000, and preventive measures against the financing of terrorism,⁵ adding a number of important functions, among which those pertaining to general risk assessment.⁶

As regards the supervision activity, in the year 2013, two subjects professionally performed relevant financial activities, and namely Istituto per le Opere di Religione (IOR) and the Administration of the Patrimony of the Apostolic See (APSA). These were therefore subject to applicable legislation and to AIF's supervision, both for prudential purposes as well as for the prevention and countering of money laundering and financing of terrorism.

⁵ see *infra* I, II, 2.2.3.

⁶ *Idem*.

2.2.1. Financial intelligence

The financial intelligence activity performed by AIF may be subdivided into three major phases:

a) *Gathering of suspicious activity reports.* The cornerstone of the financial intelligence activity is receiving reports on suspicious activities by the monitored subjects.

The designated subjects send a report to AIF:

- if they suspect or have reasonable grounds to suspect that funds or other assets are the proceeds of criminal activities, or are connected or related to the financing of terrorism or are intended to be used for acts of terrorism by terrorist organizations or by those who finance terrorism ⁷;
- in the event of activities, operations or transactions that, because of their nature, may be considered suitable to be related to or connected with money laundering or the financing of terrorism, or with acts of terrorism or with terroristic organizations, or with those who finance terrorism. ⁸

At the same time, the legislation has established a general active cooperation obligation, with a view to reporting suspicious activity, there including the duty to report to the competent Authorities of the Holy See and the VCS: the public Authorities shall send a report to AIF in the same cases outlined for the designated subjects. ⁹

b) *Analysis and study of reports.* The reports received are analysed and carefully studied by AIF.

AIF's analysis is conducted on two levels: *operational level* (i.e. using documents, data and information available or obtainable to identify specific objectives, and to follow the trace of operations and transactions in order to establish the links between the aforementioned objectives and any proceeds of criminal activities); and a *strategic level* (using documents, data and information available or obtainable, focused on more general implications in relation to the evolution and trends of money laundering and financing of terrorism).¹⁰

For the purposes of analysis, AIF has the power, on the one hand, to access on a timely basis all the information of a financial, administrative and investigative nature that is relevant for the purposes of prevention and countering of money laundering and financing of terrorism, and possessed by both the reporting subjects and the legal persons with registered office in the State or enrolled in the State Registers ¹¹ and, on the other hand, AIF has the power to exchange information with the other Authorities of the Holy See and of the State (that provide AIF with relevant documents, data and information) and with equivalent Authorities in other countries (subject to reciprocity agreements and based on the Memoranda of Understanding known to the Secretariat of State). ¹²

For the purposes of financial analysis, both on a strategic and analytical level, AIF employs sophisticated information systems and data bases.

⁷See Art. 40, subsection 1, letter a) of Law No. XVIII.

⁸ *Idem*, letter b).

⁹ *Idem*, subsection 2.

¹⁰ See Art. 48, letter d) of Law No. XVIII.

¹¹ See Art. 50, letters a) and b) and c) of Law No. XVIII.

¹² See Art. 69, letters a) and b) of Law No. XVIII.

c) *Transmission of reports to the Promoter of Justice.* After completing the analysis and study phase, AIF sends the reports, documents, data and information to the Promoter of Justice in the event that there are grounded reasons to suspect any activity of money laundering or financing of terrorism,¹³ or files the reports that are not transmitted to the Promoter of Justice, providing notice thereof to the reporting subject.¹⁴

All transmissions to the Promoter of Justice and the exchange of information within the State or on an international level follow procedures and measures suited to assure completeness, security and confidentiality of the documents, data and information.¹⁵

As to statistical data concerning the financial intelligence activity, see *infra*, II, 1.

2.2.2. Supervision and regulation

The new regulatory framework arising from the prescriptions given both in the “Motu Proprio” of 8 August 2013 and in Law No. XVIII, has deeply reorganised and strengthened AIF's supervision and regulation function, which today may be divided into two sectors.

a) *Supervision and regulation for the prevention and countering of money laundering and financing of terrorism*

As regards the first sector, on a domestic level, AIF supervises and verifies that the designated subjects act in compliance with the requirements established by anti-money laundering legislation and by the regulations enforced by the same Authority. More specifically, AIF:

- has access to or may request to receive documents, data, information, registers and accounting books that are relevant for the purposes of supervision, there including, among others, the documents pertaining to accounts, operations and transactions and the analyses that the monitored subject has conducted to identify unusual or suspicious activities, operations and transactions;¹⁶
- has access to or may request to receive documents, data and information from the legal persons with registered office in the territory of the State or enrolled in the registers of legal persons held by the State departments, as well as documents, data and information relating to their nature and activity, actual owners, beneficiaries, members and directors, there including the Members of the Board and of the Senior Management;¹⁷
- performs remote controls and on-site inspections, which may also include verification and revision of policies, procedures, measures, accounting books and registers, as well as random examinations.¹⁸

Punishing any failure of the designated subjects to observe the requirements of supervision and regulation for the prevention and countering of money laundering and financing of terrorism is today further strengthened, in terms of enforceability, by the extensive sanctioning power attributed to AIF, which envisages the application of money sanctions up to EUR 5,000,000 for natural persons and up to 10% of the total yearly proceeds from the previous period for legal persons.¹⁹

¹³ See Art. 48, letter e) of Law No. XVIII.

¹⁴ *Idem*, letters f) and h).

¹⁵ See Art. 51, subsection 2 of Law No. XVIII.

¹⁶ See. art 46, letter b) of Law No. XVIII.

¹⁷ *Idem*, letter c)

¹⁸ *Idem*, letter e)

¹⁹ See Art. 47, subsection 2, letter e) of Law No. XVIII.

Significantly, Law No. XVIII also introduced the administrative offence, applicable in the case that the supervision activity is hindered. The administrative offence is subject to the same money sanctions outlined above.²⁰

As far as operations are concerned, in the year 2013 AIF continued its remote supervision activity. As regards on-site supervision, AIF performed *ad-hoc* inspections and scheduled an inspection plan of the supervised bodies.

b) *Prudential supervision and regulation of the subjects and entities performing a professional activity of a financial nature.*

The second sector concerns prudential supervision and regulation of the subjects and entities performing a professional activity of a financial nature. As already explained, this is a novelty introduced by the aforementioned “*Motu Proprio*” of 8 August 2013, also pursuant to a specific recommendation from MONEYVAL provided in the Mutual Evaluation Report mentioned above,²¹ which was assigned to AIF by means of the same Letter. The subject matter is today organically governed by Title III of Law No. XVIII, which also establishes that, in addition to authorising the conduction of activities of a financial nature,²² AIF establishes, by means of its regulations:

- the organization and management criteria of the subjects and entities performing a professional activity of a financial nature;²³
- the adequacy of the equity and liquidity requirements of the subjects and entities performing a professional activity of a financial nature;²⁴
- the criteria for risk management by the subjects and entities performing a professional activity of a financial nature (the risk categories involved are the following: market, credit, payment and liquidity, currency exchange interests, brokerage, non-compliance with the law, with the regulations and internal procedures, legal, operational and reputational);²⁵
- the competency and honorability requirements of the members of the Board, of the supervision bodies and of the Senior Management, or of those who hold or shall hold similar offices within the entity that performs a professional activity of a financial nature, and examines the potential conflicts of interest.²⁶
- the procedures that the subjects or entities performing a professional activity of a financial nature shall follow when sending documents, data or information required for the purposes of prudential supervision;²⁷
- the criteria to which the subjects or entities performing a professional activity of a financial nature shall adhere in order to promote the highest moral and professional standards within the authorised entities.²⁸

Failure by the designated subjects to comply with the obligations arising in connection with the prudential supervision and regulation of the subjects and entities performing a professional activity of a financial nature,

²⁰ *Idem*, subsection 1, letter e).

²¹ Mutual Evaluation Report, par. 18, “*Summary*”.

²² See Art. 54 of Law No. XVIII

²³ *Idem*, Art. 58.

²⁴ *Idem*, Art. 59.

²⁵ *Idem*, Art. 60.

²⁶ *Idem*, Art. 61.

²⁷ *Idem*, Art. 62.

²⁸ *Idem*, Art. 63

is punished by means of the same sanctions applicable to the supervision and regulations for the prevention and countering of money laundering and financing of terrorism.

AIF is currently studying the regulations within the scope of prudential supervision and regulation. In any event, AIF sent a letter to the supervised entities, by means of which it has been specified that, up until approval of the said regulations, and as of the date of enforcement of the new legislation, only the activities conducted in compliance with the relevant Statutes shall be permitted.

2.2.3. Further competences

In addition to the financial intelligence, supervision and regulation functions, AIF performs other important institutional activities, among which it is worth mentioning the collection and analysis of cross-border transportation of currency, and the adoption of measures for preventing the financing of terrorism and for general risk assessment.

a) Collection and analysis of cross-border transportation of currency

In line with the previous norms, pursuant to Law No. XVIII, all natural or legal persons entering or exiting the state and carrying currency in amounts equal to or greater than EUR 10,000 are bound to submit a written declaration to the offices of the Gendarmerie or to the authorised offices.²⁹

To this end, AIF has adopted regulations No. 1 and 2, of 1 April 2011 and 14 November 2011 respectively, concerning cross-border transportation of currency from and to SCV, and has issued a special declaration form to be used for this purpose.

For statistical data concerning AIF's activity for the collection and analysis of cross-border transportation of currency, see *infra* II, 2.

b) Measures to prevent the financing of terrorism

Law No. XVIII has amended the anti-money laundering legislation, also as regards the prevention measures against the financing of terrorism, granting the President of the Governorate, after hearing the Secretariat of State, the power to approve and periodically update - by virtue of his own order - a list containing the names of the subjects, natural persons or entities in relation to which there are reasonable grounds to believe that they threaten peace and international security.³⁰

On 8 December 2013, the President of the SCV Governorate, by means of Order No. XXVII, approved the list of the subjects identified - also based on the relevant Resolutions issued by the UN Security Council - as subject to assets freezing since they threaten peace and international security.

Contextually, AIF published the same list on its *internet* website, and ordered that the assets and economic resources of the subjects that may be related to those reported in the list be frozen.

²⁹ See Art. 81, subsection 1 of Law No. XVIII.

³⁰ See Art. 71, subsection 1 of Law No. XVIII.

c) *Measures for general risk assessment*

“*Motu Proprio*” of 8 August 2013 established CoSiFi, the Financial Security Committee that coordinates the competent Authorities of the Holy See and SCV in the prevention and countering of money laundering, financing of terrorism and the proliferation of weapons of mass destruction.

In addition, Law No. XVIII, in line with the most recent international standards, introduced the requirement of formal approval of the «(general) risk assessment» in the Vatican legislation.³¹ This process consists in identifying and evaluating the factors that, internally or externally, and considering the geographical location of the jurisdiction, may foster potential infringements or illegal activities, or the infiltration of organized criminal groups and individuals in the economic-financial sector.

The (general) risk assessment is followed by a (specific) risk assessment by those subjects or entities who perform a professional activity of a financial nature.

³¹See Art. 9 of Law No. XVIII.

PART II

STATISTICS

As far as statistics are concerned, it seems worth noticing data relating to financial intelligence and the collection and analysis of declarations of cross-border transportation of currency.

1) COLLECTION, ANALYSIS AND DISSEMINATION OF SUSPICIOUS ACTIVITY REPORTS.

With reference to financial intelligence, already in the fourth quarter of 2012, the data showed a trend toward an increase of reports of suspicious activity, due in part to the first legislative reform of 2012, and with it, the strengthening of the system of reporting and domestic and international cooperation. In 2013, this trend was further intensified, reaching peak in the second half of the year. These data do not mean per se an increase in illegal activity. Rather, they show that the institutional and legal framework – established, respectively, with the “*Motu Proprio*” of Pope Francesco of 8 August 2013 and the Decree of the President of the Governorate no. XI of the same day (confirmed by the above mentioned Law no. XVIII of 8 October) – improved reporting mechanisms, while as far as effectiveness is concerned, this trend indicates a greater awareness of the legal duties relating the prevention and countering of illicit financial activities by supervised entities, and increasing of effectiveness of FIA and the domestic system as a whole. Also the data relating to the international cooperation are significant, showing an increase in exchange of information of FIA with their foreign counterparts, which in 2013 were 4.

The relevant data are summarized in the following figures, also in comparison with the years 2011 and 2012:

| Suspicious activities reports | | 2011 | 2012 | 2013 |
|---|---------------------------|-------------|-------------|-------------|
| Number of reports | | 1 | 6 | 202 |
| Supervised subjects | | 1 | 5 | 193 |
| Reporting subjects | Authorities of the HS/VCS | | 1 | 5 |
| | Other Entities | | | 4 |
| Internal cooperation | | 2011 | 2012 | 2013 |
| Requests to domestic authorities for information | | 1 | 2 | 11 |
| Reports to the Promoter of Justice | | 0 | 2 | 5 |
| International cooperation | | 2011 | 2012 | 2013 |
| Request to foreign authorities for information | | 1 | 1 | 28 |
| Request for information received from foreign authorities | | 7 | 3 | 53 |

II) COLLECTION AND ANALYSIS OF CROSS-BORDER TRANSPORTATION OF STATEMENTS OF CURRENCY

The duty to declare cross-border transportation of currency with a value equal to or greater than EUR 10,000 is governed by Art. 81 of the Law No. XVIII and AIF Regulation No. 2 (which repeals and replaces the previous Regulation No. 1).

The declaration, according to the above mentioned Law, is submitted to the offices of the Corps of the Gendarmerie or to the offices authorized by AIF and transmitted, within 24 hours, to the same authority.

The data relating to declarations show that, especially from 2012, with the consolidation of the domestic system, due to the adoption of the first reform of the same year, there is a reduction in the cross-border transportation of currency, especially in exit.

| Declarations | 2011 (from April) | 2012 | 2013 |
|---------------------------------|-----------------------------|-------------|-------------|
| Number of incoming declarations | 658 | 598 | 550 |
| Number of outgoing declarations | 1'894 | 1'782 | 1'557 |

