



FINANCIAL INFORMATION AUTHORITY

ANNUAL REPORT

YEAR IV - 2015

VATICAN CITY

2016



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INTRODUCTION

The year 2015 marked a turning point in the activity of the Financial Information Authority (“*Autorità di Informazione Finanziaria - AIF*”), by contributing to the transition from the foundation of the institutional and legal framework of the Holy See¹ to its effective functioning.²

As for AML/CFT supervision, AIF kept monitoring entities carrying out financial activities on a professional basis in the Vatican City State, also through on-site inspections, in order to strengthen preventive measures and controls, including reporting mechanisms and customer due diligence measures using a risk-based approach.

From the structural standpoint, complex processes – that were started in the past two years – were finally completed, such as the closure of accounts no longer compliant with Vatican legislation and with policies adopted by supervised entities, and the segregation of assets managed by supervised entities on their behalf and on customers’ behalf.

This is particularly important in view of the implementation of the international tax agreements signed by the Holy See with Italy³ and the United States of America⁴. Moreover, in line with international best practices,⁵ AIF provided supervised institutions with specific guidelines to prevent avoidance of anti-money laundering obligations through the improper use of foreign States’ voluntary disclosure programs, ensuring a constant exchange of information with relevant foreign Authorities.

As for prudential supervision, AIF Regulation no. 1 introduced a solid regulatory framework, which included a procedure whereby entities that carry out financial activities on a professional basis may be authorized to operate in the Vatican City State.

Within this framework, AIF started monitoring the organization and management of supervised entities, with a specific focus on the verification of capital adequacy and liquidity requirements, risk-management criteria, as well as competence and honorability requirements for senior managers and managers, and more in general, for members of internal control bodies. Lastly, criteria were laid down regarding transparent information to customers and the general public. This was also done to comply with the obligations undertaken by the Holy See through the Monetary Agreement between the European Union and the Vatican City State of 2009⁶ and the ensuing *Ad-hoc* arrangement of the Joint Committee of 2014.⁷

International cooperation with foreign supervision Authorities was enhanced and information was exchanged in 12 cases (compared to 4 in 2014). Furthermore, negotiations are currently under way to sign Memoranda of Understanding with foreign supervision Authorities, in addition to the agreements that are already in place with Supervisors in the Germany, Luxemburg and the United States of America.

¹ See Law no. XVIII of October 8, 2013 on *Transparency, Supervision and Financial Intelligence* and AIF Regulation no. 1 on the *Prudential Supervision of the Entities Carrying Out Financial Activities on a Professional Basis*, entered into force on January 13, 2015.

² Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), *Holy See Progress report and written analysis by the Secretariat of Core Recommendations*, December 8, 2015, Doc. MONEYVAL (2015)36.

³ *Agreement between the Holy See and the government of the Republic of Italy on Tax Matters*, April 1, 2015.

⁴ *Agreement between the Holy See, acting also in the name and on behalf of the Vatican City State, and the United States of America to improve international tax compliance and implement the Foreign Account Tax Compliance act (FATCA)*, June 10, 2015.

⁵ See Financial Action Task Force (FATF), Best Practices Paper, *Managing The Anti-Money Laundering and Counter-Terrorist Financing Policy Implications of Voluntary Tax Compliance Programmes*, October 2012.

⁶ *Monetary Agreement between the European Union and the Vatican City State*, 17 December 2009, Doc. 2010/C 28/05.

⁷ *Ad hoc arrangement of the Joint Committee upon request from the Holy See and Vatican City State on the inclusion of relevant rules applicable to entities carrying out financial activities on a professional basis*, 19 December 2014; and the ensuing Decision of the European Commission of May 12, 2015 which amends the annex to the Monetary Agreement between the European Union and the Vatican City State ((EU) Decision 2015/767).

In 2015, there was also an increase in financial intelligence activities.

AIF received 544 reports of suspicious activities (almost three times as many as 2014, when 147 were recorded). This was not due to a higher financial crime rate, but to a number of factors, namely: the closure of all accounts that no longer complied with Vatican legislation and with policies adopted by supervised entities; the monitoring of customers' activity under foreign countries' voluntary tax compliance programs; and, in general, the strengthening of reporting mechanisms and supervised entities' increasing awareness of reporting obligations.

Likewise, an increase was recorded in the number of precautionary measures adopted by AIF (8 transactions were suspended and 4 accounts were blocked, compared to 3 in 2014).

Data regarding cooperation with Holy See and Vatican City State Authorities can be interpreted along the same lines: more information was exchanged (108 cases compared to 41 in 2014), and more reports were sent to the Office of the Promoter of Justice (17, compared to 7 in 2014).

As for financial intelligence, international cooperation was enhanced and information was exchanged with foreign Financial Information Units ("FIU") in 380 cases (with a threefold increase compared to 2014, with 113 cases). Furthermore, AIF signed Memoranda of Understanding with the following 6 foreign FIUs: Albania, Cuba, Luxemburg, Norway, Paraguay and Hungary (27 Memoranda of Understanding in total since 2013).

Looking at all the data concerning international cooperation, an important element stands out: in the majority of cases, it was AIF that requested to exchange information with its foreign counterparts, taking on a proactive role in cooperation, both regarding supervision (10 cases out of 12) and financial intelligence activities (199 cases out of 380).

Concerning the prevention and countering of terrorism financing, AIF boosted its activity and international cooperation, in particular with the FIUs of States that are more exposed to the risk of terrorist attacks which, in 2015, tragically affected Europe as well.

Lastly, the launch of the Holy See and Vatican City State risk-assessment program by the Financial Security Committee ("CoSiFi") is worth mentioning; it is being carried out with technical support from the World Bank and coordinated by AIF.

Transparency and integrity in the financial sector are fundamental goals.

The pursuit of these goals is a strategic and operational duty but it is, first and foremost, a moral duty, considering the Holy See's mission in the world.

This is AIF's outlook for the future, in which the Holy See's determined contribution to the pursuit of goals shared by the international community becomes apparent, also in the financial sector.

TOMMASO DI RUZZA
Director

PART I

INSTITUTIONAL FUNCTIONS AND ROLE WITHIN THE FRAMEWORK OF THE HOLY SEE AND VATICAN CITY STATE

1. LEGAL, ECONOMIC AND FINANCIAL FRAMEWORK.

1.1. LEGAL FRAMEWORK REGARDING FINANCIAL INTELLIGENCE AND SUPERVISION OF ENTITIES CARRYING OUT FINANCIAL ACTIVITIES ON A PROFESSIONAL BASIS.

The legal basis for the financial intelligence, supervision and regulation of entities carrying out financial activities on a professional basis is found in the Apostolic Letter issued “*Motu Proprio*” by Pope Francis “*for the prevention and countering of money laundering, the financing of terrorism and the proliferation of weapons of mass destruction*” of 8 August 2013, and in Law “*on transparency, supervision and financial intelligence*”, no. XVIII of 8 October 2013 (“Law no. XVIII”).

The supervisory and regulatory framework is defined in Titles II and III of Law no. XVIII, dedicated to the prevention and countering of money laundering and the financing of terrorism, and prudential supervision respectively.

In order to implement Title III of Law no. XVIII, on 25 September 2014, the Board of Directors of AIF adopted Regulation no. 1 on “*the prudential supervision of entities carrying out financial activities on a professional basis*” (“Regulation no. 1”), which came into force on January 13, 2015 when Decree no. LXVI was issued by His Eminence Giuseppe Bertello, Cardinal President of the Governorate of the Vatican City State.

Regulation no. 1 also introduced an authorization procedure for entities carrying out financial activities on a professional basis, whereby AIF checks their compliance with several requirements including: regulatory capital, organizational and management structure, competence and honorability for senior managers, directors and members of supervisory bodies, broadly speaking.

Financial intelligence activities are regulated under Chapter VIII of Title II of Law no. XVIII.

1.2. ECONOMIC AND FINANCIAL FRAMEWORK OF THE VATICAN CITY STATE.

By virtue of Law no. V of June 7 1929, a public regime was established in the Vatican City State’s economic, commercial and professional sectors, including the financial sector.

Therefore, in the Vatican City State, no production activities are carried out and there is no private sector.

In particular, there are no private entities or intermediaries operating in the financial sector, but only entities that can be referred to the Holy See and carry out financial activities on a professional basis as part of their duties, on behalf of third parties.

2. INSTITUTIONAL FUNCTIONS.

2.1. STATUS AND INSTITUTIONAL FUNCTIONS.

The Financial Information Authority (“AIF”) was established by Pope Benedict XVI with Apostolic Letter issued “*Motu Proprio*” “*for the prevention and countering of illegal activities in the area of monetary and financial dealings*” of December 30, 2010. This was reformed and corroborated by Pope Francis on November 15, 2013 with Apostolic Letter, issued “*Motu Proprio*”, with which the Pontiff “*approved the Statutes of the Financial Information Authority*”.

Under Art. 2 of the Statutes, AIF performs the following functions, in full autonomy and independence:

- (a) supervision and regulation of entities carrying out financial activities on a professional basis, aimed at preventing and countering money laundering and the financing of terrorism, as well as for prudential purposes;
- (b) financial intelligence.

AIF has the *status* of “Institution connected to the Holy See”, pursuant to Art. 186 *et seq.* of the Apostolic Constitution “*Pastor Bonus*” of June 28, 1988 [Art. 1 (1) of the Statutes]; it is endowed with public legal personality under Canon Law and its headquarters are located in the Vatican City State [Art. 1 (2) of the Statutes].

2.2. ORGANIZATION.

The organization of AIF is defined in the Statutes approved by Pope Francis with His “*Motu Proprio*” of November 15, 2013.

Under Art. 3 (1), AIF’s governing bodies are:

- (a) the Board of Directors, which defines the Authority’s general policy guidelines and fundamental strategies;
- (b) the President, who chairs the Board of Directors, is the Authority’s legal representative and has the power to sign on its behalf;
- (c) the Director, who guides, organizes and watches over the Authority’s activity, participates in the meetings of the Financial Security Committee (“*Cosifi*”), and is a member of Holy See delegations to international bodies that are responsible for countering money laundering and the financing of terrorism.

The Board of Directors is made up by the following Members: Ms Maria Bianca Farina (Italy), Mr. Marc Odendall (Switzerland), Mr. Joseph Yuvaray Pillay (Singapore) and Mr. Juan C. Zarate (USA).

The President is Mr. René Brülhart (Switzerland).

The Director is Mr. Tommaso Di Ruzza (Italy).

Under Art. 3 (2) of the Statutes, AIF's internal structure is subdivided into two Offices:

- (a) the Office of Supervision and Regulation;
- (b) the Office of Financial Intelligence.

The separation between the two Offices, provided for in Art. 3 (3) of the Statutes, is meant to keep supervision and regulation functionally separate from financial intelligence, since they also entail different channels for international cooperation and information exchange. Both Offices report to the Director in order to ensure effective internal operation and coordination.

2.3. SUPERVISED ENTITIES.

According to the "Motu Proprio" issued by Pope Francis on August 8, 2013 (*supra* 1.3), by way of principle, all Dicasteries of the Roman Curia and other bodies and entities that depend on the Holy See, as well as non-profit organizations having legal personality under Canon Law and their headquarters in the Vatican, must abide by State law concerning:

- (a) measures to prevent and counter money laundering and terrorism financing;
- (b) measures against subjects who threaten international peace and security;
- (c) prudential supervision of entities carrying out financial activities on a professional basis.

With Title III of Law no. XVIII and Regulation no. 1, a procedure was introduced for AIF to authorize entities carrying out financial activities on a professional basis.

In 2015, the entities that were supervised by AIF were the Administration of the Patrimony of the Holy See (APSA) and the Institute for the Works of Religion (IOR).

2.3.1. Administration of the Patrimony of the Holy See (APSA).

APSA is the Office in charge of managing the assets owned by the Holy See, in order to provide the necessary funds for the Roman Curia to fulfill its responsibilities [Art. 172 of the Apostolic Constitution "*Pastor Bonus*" of June 28, 1988].

AIF's supervision - complying with the principles of consistency and proportionality provided for in Law no. XVIII [Art. 7(2)] - was focused on financial activities carried out by APSA on a professional basis, and not on its institutional activities, which fall under a different regulatory and supervisory regime.

Targeted supervision activities involving APSA started in 2012, and peaked with an on-site inspection which allowed AIF to determine that APSA did not meet the requirements to be considered an "entity that carries out financial activities on a professional basis".

Therefore, APSA stopped being a part of AIF's jurisdiction at the end of 2015, since it fully falls within the supervisory regime established by Pope Francis with the Apostolic Letter "Motu Proprio" "Fidelis dispensator et prudens *establishing a new coordinating agency for the economic and administrative affairs of the Holy See and the Vatican City State*" of 24 February 2014.

However, and pursuant to Law no. XVIII, APSA still has the duty to record and preserve all data, information and documents, related to activities that need to be supervised, for at least ten years: such data, information and documents must always be accessible to AIF, also through on-site inspections; furthermore, APSA must report any suspicious activity.

If APSA were to carry out financial activities on a professional basis, it would fall again under the jurisdiction of AIF which, in accordance with Art. 4 of Law no. XVIII, must publish and update the list of subjects who must comply with the requirements set forth in Titles II and III of Law no. XVIII.

2.3.2. *Institute for the Works of Religion (IOR).*

IOR is the Entity whose "purpose [...] is to provide for the custody and administration of moveable or immovable goods transferred or entrusted [...] by physical or juridical persons, and intended for works of religion or charity [and also] accept deposits of goods from agencies and individuals from the Holy See or the Vatican City State" (Art. 2 of the Statutes, attached to the Chirograph of His Holiness John Paul II of March 1, 1990).

IOR is subject to full and exclusive supervision by AIF.

2.4. COOPERATION AND EXCHANGE OF INFORMATION AT DOMESTIC AND INTERNATIONAL LEVEL.

Under Art. 69 (a) (b) of Law no. XVIII, AIF works and exchanges information with Holy See and State Authorities (which provide AIF with relevant documents, data and information) and with its foreign counterparts, based on reciprocity and memoranda of understanding.

At multilateral level, after its admission into the "Egmont Group" in 2013, AIF has been playing an increasingly active role within this global forum that gathers financial intelligence units from 153 countries and jurisdictions, where principles and best practices are shared for cooperation and information exchange purposes.

3. MAIN ACTIVITIES.

3.1. SUPERVISION OF ENTITIES CARRYING OUT FINANCIAL ACTIVITIES ON A PROFESSIONAL BASIS.

The year 2015 was characterized by a remarkable increase in supervision activities, both to prevent and counter money-laundering and the financing of terrorism, as well as for prudential reasons.

In particular, supervision was extended to supervised entities' organization and management, through in-depth reviews that led to strategic and operational guidelines.

Additional activities were also related to constant support provided to supervised entities, which resulted in greater awareness of the existing regulatory framework.

3.1.1. *Supervision for the Prevention and Countering of Money Laundering and the Financing of Terrorism.*

Under Art. 46 of Law no. XVIII, AIF is the central supervisory and regulatory authority of the Holy See and the Vatican City State for the prevention and countering of money laundering and the financing of terrorism.

In 2015, the following main activities were carried out in this domain.

(a) Review of open accounts in supervised entities.

AIF monitored the reviewing and closing of accounts that were no longer in line with existing Vatican legislation and with policies adopted by supervised entities, intensifying international cooperation and information exchanges, in relation to customers' nationality or residency or fund destination.

As far as IOR is concerned, by October 2015 all accounts were reviewed and 4,800 accounts were closed.

This activity was carried out in three steps:

- (i) analysis of all existing accounts, also to identify any potentially missing or insufficient information in terms of compliance with user identification requirements provided for by Law no. XVIII [cf. Art. 16 *et seq.*];
- (ii) analysis of all existing accounts based on the new user policy that was introduced in 2013, which has substantially extended objective and subjective requirements in order to establish and maintain economic relationships with IOR;
- (iii) closing of all accounts that did not comply with existing Vatican law and IOR's current user policy.

(b) Monitoring of segregation of financial assets managed by supervised entities.

AIF closely monitored the completion of total segregation between financial assets managed by supervised entities on their behalf and on customers' behalf, in addition to operational and accounting segregation which was been in place.

In December 2015, AIF carried out on-site inspections in supervised entities, during which the adoption of all necessary measures to achieve a complete structural segregation starting from the first quarter of 2016 was ascertained (including new IT systems).

Segregation had become necessary in order to fully comply with existing Vatican law, in particular Law no. XVIII and Regulation no. 1, as well as to implement agreements on tax compliance signed with the Government of the Italian Republic (April 1, 2015) and the United States of America (June 10, 2015).

(c) Supervision on the implementation of due diligence measures.

Regarding the segregation of financial assets, managed by supervised entities on their own behalf and on their users' behalf, AIF intensified control on the implementation of due diligence measures and the separation between management activities carried out for "institutional" and "non-institutional" users.

In this respect, AIF provided constant support to supervised entities regarding "risk assessment" and the introduction of a "risk-based approach" [Art. 10 and 22 of Law no. XVIII], in a way that is consistent with user categories and with the economic reasons underpinning user relations.

(d) Monitoring of voluntary tax compliance activities carried out by users.

In adherence to the best practices of the Financial Action Task Force ("FATF"), AIF provided supervised entities with indications – including specific "anomaly indicators" - aimed at preventing potential abuse of foreign voluntary tax compliance programs by users, who could avoid complying with obligations laid down in existing Vatican law.

Considering how sensitive this situation is, AIF started to constantly monitor all customers (natural and legal persons) of supervised entities that joined such programs, experiencing a successful and effective collaboration.

3.1.2. Prudential Supervision.

Under Art. 65 of Law no. XVIII, AIF is the Holy See and Vatican City State central authority for prudential supervision and regulation of entities that carry out financial activities on a professional basis.

In order to implement Title III of Law no. XVIII, during its meeting of September 25, 2014, AIF's Board of Directors adopted Regulation no. 1 on "*the prudential supervision of entities carrying out financial activities on a professional basis*" ("Regulation no. 1"), which came into force on January 13, 2015 following the publication of Decree no. LXVI issued by His Eminence Giuseppe Bertello, Cardinal President of the Governorate of the Vatican City State.

Regulation no. 1 was a decisive step towards the completion of the Vatican regulatory framework regarding prudential supervision, and the consolidation of transparency, stability and sustainability of the financial sector and the activity of the entities carrying out financial activities on a professional basis in the State.

In particular, considering the context of the Holy See and the Vatican City State, and in line with the best international and European standards, prudential supervision was introduced regarding:

- (a) the authorization to carry out financial activities on a professional basis;
- (b) organization and management criteria for entities carrying out financial activities on a professional basis;
- (c) capital adequacy and liquidity requirements for entities carrying out financial activities on a professional basis;
- (d) risk management criteria for entities carrying out financial activities on a professional basis (envisaging the following risk categories: market, credit, payment and liquidity, interest and exchange rate, intermediation; non-compliance with laws, regulations and internal procedures; legal, as well operational and reputational risk);
- (e) competence and honorability criteria for senior managers, directors and members of supervisory bodies, or anyone who holds or will hold similar posts within the entity carrying out financial activities on a professional basis, also looking into potential conflicts of interest;
- (f) procedures used by entities carrying out financial activities on a professional basis to send required documents, data or information for prudential supervision purposes.

Lastly, entities that were already carrying out financial activities on a professional basis in the Vatican City State were granted 365 days, starting from the Regulation's entry into force, in order to fully comply with new regulatory provisions.

In 2015, the following main activities were recorded regarding prudential supervision:

- (a) Authorization to carry out financial activities on a professional basis.

Under Art. 121 (1) of Regulation no. 1, entities must apply with AIF in order to be authorized to carry out financial activities on a professional basis. Applications must be supported by all relevant data, documents and information.

Insofar as IOR is concerned, on July 10, 2015 AIF granted IOR the authorization to carry out the following financial activities on a professional basis in the State, as per Art. 1 of Law no. XVIII:

- (i) acceptance of deposits and other repayable funds from users who are authorized to entertain an economic relationship with IOR [cf. Art. 1 (1) (a)];
- (ii) granting advances to IOR staff (on remunerations or pensions credited to their accounts with IOR), Holy See and Vatican State employees (in relation to accrued severance pay or on amounts withheld directly from their payroll) and users (in relation to financial assets deposited with the Institute, that are used as collateral) [cf. Art. 1 (1) (b)];
- (iii) transfer of funds [cf. Art. 1 (1) (d)];
- (iv) issuing and managing means of payment [cf. Art. 1 (1) (e)];
- (v) issuing financial guarantees and commitments [cf. Art. 1 (1) (f)];
- (vi) brokerage of any type of financial instrument [cf. Art. 1 (1) (g)];
- (vii) individual or collective portfolio management [cf. Art. 1 (1) (i)];
- (viii) safekeeping and administration of cash or liquid securities [cf. Art. 1 (1) (j)];
- (ix) otherwise investing, administering or managing funds or other assets [cf. Art. 1 (1) (k)];
- (x) money or currency exchange [cf. Art. 1 (1) (m)];
- (xi) advising users regarding activities listed above [cf. Art. 1 (1) (n)].

Considering the nature of financial activities IOR is authorized to carry out on a professional basis and, in particular, activities mentioned at point (i) and (ii), IOR does not engage in deposit taking from the general public (i.e., an undefined group of individuals), nor does it lend money on its own.

Pursuant to Art. 4 of Regulation no. 1, any change to the activities that IOR is authorized to carry out requires AIF's prior authorization.

(b) Supervision of organization and management criteria.

Regarding organization criteria, AIF monitored the internal structure definition process that was started by supervised entities in order to comply with requirements laid down in Regulation no. 1.

In particular, AIF provided indications and related action plans, which were later monitored during the implementation phase, concerning "control functions" (risk management, internal auditing and compliance) and outsourcing policies for jobs and services.

As far as management criteria are concerned, AIF launched a monitoring program on currently existing relationships between supervised entities and foreign credit institutions, in order to complete the rationalization process of correspondent activities.

(c) Supervision of capital adequacy and liquidity requirements.

AIF analyzed supervised entities' capital structure in order to determine their "capital", "regulatory capital", as well as prudential supervision coefficients, in line with Regulation no. 1.

(d) Supervision of competence and honorability requirements.

AIF checked whether supervised entities' senior managers, directors and members of supervisory bodies comply with competence and honorability requirements laid down in Regulation no. 1.

As part of the above-mentioned activity, AIF also performed the necessary checks on IOR's new Directorate.

3.1.3. *Domestic and International Cooperation and Information Exchange.*

Under Art. 69 (a) (b) of Law no. XVIII, AIF cooperates and exchanges information with Holy See and Vatican City State Authorities, as well as with its foreign counterparts, based on reciprocity and memoranda of understanding.

During 2015, contacts were established with relevant Supervisory Authorities in several countries, in order to monitor relationships between respective supervised entities, also in view of formalizing cooperation based on reciprocity and in line with shared international standards.

In 2015, AIF exchanged information in 12 cases, of which 10 upon AIF's request and 2 upon requests received from its foreign counterparts.

The level of cooperation provided by foreign counterparts was quite positive, especially in qualitative terms and, overall, a gradual strengthening of international cooperation was recorded.

3.2. FINANCIAL INTELLIGENCE.

AIF's financial intelligence activity can be broken down into three fundamental steps:

3.2.1. *Receiving Reports of Suspicious Activities.*

The mainstay of financial intelligence activity is receiving reports of suspicious activities.

Under Art. 40 (1) of Law no. XVIII, supervised entities notify AIF:

- (i) whenever they suspect, or have reasonable grounds to suspect, that funds or other economic resources are proceeds of criminal activities or are related or connected to terrorism financing or are bound to be used for acts of terrorism or by terrorist organizations or individuals who finance terrorism;

- (ii) in case of activities, operations or transactions which, due to their nature, are likely connected or related to money laundering or terrorism financing or terrorist organizations or individuals who finance terrorism.

Furthermore, the law provides for a broad duty of active cooperation to report suspicious activities (to AIF) also for relevant Authorities of the Holy See and the State, under Art. 40 (2) of Law no. XVIII.

AIF received 544 reports of suspicious activities: 537 from supervised entities, 6 from Holy See and State Authorities and 1 from other Entities.

Compared to past years, AIF recorded an increase in the number of reports. This was mostly due to the complete review and closure of accounts that do not comply any longer with the existing Vatican regulatory framework and with user policies adopted by supervised entities; it was also due to additional monitoring activities stemming from users' participation in foreign countries' voluntary tax compliance programs.

Therefore, such data do not imply an increase in attempted or completed unlawful activities. Rather, they go to show that whistleblowing mechanisms have become stronger, and awareness of reporting duties has become greater.

3.2.2. *Report Analysis.*

Reports are analyzed at two levels:

- (i) operational level (using available or obtainable documents, data and information in order to identify specific targets, track down operations and transactions and establish links between the above-mentioned targets and possible proceeds of criminal activities);
- (ii) strategic level (using available and obtainable documents, data and information for more general purposes, also related to the identification of money laundering and terrorism financing trends).

For its analytical activity, AIF uses advanced IT systems and data banks.

Under Art. 50 (a) of Law no. XVIII, for analytical purposes, AIF has the power to access all administrative and investigative information held by reporting entities, and legal persons headquartered or registered in the State, in a timely fashion, in order to prevent and counter money laundering and the financing of terrorism.

3.2.3. *Preventive Measures.*

Under Art. 48 of Law no. XVIII, AIF:

- (a) "suspends the execution, for up to five working days, of transactions and operations suspected of money laundering or the financing of terrorism, as well as any other linked operation or transaction, where this does not obstruct investigative or judicial activity" [Art. 48 (j)];

- (b) “adopts the preventive freezing of accounts, funds and other assets, up to five working days, in the case of suspect of money laundering or financing of terrorism, where this does not obstruct investigative or judicial activity” [Art. 48 (k)].

In 2015, AIF ordered 8 suspensions of transactions and operations (for a total of 8,262,565.42 Euros and 1,714,800 US dollars) and preventive freezing in 4 instances (for a total of 7,051,422.42 Euros and 654,800 US dollars).

3.2.4. *Activities to Prevent and Counter the Financing of Terrorism.*

Under Art. 71 (1) of Law no. XVIII, the President of the Governorate, after having heard the opinion of the Secretariat of State, issues an order to approve and update an *ad-hoc* list of natural and legal persons for whom there are reasonable grounds to assume that they are a threat to international peace and security.

In drawing up this list, the President of the Governorate examines input coming from relevant agencies of the United Nations Security Council, the European Union and other States.

In this domain, AIF has the responsibility to forward such lists and their updates to entities carrying out financial activities on a professional basis [Art. 71 (3)], and inform them about proposals to add or delete names from the list published by the President of the Governorate of the Vatican City State [Arts. 72 (3) and 73 (2)], as well as the adoption of precautionary measures [Art. 76 (1) (2)].

Furthermore, under Art. 75 (2) of Law no. XVIII, AIF has the power to order supervised entities to freeze, for preventive purposes:

- (a) funds and other assets owned, held, controlled or detained, exclusively or jointly, directly or indirectly, by subjects included in the list;
- (b) benefits and profits generated by funds and other assets referred to in letter a);
- (c) funds and other assets held or controlled by other subjects, natural persons or entities, in the name or in behalf or in favor of subjects included in the list.

On January 29, 2015, the President of the Governorate, with Order no. LXVI, approved an updated the list of subjects who threaten international peace and security, also based on relevant Resolutions issued by the United Nations Security Council.

The list was later updated with Order no. LXXV of May 18, 2015.

Concurrently with the two Orders, AIF published the list on its website, forwarding it to supervised entities, and ordering the freezing of assets and economic resources that could be traced back to subjects included in the list.

3.2.5. *Referrals to the Office of the Promoter of Justice in the Tribunal of the Vatican City State.*

If there are grounds to suspect that money laundering or terrorism financing are taking place, AIF forwards reports, documents, data and information to the Office of the Promoter of Justice in the Tribunal of the Vatican City State.

Referrals to the Office of the Promoter of Justice, as well as domestic or international information exchanges, take place through adequate procedures and measures aimed at ensuring document, data and information integrity, security and confidentiality.

In 2015, AIF forwarded 17 Reports to the Office of the Promoter of Justice. In most cases, the alleged crimes involved were fraud, tax avoidance and tax evasion. However, more serious financial crimes have been recorded, such as market disruption in foreign States.

3.2.4. *Domestic and International Cooperation and Information Exchange.*

Pursuant to Art. 69 (a) (b) of Law no. XVIII, AIF cooperates and exchanges information with Authorities of the Holy See and the Vatican City State, as well as with its foreign counterparts, based on reciprocity and memoranda of understanding.

Domestically, in 2015 AIF exchanged information in 108 instances with other relevant Authorities of the Holy See and the State.

Internationally, in 2015 AIF signed Memoranda of Understanding to exchange information with financial intelligence units in the following 6 countries: Albania, Cuba, Luxemburg, Norway, Paraguay and Hungary.

Currently, AIF maintains formal relations with financial intelligence units in 27 countries, in addition to the ones mentioned above: namely, Argentina, Australia, Belgium, Cyprus, France, Germany, Italy, Liechtenstein, Malta, Monaco, Netherlands, Peru, Poland, Romania, San Marino, Slovenia, Spain, United Kingdom United States of America, South Africa and Switzerland.

More specifically, in 2015 AIF had 380 international information exchanges, of which 199 upon AIF's request and 181 following requests made by its foreign counterparts.

The degree of cooperation provided by foreign counterparts has been positive, and overall there was a gradual strengthening of international cooperation and information exchange.

Lastly, AIF's membership in the "Egmont Group", allows AIF to interact with financial intelligence units of 153 countries and jurisdictions.

3.3. ADDITIONAL DOMESTIC AND INTERNATIONAL FUNCTIONS.

3.3.1. *Collecting and Analyzing Cross-Border Cash Transportation Declarations.*

Under Art. 81 of Law no. XVIII, anyone carrying cash across the border (or equivalent movable assets), from and to the State, for an amount equivalent to or greater than 10,000 Euros, must provide

a written declaration to the offices of the Gendarmerie Corps or to offices authorized by AIF. A copy of the declaration shall be forwarded to AIF within 24 hours.

In 2015, 367 inbound declarations (for a total of 9,697,570.61 Euros) and 1,196 outbound declarations were collected (for a total of 24,122,412.23 Euros).

3.3.2. *Tax Compliance Activities.*

On June 10, 2015, an Agreement between the Holy See and the United States of America was signed for the purpose of compliance and exchange of tax information in accordance with the “Foreign Account Tax Compliance Act” (“FATCA”).

In this context, AIF and the Secretariat for the Economy (which was identified as the Authority that is responsible for implementing the activities included in the aforementioned Agreement) signed a Memorandum of Understanding on 10 November 2015, whereby AIF was tasked to monitor the information disclosed by entities carrying out financial activities on a professional basis in the Vatican City State, to comply with FATCA.

3.3.3. *Country Assessment of Money laundering and Terrorism Financing Risks (“Risk Assessment”).*

In 2015, the Financial Security Committee (“CoSiFi”) launched a risk assessment project dedicated to money laundering and terrorism financing (“*Risk Assessment*”) for the Holy See and the Vatican City State, relying on World Bank methodology and technical support.

AIF is in charge of the coordination of the project.

3.3.4. *Other International Activities.*

AIF took part in the meeting of the Committee and Working Group that took place in Berlin (January 25-28, 2015) and in the 23rd Plenary Assembly of the “Egmont Group” of Financial Intelligence Units, which was held in Bridgetown (June 8-12, 2015).

AIF was part of the Delegation of the Holy See to the 47th meeting (April 14-17, 2015), 48th meeting (September 14-18, 2015) and 49th meeting (December 8-11, 2015) of the *Committee of Experts on the Evaluation of Anti Money Laundering Measures and the Financing of Terrorism* (“MONEYVAL”) of the Council of Europe.

PART II

STATISTICAL DATA

1. SUPERVISION AND REGULATION

International cooperation	2011	2012	2013	2014	2015
Request to foreign authorities for information	0	0	0	2	10
Request for information received from foreign authorities	0	0	0	2	2

In 2015, cooperation and information exchanges with supervisory Authorities of third countries increased: information was exchanged in 12 cases compared to 4 in 2014.

2. FINANCIAL INTELLIGENCE

Regarding reports of suspicious activities, starting from the fourth quarter of 2012, data show a remarkable upward trend, also due to legislative reforms introduced in 2012 and 2013, and to the strengthening of whistleblowing, cooperation and information exchange systems, both domestically and internationally. In 2013, this trend became even more evident, peaking during the second half of the year. In 2014 there was a stabilization, with a decrease in the number of reports compared to the previous year.

In 2015 there was an increase in the number of reports of suspicious activities, 544 compared to 147 in 2014 and 202 in 2013.

Statistics also confirm the intensification of domestic cooperation with the Authorities of the Holy See and the Vatican City State, with which information was exchanged in 108 cases, compared to 41 in 2014 and 11 in 2013.

In 2015, in connection to reports of suspicious activities by supervised entities, the following measures were adopted:

- (a) 8 suspensions of transactions or operations, totaling 8,262,565.42 Euros and 1,714,800 US dollars;
- (b) 4 preventive asset freezing orders, totaling 7,051,422.42 Euros and 654,800 US dollars.

Reports sent to the Office of the Promoter of Justice in the Vatican City State Tribunal were 17, compared to 7 in 2014 and 8 in 2013. The trend seems to be stable, in connection with the number of suspicious activities that were recorded in 2015.

Lastly, there was an overall intensification of cooperation and information exchange with intelligence units of third countries, with which information was exchanged in 308 cases, compared to 103 in 2014 and 81 in 2013.

Suspicious activities reports	2011	2012	2013	2014	2015
Number of reports	1	6	202	147	544
Supervised subjects	1	5	193	141	537
Authorities of the HS/VCS	1	5	5	4	6
Other Entities			4	2	1

Preventive measures	2014 Number of measure	2014 Total amount	2015 Number of measure	2015 Total amount
Suspension of transactions and operations	3	€ 561,574.89	8	€ 8,262,565.42 \$ 1,714,800
Preventive freezing of accounts, funds and other assets			4	€ 7,051,422.42 \$ 654,800

Domestic cooperation	2011	2012	2013	2014	2015
Requests to domestic authorities for information	1	2	11	41	108
Reports to the Office of the Promoter of Justice	0	2	8	7	17

International cooperation	2011	2012	2013	2014	2015
Request to foreign authorities for information	1	1	28	20	199
Request for information received from foreign authorities	7	3	53	93	181

3. COLLECTION AND ANALYSIS OF DECLARATIONS OF CROSS-BORDER CASH TRANSPORTATION.

In 2015, data regarding declarations of cross-border cash transportation show a reduction and stabilization in cross-border cash transportation, especially outbound, which started in 2012 following the strengthening of the State’s institutional and legal framework; this situation confirms trends recorded in 2013 and 2014.

Declarations	2011 (starting from April)	2012	2013	2014	2015
Number of incoming declarations	658	598	550	429	367
Number of outgoing declarations	1,894	1,782	1,557	1,111	1,196

