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INTRODUCTION

The institutional activities of the Financial Information Authority (AIF) are instrumental in the Holy See's efforts to fight against financial crimes, as pointed out by the *Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism* (MONEYVAL) of the Council of Europe in his recent *Third Progress Report* adopted on 6 December 2017.¹

The domestic regulatory framework is comprehensive and in line with the relevant international standards. New regulations and guidelines have been adopted, in particular on transfers of funds, high-risk States and accounting principles, also to give full implementation to the *Monetary Agreement between the European Union and the Vatican City State* of 2009.

The supervisory activities, including the on-site inspections, did not show relevant shortcomings. The Institute for the Works of Religion (IOR) confirmed the progressive consolidation of control functions and policies. The level of compliance with the regulatory requirements is adequate. The adoption of stringent ethical codes, and the further enhancing of projects with social and charitable vocation are significant positive developments. Some challenges for the sustainability of the unique mission of the Institute are linked to the volatility of the world financial environment.²

A robust Anti-Money Laundering and Countering of the Financing of Terrorism (AML/CFT) system is in place. The Suspicious Activity Report (SARs) filed by the reporting subjects confirmed the constant increase in terms of quality, and the parallel decrease in number, implying a consequent decrease of Reports transmitted by the AIF to the Office of the Promoter of Justice. The trend is also linked to the stabilization and normalization of the reporting system, and the finalization of the review of accounts opened at the IOR, which produced a peak of SARs and Reports to the Office of the Promoter of Justice in 2015-2016.

The progressive awareness of the AML/CFT requirements by the Non-Profit Organizations (NPOs) registered in the Vatican City is noteworthy. Relevant SARs have been filed by NPOs, allowing for the analysis of relevant cases of potential abuse of the sector, the transmission of Reports to the Office of the Promoter of Justice, and the prosecution of serious criminal offenses by the Tribunal of the Vatican City State. Furthermore, the Pontifical Commission for the Vatican City State adopted the Law "*on Registration and Supervision of Non-Profit Organizations*", no. CCXI, of 22 November 2017, including specific reporting requirements for NPOs.

Domestic cooperation with the Authorities of the Holy See and the Vatican City State is constant. In 2017 AIF exchanged information in 91 cases. In particular, the cooperation with the *law enforcement* Authorities, namely the Office of the Promoter of Justice and the Corps of the Gendarmerie, is a relevant component of the activity of the AIF, producing concrete results in the use of financial intelligence.

Within this context, a high level of attention has been paid to the transparency and accountability of donations for institutional and charitable purposes. Furthermore, the new Instructions on high-risk States issued by AIF established an *ad hoc* reporting system, functioning also for the protection of humanitarian and charitable activities in high-risk or unstable regions, where the Holy See and its instrumentalities are active to meet the requirements of the civil population.

Considering the potential risks linked to the universal projection of the Holy See, international cooperation is pivotal. Consequently, AIF maintained a pro-active approach, and in 2017 exchanged information in 282 cases, and signed 19 new Memoranda of Understanding (MoUs) with foreign Supervisory Authorities and Financial Intelligence Units (FIUs). Since 2012 FIA has signed 57 MoUs, consolidating a network of foreign counterparts in all the regions of the world.

¹ See MONEYVAL, *Holy See: Third Round Progress Report and Written Analysis by the Secretariat*, 6 December 2017, §§ 58 and 61, p. 15.

² International Monetary Fund, *World Economic Outlook Update*, January 2018.

Combating the financing of terrorism is still a priority. In 2017 no SARs were filed relating to the financing of terrorism. At the same time, AIF ensured its international cooperation and support to the FIUs of those Jurisdictions that are more exposed to the risk of terrorist attacks, which tragically affected different regions of the world.

AIF is also active at multilateral level. It actively participated in the meetings of the *Egmont Group* (gathering more than 150 foreign FIUs)³, in particular within the working groups engaged in facilitating analyses in the cases of corruption, and in preventing the abuse of legal entities and arrangements, including NPOs. AIF was also part of the Delegation of the Holy See at the Plenary Meetings of MONEYVAL.

A significant development is the adoption of the General Risk Assessment (GRA) by the Financial Security Committee (CoSiFi), in line with the recommendations of the *Financial Action Task Force* (FATF).⁴ It is the first AML/CFT risk assessment adopted in the Jurisdiction, involving all the competent Authorities of the Holy See and the Vatican City State. The GRA did not show significant domestic threats. The main risks identified are linked to cross-border activities, and international factors. However, some sectors can be further strengthened for greater effectiveness of the AML/CFT system as whole.

The paradigms at the basis of the financial activities should not be underestimated. “A small mistake in the beginning can turn into a big one in the end”.⁵ When the human person is not considered as the ultimate end, but rather as a tool or a source for profit, the systems of social coexistence are destined to fail, including the economic and financial systems.

It is in such a spirit that AIF fulfils its mandate, protecting the integrity of the limited financial activities carried out on a professional basis in the Vatican City, and providing its full cooperation at the international level.

TOMMASO DI RUZZA
Director

³ See <https://egmontgroup.org/en>.

⁴ See Recommendation no. 1 (*Assessing risks and applying a risk-based approach*) and Recommendation no. 2 (*National cooperation and coordination*); FATF, *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation of Weapons of Mass Destruction, The FATF Recommendations*, February 2018.

⁵ “*Quia parvus error in principio magnus est in fine*”; Sancti Thomae de Aquino, *De ente et essentia*, Prooemium, <http://www.corpusthomicum.org/oec.html>.

PART I

GENERAL FRAMEWORK,
INSTITUTIONAL FUNCTIONS
AND MAIN ACTIVITIES

1. GENERAL FRAMEWORK

1.1. LEGAL FRAMEWORK

The pillars of the legal framework on supervision and regulation, and financial intelligence activities are established by 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 the Law *on transparency, supervision and financial intelligence*, no. XVIII of 8 October 2013 (Law no. XVIII).

Title II of Law no. XVIII regulates the supervision for the prevention and countering of money laundering and the financing of terrorism (AML/CFT supervision), and the financial intelligence. Title III of Law no. XVIII regulates the prudential supervision (prudential supervision).

The Financial Information Authority (AIF) has the regulatory responsibility of specifying and giving further implementation to Titles II and III, by adopting regulations and guidelines.

The main legal sources composing the current regulatory framework are:

- (a) Regulation no. 1 on *Prudential Supervision of the Entities Carrying Out Financial Activities on a Professional Basis* (entered into force on 13 January 2015);
- (b) Regulation no. 2 *With which are established the data and information accompanying transfers of funds and the technical requirements for credit transfers and direct debits in euro* (12 December 2017);
- (c) Instruction no. 1 *With which is published the list of high-risk States, with strategic deficiencies in their anti-money laundering and combating the financing of terrorism systems* (23 October 2017);
- (d) Circular on *annual accounts and consolidated accounts of entities carrying out financial activities on a professional basis* (15 December 2016);
- (e) Circular on *monetary and financial statistics of entities carrying out financial activities on a professional basis* (29 December 2016);
- (f) Circular on *interest rates applied by entities carrying out financial activities on a professional basis* (29 December 2016);

1.2. ECONOMIC AND FINANCIAL FRAMEWORK

By virtue of the Law *on the economic, commercial and professional sectors*, no. V of 7 June 1929, a public regime is established in the Vatican City State, and there are neither a financial market, nor private financial actors:

- (a) Regulated markets, multilateral trading facilities and organized trading facilities are not established;
- (b) Public debt instruments, capital instruments, securities or associated instruments are not issued;

- (c) Insurance companies, electronic money institutions, trust companies nor securities firms are not established;
- (d) Branches or subsidiaries of foreign financial institutions are not established.

Pursuant to the prudential regulatory framework into force, the conduct of one or more financial activities on a professional basis is subject to the prior authorization by AIF.

Currently, the only entity authorized to carry out financial activities on a professional basis is the Institute for the Works of Religion (IOR).

2. INSTITUTIONAL FUNCTIONS

2.1. STATUTE AND INSTITUTIONAL FUNCTIONS

AIF was established by Pope Benedict XVI with the Apostolic Letter issued “*Motu Proprio*” for the *prevention and countering of illegal activities in the area of monetary and financial dealings* of 30 December 2010. The AIF’s mandate was consolidated by Pope Francis with the Apostolic Letter issued “*Motu Proprio*” *approving the Statute of the Financial Information Authority* of 15 November 2013.

Pursuant to Art. 1 of the Statute, AIF has the *status* of an “Institution connected to the Holy See”, pursuant to Art. 186 ff. of the Apostolic Constitution *Pastor Bonus* of 28 June 1988 and is endowed with public legal personality under Canon Law. It has its registered office in the Vatican City State.

Pursuant to Art. 2 of the Statute, AIF carries out the following institutional functions in full autonomy and independence:

- (a) prudential and AML/CFT supervision;
- (b) financial intelligence;
- (c) cooperation and exchange of information at the domestic and international levels.

2.2. STRUCTURE AND ORGANIZATION

The structure and organization of AIF is defined by the Statute (see 2.1.).

Pursuant to Art. 3 (1), AIF’s Statutory bodies are:

- (a) The Board of Directors, competent to define the policies and strategies;
- (b) The President, who chairs the Board of Directors;
- (c) The Director, who is in charge of the operational activity of AIF, is a Member of the Financial Security Committee (CoSiFi) and takes part in the Delegation of the Holy See to international bodies responsible for countering money laundering and the financing of terrorism.

The Board of Directors is composed of 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).

Pursuant to Art. 3 (2) of the Statute, AIF's organization is subdivided into two Offices:

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

The Statue ensures the functional separation between the supervisory and the financial intelligence activities. At the same time, and considering the uniqueness of the Jurisdiction, the coexistence of the two Offices within the same institutional framework ensures an effective coordination and constitutes an added value for the effectiveness of the AML/CFT system as a whole.

Office for Supervision and Regulation

Competent for the prudential and AML/CFT supervision, including the cooperation and exchange of information with the Authorities of the Holy See and the Vatican City State, and foreign supervisory Authorities, pursuant to Art. 2 (a) (b) of the Statute and Articles 46, 65 and 69 of Law no. XVIII.

Office for Financial Intelligence

Competent for the financial intelligence activities, including the cooperation and exchange of information with the Authorities of the Holy See and the Vatican City State and foreign Financial Intelligence Units (FIUs), under Art. 2 (c) of the Statute and Articles 48 and 69 of Law no. XVIII.

2.3. SUPERVISED SUBJECTS

According to the “Motu Proprio” of 8 August 2013 (see 1.1.), all Dicasteries of the Roman Curia and other bodies and entities that depend on the Holy See, as well as Non-Profit Organizations (NPOs) having legal personality pursuant to Canon Law and their registered offices in the Vatican City, fall under the scope of application of the legislation 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.

The effects of the legislations depend upon the institutional and legal status of the entities.

Art. 2 of Law no. XVIII (see 1.1.) indicates the categories of subjects falling under the supervision by AIF, including the entities carrying out financial activities on a professional basis.

Pursuant to art. 4 of Law no. XVIII (see 1.1.), AIF publishes and updates the list of supervised subjects.

The list includes one entity carrying out financial activities on a professional basis, the IOR.

2.3.1. *Institute for the Works of Religion*

IOR is a public canon law foundation⁶. Pursuant to Art. 2 of the Statute approved by John Paul II with the *Chirograph providing a new status to the Institute of Works of Religion* of 1 March 1990, the mission of the IOR is: “the custody and administration of movable and immovable property transferred or assigned to the Institute by natural or legal persons, and intended to works of religion and charity”.

According to the policy adopted by the Board of Superintendence, the IOR is not open to the general public and currently provides its financial services to the following categories of natural and legal persons: Clerics and members of Institutes of Consecrated Life and Societies of Apostolic Life; Legal entities registered within the Vatican City State; Institutes of Consecrated Life and Societies of Apostolic Life; Dioceses, parishes and other entities of the Catholic Church; Diplomatic missions accredited to the Holy See; Causes of Beatification and Canonization; Legates; Organs and entities of the Holy See and Vatican City State and connected institutions, including Apostolic Nunciatures and Delegations; Employees (and retired persons) of the Holy See and Vatican City State; Diplomats accredited to the Holy See.

The IOR does not have branches or subsidiaries in foreign Jurisdictions.

⁶ See Art. 1 of the *Chirograph providing a new status to the Institute of Works of Religion* by Pope John Paul II of 1 March 1990.

3. MAIN ACTIVITIES

3.1. GENERAL RISK ASSESSMENT

In 2017, the CoSiFi adopted the General Risk Assessment (GRA) for the Holy See and the Vatican City State, in view of the identification and assessment of potential risks of money laundering and terrorist financing, as required by Law no. XVIII⁷, and in line with the recommendations of the *Financial Action Task Force* (FATF).⁸

The GRA has been carried out using the World Bank's: *National Money-Laundering and Terrorist Financing Risk Assessment Tool*, and involved all the competent Authorities of the Holy See and the Vatican City State. Considering the uniqueness of the Jurisdiction, the main object of the GRA is the limited financial activities carried out on a professional basis in the Vatican City. At the same time, the GRA focused on the AML/CFT system as a whole, including the safeguard of the governmental financial activities, the donations, and the NPOs registered in the Vatican City, as a consequence of a comprehensive risk-based approach.

The GRA did not show significant domestic threats. The main risks identified are linked to cross-border activities and international factors. However, some sectors can be further strengthened with a view to enhancing the effectiveness of the AML/CFT system as a whole. Among the first results of the GRA, it is worth mentioning the *Law on Registration and Supervision of the Non-Profit Organizations*, no. CCXI, of 22 November 2017, adopted by the Pontifical Commission of the Vatican City State, and the *Instruction on high-risk States*, issued by AIF (see 3.2.2. (b)).

3.2. SUPERVISION AND REGULATION OF THE ENTITIES CARRYING OUT FINANCIAL ACTIVITIES ON A PROFESSIONAL BASIS

In 2017, AIF continued its activity to protect the stability and sustainability of the limited financial activities carried out on a professional basis within the Vatican City. Such efforts have been recognized by the *Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism* (MONEYVAL) of the Council of Europe in the *Third Progress Report* adopted on 6 December 2017, indicating that a regular prudential and AML/CFT supervision is firmly established.⁹

The domestic regulatory framework has been further detailed with new regulations and guidelines, in line with the relevant international standards and in view of giving full implementation to the *Monetary Agreement between the European Union and the Vatican City State* of 2009; the *Ad hoc Arrangement* adopted on 19 December 2014 by the Joint Committee for the implementation of the same Agreement. The transposition of the relevant and applicable European Union legal sources is carried out consistently with the uniqueness of the Jurisdiction, in order to establish an effective and sustainable system.

⁷ See Art. 9 (1) (b) of Law no. XVIII.

⁸ See Recommendation no. 1 (*Assessing risks and applying a risk-based approach*) and Recommendation no. 2 (*National cooperation and coordination*); FATF, *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation, The FATF Recommendations*, February 2018.

⁹ See MONEYVAL, *Holy See: Third Round Progress Report and Written Analysis by the Secretariat*, 6 December 2017, § 58, p. 15.

3.2.1. Prudential Supervision

The prudential supervision was mainly focused on the monitoring system of possible risks and adequacy of regulatory capital with respect to financial assets held by the IOR, as well as on providing appropriate accounting principles on financial assets and liabilities.

In May-June 2017, AIF conducted also a targeted on-site inspection at the IOR on the management of assets with charitable purposes - namely the legates - established pursuant to Canon Law.

(a) Stability of the Financial Activities

The domestic prudential regulatory framework establishes strict rules to ensure the proportionality of the regulatory capital and related risks for the entities carrying out financial activities on a professional basis.

According to Articles 56 (3) and 57 of Regulation no. 1 (see 1.1.), the supervised entities shall calculate and report to AIF their capital requirements for the first and second pillar risks (credit risk, counterparty risk, market risk, operational risk, systemic risk, concentration risk, liquidity risk, etc.), as well as the risks identified and assessed with the Risk Appetite Framework (RAF). The regulatory requirements have been further consolidated with the Circulars issued by AIF on 29 December 2016 (*Circular on monetary and financial statistics of entities carrying out financial activities on a professional basis*, and *Circular on interest rates applied by entities carrying out financial activities on a professional basis*). Targeted instructions have been provided on the reporting requirements of the main financial indicators (Liquidity Coverage Ratio, LCR; Net Stable Funding Ratio, NSFR; etc.).

Considering the uniqueness of the nature and mission of the IOR, AIF provided the IOR with a guideline and a reporting template to submit, on regular basis, the relevant data and information on the proportionality of the statutory capital and capital for activity, and connected risks, including the methodology used for calculating the risk-weighted assets (RWA).

The first data, covering the last quarter of 2017, were provided on 29 December 2017 and show a sound and stable risk management by the IOR.

(b) Accounting principles

Following the *Ad hoc* Arrangement adopted on 19 December 2014 by the Joint Committee for the implementation of the *Monetary Agreement between the European Union and Vatican City State*, on 15 December 2016 AIF issued the *Circular on annual accounts and consolidated accounts of entities carrying out financial activities on a professional basis*.

The Circular transposes the relevant and applicable provisions of the Council Directive 86/635/EEC of 8 December 1986 on *the annual accounts and consolidated accounts of banks and other financial institutions* as amended, and the Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on *“the annual financial statements, consolidated financial statements and related reports of certain types of undertakings”*, as well as the relevant and applicable provisions established by the European legal sources on *International Accounting Standards* (IAS) and *International Financial Reporting Standards* (IFRS).

AIF amended the Circular on 31 October 2017, in order to introduce the new IFRS 9 on the classification and measurement of financial assets and liabilities adopted by the International Accounting Standards Board on 24 July 2014, as well as the Commission Regulation (EU) 2016/2067 of 22 November 2016 *amending Regulation (EC) 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9*.

The amended Circular will be fully applied in the 2018 financial statements of the entities carrying out financial activities on a professional basis within the Vatican City State.

(c) On-site Inspection on the Management of Legates

In May-June 2017, AIF conducted a targeted on-site inspection at the IOR on the management of assets with charitable purposes, namely the legates established pursuant to Canon Law¹⁰.

The inspection's main purpose was to verify that the management of the legates complied with the provisions of Law no. XVIII (see 1.1.), Regulation no. 1 (see 1.1.), the Circular *on annual accounts and consolidated accounts of entities carrying out financial activities on a professional basis* of 15 December 2016.

The object of the on-site inspection included, *inter alia*: transaction monitoring system; evaluation and risk management procedures; customer due diligence procedures; registration and record keeping; procedures for the detection and reporting of suspicious activities. The on-site inspection included also sample tests on files, as well as on the legates and individual transactions and has been preceded by a desk-based review of all the relevant data, documents and information.

The outcome of the inspection was positive and no significant shortcomings were registered.

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

The AML/CFT supervision was mainly focused on the implementation of a coherent risk-based approach and the fulfilment of the requirements on customer due diligence and reporting mechanisms, and transactions monitoring systems. A specific attention was paid to correspondent relationships with foreign financial institutions and international transfer of funds. The off-site and on-site inspections did not show relevant shortcomings. The control functions and policies show their effectiveness. The adoption of stringent ethical codes, and the further enhancing of projects with social and charitable vocation are significant positive developments.

In view of further enhancing the AML/CFT regulatory framework, new regulations and guidelines have been adopted by AIF, in particular on transfer of funds, and high-risk States.

(a) International Transfer of Funds

Considering the potential risks linked to international transfer of funds, in line with the commitment taken by the Holy See with the *Monetary Agreement between the European Union and the Vatican City State*, AIF issued Regulation no. 2 *with which established the data and information accompanying transfers of funds and the technical requirements for credit transfers and direct debits in euro* of 12 December 2017.

¹⁰ See Can. 1303 and Can. 114 of the Code of Canon Law.

The Regulation transposed the relevant provisions of the Regulation (EU) 2015/847 of the European Parliament and of the Council of 20 May 2015 *on information accompanying transfers of funds*, as well as the relevant and applicable provisions of the Regulation (EU) 260/2012 of the European Parliament and of the Council of 14 March 2012, *establishing technical and business requirements for credit transfers and direct debits in euro*, as amended by the Regulation (EU) 248/2014 of the European Parliament and of the Council of 26 February 2014.

(b) High-risk States

The integrity of financial activities is seriously threatened by States with strategic deficiencies in their anti-money laundering and terrorism financing systems. Consequently, as established by Art. 9 (2), (vi)-(viii), of Law no. XVIII, and in line with the relevant international standards, AIF issued Instruction No. 1 *publishing the list of high-risk States, with strategic deficiencies in their anti-money laundering and combating terrorism financing systems* of 23 October 2017, establishing an *ad hoc* reporting system, instrumental also in the protection of humanitarian and charitable activities in high-risk or unstable environments, where the Holy See and its instrumentalities are particularly active to meet the requirements of the civil population.

The Instruction has been issued taking into account the statement by the relevant international and regional bodies, in particular the FATF (namely the *Public Statement* of 23 June 2017 and *Improving Global AML/CFT Compliance: On-going Process* of 23 June 2017) and the European Union. The Instruction has then been updated on 12 December 2017 following the *Public Statement* of 3 November 2017 and *Improving Global AML/CFT Compliance: On-going Process* published on 3 November 2017 by the FATF.

Following the publication of the Instruction, AIF provided the IOR with detailed instructions, including a template for communications, in order to guarantee a timely and adequate fulfilment of the reporting requirements, and flow of information.

3.2.3. *International Cooperation and Exchange of Information*¹¹

AIF exchanged information with foreign Supervisory Authorities in 14 cases (11 requests *to* foreign Authorities and 3 requests *from* foreign Authorities). The international cooperation produced concrete results and in some cases allowed for the analysis of complex financial schemes with connections with several Jurisdictions, leading to the reporting of potential breaches and misconducts. With some counterparts, since the respective Jurisdictions have closer financial interactions, the cooperation and exchange of information is carried out on a regular basis and its scope is not limited to the prevention of potential breaches and misconducts, but covers the overall integrity and sustainability of the financial activities, also from the perspective of prudential supervision.

In 2017, AIF signed a Memorandum of Understanding (MoU) with the Supervisory Authority of Malta (*Malta Financial Services Authority* – MFSA) (See 4.1.2.). Since 2014 AIF has signed MoUs with the Supervisory Authorities of 7 foreign Jurisdictions, namely Brazil (*Council for Financial Activities Controls* – COAF), Germany (*Federal Financial Supervisory Authority* – BaFin), Italy (*Bank of Italy*), Luxembourg (*Commission de Surveillance du Secteur Financier* – CSSF), Malta (*Malta Financial Services Authority* – MFSA), Poland (*Polish Financial Supervision Authority* – KNF) and United States of America (*Office of the Controller of the Currency* – OCC).

¹¹ Pursuant to Art. 69 (b) of Law no. XVIII, AIF: “cooperates and exchanges information with equivalent authorities of other States, on the condition of reciprocity and on the basis of memoranda of understanding. The Secretariat of State is informed of such memoranda being entered into.”

3.3. FINANCIAL INTELLIGENCE

The financial intelligence activities imply three main phases:

- (a) Reception of Suspicious Activities Reports (SARs) from Supervised subjects, Authorities of the Holy See and the Vatican City State, and other Subjects;
- (b) Strategic and operational analysis of the SARs, including the access of documents, data and information, the adoption of preventive measures, and the cooperation and exchange of information at the domestic and international levels;
- (c) Filing reports, documents, data and information to the Office of the Promoter of Justice.

3.3.1. *Suspicious Activities Reports*

In 2017, AIF received 150 SARs: 136 from Supervised Subjects; 9 from Authorities of the Holy See and Vatican City State; 5 from other Subjects (see 4.2.1.).

The SARs filed by the reporting subjects confirmed the constant increase in terms of quality and the parallel decrease in number. The trend is also linked to the stabilization and normalization of the reporting system, and the finalization of the review of accounts opened at the IOR, which produced a peak of SARs in 2015 (see 4.2.1.). A further significant element is the increase of SARs by the Authorities of the Holy See and the Vatican City State, showing the progressive enhancement of the domestic cooperation among competent Authorities (see 4.2.4.).

Within the framework of the analytical activities, in 2017, AIF ordered 1 preventive measure, freezing a total of 1,757.40 EUR (see 4.2.2.)¹². The decrease in the number of preventive measures and that of the amount of frozen assets confirm the general trend of the normalization of the AML/CFT system, implying also the enhancement of the internal control functions of the reporting subjects, and the adoption of a strict preventive approach in detecting potential suspicious activities.

Relevant SARs have been filed by NPOs, allowing the analysis of relevant cases of potential abuse of the sector, the dissemination of Reports to the Office of the Promoter of Justice and the successful prosecution of serious criminal offenses by the Tribunal of the Vatican City State (see Box 1), and the analysis of cases of donations to NPOs (see Box 2). Furthermore, the Pontifical Commission for the Vatican City State adopted the *Law on Registration and Supervision of the Non-Profit Organizations*, no. CCXI, of 22 November 2017, including specific reporting requirements for NPOs.

¹² Pursuant to Art. 48 (j) (k) of Law no. XVIII, AIF: “suspends the execution, for up to five working days, of transactions and operations suspected of money laundering or financing of terrorism, as well as any other linked operation or transaction, where this does not obstruct investigative or judicial activity; 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”.

Box 1 – Example case

A foreign company concluded a public procurement contract to refurbish an apartment in the Vatican City. The tenant of the apartment was a member of the board of directors of a Non-Profit Foundation registered in a foreign State. The chairman of the Non-Profit Foundation ordered some payments without a clear economic reason. AIF started an in-depth analysis of the transactions, including the spontaneous dissemination of information and request of cooperation to foreign FIUs. AIF disseminated a Report to the Office of the Promoter of Justice. The Tribunal of the Vatican City State convicted the chairman of the Non-Profit Foundation for serious crimes.

Box 2 – Example case

A NPO registered in the Vatican City State received a donation from a company registered in a foreign State. The wire transfer was executed on an account held by the NPO in a third foreign State. The Authority of the Holy See supervising the NPO filed a SAR to AIF. AIF started an in-depth analysis of the case, including the spontaneous dissemination of information and request of cooperation to foreign FIUs. The exchange of information between AIF and the foreign FIUs clarified the origin of the funds.

IT structures (hardware and software) and cyber-security systems have been strengthened to ensure the highest level of integrity, security and confidentiality of data storage and processing. In particular, AIF adopted the *goAML* tool licensed by the *Office of Information and Communications Technology (ICT)* of the *Organization of the United Nations* to manage the database and SARs mechanisms.

3.3.2. Reports to the Office of the Promoter of Justice

In 2017, AIF filed 8 Reports to the Office of the Promoter of Justice (see 4.2.3.)¹³. The number of Reports decreased in connection with the decrease of the number of SARs (see 4.2.1.).

Almost all the potential financial crimes involve foreign subjects or conducts undertaken in, or in connection with, foreign Jurisdictions. The main detected potential predicate offenses are serious international fraud, including fiscal fraud, and market abuse.

3.3.3. Combating the Financing of Terrorism

Against the current global backdrop, the fight against financing of terrorism is still a priority.

In 2017 no SARs relating to financing of terrorism have been filed. At the same time, AIF ensured its international cooperation and support to the FIUs of those Jurisdictions that are more exposed to the risk of terrorist attacks which tragically affected different regions of the world.

Pursuant to Art. 71 (1) of Law no. XVIII, the President of the Governorate of the Vatican City State issues a list of subjects threatening the international peace and security on a regular basis. The lists are drawn up and updated taking account of the list published by the Security Council of the Organization of the United Nations, the European Union or other States.

In 2017, the President of the Governorate issued 25 Ordinances publishing and updating the lists of designated subjects.

¹³ Pursuant to Art. 48 (e) of Law no. XVIII, AIF: “disseminates reports, documents, data and information to the Promoter of Justice if there is reasonable ground to suspect an activity of money-laundering or financing of terrorism.”

AIF carried out the relevant analysis and forwarded the lists to the IOR, requesting an enhanced monitoring and the adoption of potential preventive measure, including the freezing of potential funds and other assets owned, held, controlled or detained, exclusively or jointly, directly or indirectly, by subjects included in the list; potential benefits and profits generated by the aforementioned funds and assets, and potential funds and other assets held or controlled by other subjects, natural persons or entities, in the name or on behalf of or in favour of subjects included on the lists.¹⁴

The analyses and following monitoring activities did not show links between the designated subjects and the Jurisdiction.

In view of promoting the highest level of awareness of the potential risks among the Authorities of the Holy See and the Vatican City State and the NPOs registered in the Vatican City, the lists are published in the AIF's official website¹⁵.

3.3.4. *Domestic and International Cooperation and Exchange of Information*¹⁶

The domestic cooperation with competent Authorities of the Holy See and the Vatican City State is effective and produced exchanges of information in 91 cases (86 requests *to* competent Authorities and 5 requests *from* competent Authorities) (See 4.2.4.).

In particular, the cooperation with the *law enforcement* Authorities, namely the Office of the Promoter of Justice and the Corps of the Gendarmerie, is a relevant component of the activity of the AIF, producing concrete results in the use of financial intelligence (see Box 3). Furthermore, in view of ensuring an appropriate coordination of the relevant operational activities, meetings between AIF, the Sections for the fight against the economic and financial crimes of the Office of the Promoter of Justice and the Corps of the Gendarmerie, have taken place on a regular basis.

Box 3 – Example case

A customer of a reporting subject, a foreign citizen, was indicted for non-financial crimes in his country and the police issued an international arrest warrant. The customer requested the execution of a wire transfer via a telefax from a third country. The reporting subject filed a SAR to AIF. AIF suspended the execution of the transaction and filed a Report to the Corps of the Gendarmerie. The Corps of the Gendarmerie informed the police of the country of the customer and the police of the country where the customer ordered the wire transfer, via Interpol. The customer was then detected and arrested.

AIF exchanged information with foreign FIUs in 268 cases (88 requests *to* foreign FIUs and 180 requests *from* foreign FIUs) (See 4.2.5.). Also in this context the international cooperation produced concrete results, and in some cases allowed the analysis of complex financial schemes with connections with several Jurisdictions, leading to the dissemination of relevant financial intelligence to the Office of the Promoter of Justice.

¹⁴ See Art. 75 (2), and Art. 76 (1) (2) of Law no. XVIII.

¹⁵ See Art. 71 (3) of Law no. XVIII.

¹⁶ Pursuant to Art. 69 (a) (b) of Law no. XVIII, AIF: “cooperates and exchanges information with other authorities of the Holy See and the Vatican City State, which provide the Financial Intelligence Authority with the relevant documents, data and information; cooperates and exchanges information with equivalent authorities of other States, on the condition of reciprocity and on the basis of memoranda of understanding. The Secretariat of State is informed of the memoranda entered into.”

In 2017, AIF signed MoUs with the FIUs of 18 foreign Jurisdictions, namely Andorra, Armenia, Capo Verde, Chile, Colombia, Ecuador, Estonia, Gibraltar, Ghana, Guernsey, India, Isle of Man, Jersey, Latvia, Moldova, New Zealand, Portugal, Taiwan (Republic of China), for a total of 50 MoUs signed since 2012¹⁷ (See 4.2.6.).

3.4. ADDITIONAL ACTIVITIES

3.4.1. *Declarations of Cross-Border Transportation of Currency*

Art. 81 of Law no. XVIII establishes the duty to declare cross-border transportation of currency (cash and bearer negotiable instruments) for an amount equivalent to, or greater than, 10,000 EUR. The declaration must be presented to the Corps of the Gendarmerie, namely the custom competent Authority, or to the offices authorized by AIF.

In 2017, 367 incoming declarations, amounting to a total of 9,222,729.22 EURO, and 1,439 outgoing declarations, amounting to a total of 23,408,070.69 EURO, have been registered. The number and amount of cross-border declarations confirm the progressive decrease in the use of cash registered since 2015 (see 4.3.1.). The trend is also due to the availability of other systems of transfer of funds carried out by the IOR, ensuring a better standard of security and traceability.

In 2017, the analysis of the declarations carried out by AIF did not show significant anomalies or risk indicators.

In the same year, however, the Tribunal of the Vatican City confirmed an administrative sanction for failure of cross-border declaration applied in 2016 by the Governorate of the Vatican City State, following a report filed by the AIF to the same Governorate in 2015 (see Box 4). This is a concrete result showing the effectiveness of the system of administrative sanctions.

Box 4

Example case

A customer of a reporting subject, a foreign citizen, withdrew a sizable amount of cash from his private account, which she then proceeded to deposit in three safety boxes at the same reporting subject. Subsequently, the person progressively withdrew the cash and transferred it to his country without presenting the declarations of cross-border transportation of currency. The reporting subject filed a SAR to AIF. AIF ordered the freezing of the account and under the responsibility of the Office of the Promoter of Justice inspected the safety boxes. AIF reported the case to the Governorate of Vatican City State as a potential breach of the duty to declare the cross-border transportation of currency. AIF filed a spontaneous communication of information and request of information to the FIU of the country of the customer and then transmitted a Report to the Office of the Promoter of Justice. The Governorate of the Vatican City State imposed a pecuniary administrative sanction to the person for the failure to declare the cross-border transportation of currency. The customer challenged the decision but the Tribunal of the Vatican City State confirmed the sanction. The Office of the Promoter of Justice then resumed the criminal investigations for potential self-laundering.

¹⁷ In alphabetic order: Albania, Andorra, Argentina, Armenia, Australia, Austria, Belgium, Brazil, Capo Verde, Canada, Chile, Colombia, Cuba, Cyprus, Ecuador, Estonia, France, Germany, Ghana, Gibraltar, Guernsey, Hungary, India, Isle of Man, Jersey, Italy, Latvia, Liechtenstein, Luxemburg, Malta, Moldova, Monaco, Netherlands, New Zealand, Norway, Panama, Paraguay, Peru, Poland, Portugal, Romania, Russian Federation, San Marino, Slovenia, South Africa, Spain, Switzerland, Taiwan (Republic of China), United Kingdom, United States of America.

3.4.2. Tax Compliance

Within the Vatican City State there are no productive economic activities (see 1.2.) and a structured domestic tax system is not in place.

At the same time, the Holy See has a strong commitment to ensure the international cooperation and exchange of information for the prevention of tax evasion and the promotion of the fulfilment of fiscal requirements by foreign citizens and legal entities having an account at the IOR.

To this end, the Holy See signed two international treaties on fiscal matters: the *Convention between the Holy See (acting also in the name and on behalf of the Vatican City State) and the Government of the Italian Republic in fiscal matters* of 1 April 2015, and the *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 exchange of tax information in view of the U.S. Foreign Account Tax Compliance Act (FATCA Agreement)* of 10 June 2015.

As far as the FATCA Agreement is concerned, AIF and the Secretariat for the Economy (identified by the signatory parties of the competent Authority of the Holy See for the transmission of data) on 10 November 2015 signed an MOU allowing the AIF to monitor the implementation of the procedures adopted by the IOR for the fulfilment of the requirements established by the Agreement.

The checks and controls carried out by AIF in 2017 showed that the implementation of the procedures adopted by the IOR is effective for the implementation of the FATCA Agreement. Furthermore, the overall monitoring activities did not show significant anomalies and risk indicators, and this is also a concrete result of the constant review of the adherence by the customers of the IOR to voluntary tax compliance programmes launched by their respective Jurisdictions, object of specific Instructions issued by AIF¹⁸, in line with the indications provided by FATF in view of preventing that voluntary tax compliance programmes are abused to circumvent AML/CFT policies¹⁹.

3.4.3. Other International Activities

AIF actively participated in the Meetings of the *Egmont Group* in Qatar (29 January-2 February, 2017) and the Plenary of the same *Egmont Group* in Macao (2-7 July, 2017), in particular within the working groups engaged in facilitating the analysis in cases of corruption, and the prevention of the abuse of legal entities and arrangements, including the NPOs.

AIF was also part of the Delegation of the Holy See to the 53rd Plenary Meeting (30 May-1 June, 2017), the 54th Plenary Meeting (26-28 September 2017) and the 55th Plenary Meeting (5-7 December 2017) of the *Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism* (MONEYVAL) at the Council of Europe.

¹⁸ See AIF, *Annual Report*, Year IV-2015, p. 14, Vatican City 2016.

¹⁹ FATF, Best Practices Paper, *Managing the Anti-Money Laundering and Counter-Terrorist Financing Policy Implications of Voluntary Tax Compliance Programmes*, October 2012.

PART II

STATISTICS

4. STATISTICS

4.1. SUPERVISION AND REGULATION

4.1.1. International Cooperation

	2011 (April)	2012	2013	2014	2015	2016	2017
<i>Total</i>	0	0	0	4	12	11	14
<i>Requests to foreign Supervisory Authorities</i>	0	0	0	2	10	11	11
<i>Requests from foreign Supervisory Authorities</i>	0	0	0	2	2	0	3

4.1.2. Memoranda of Understanding with foreign Supervisory Authorities

	2011 (April)	2012	2013	2014	2015	2016	2017
<i>Total</i>	0	0	0	3	0	3	1

4.2. FINANCIAL INTELLIGENCE

4.2.1. Suspicious Activity Reports

	2011 (April)	2012	2013	2014	2015	2016	2017
Total	1	6	202	147	544	207	150
<i>Supervised Subjects</i>	<i>1</i>	<i>5</i>	<i>193</i>	<i>141</i>	<i>537</i>	<i>192</i>	<i>136</i>
<i>Authorities of the Holy See / Vatican City State</i>	<i>0</i>	<i>1</i>	<i>5</i>	<i>4</i>	<i>6</i>	<i>8</i>	<i>9</i>
<i>Other Subjects</i>	<i>0</i>	<i>0</i>	<i>4</i>	<i>2</i>	<i>1</i>	<i>7</i>	<i>5</i>

4.2.2. Preventive Measures

	2014		2015		2016		2017	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<i>Suspension of transactions and operations</i>	3	€ 561,574.89	8	€ 8,262,565.42 \$ 1,714,800	4	€ 2,113,838.55	0	
<i>Freezing of accounts, funds and other assets</i>			4	€ 7,051,422.42 \$ 654,800	1	€ 1,550,199.45	1	€ 1,757.40

4.2.3. Reports to the Office of the Promoter of Justice

	2011 (April)	2012	2013	2014	2015	2016	2017
Total	0	2	8	7	22	24	8

4.2.4. Domestic Cooperation

	2011 (April)	2012	2013	2014	2015	2016	2017
Total	0	2	11	48	117	72	91
<i>Requests to Authorities of the Holy See /Vatican City State</i>	1	2	11	41	108	67	86
<i>Requests from Authorities of the Holy See /Vatican City State</i>	0	0	0	7	9	5	5

4.2.5. International Cooperation

	2011 (April)	2012	2013	2014	2015	2016	2017
Total	8	4	81	113	380	837	268
<i>Requests to foreign Financial Intelligence Units</i>	1	1	28	20	199	721	88
<i>Requests from foreign Financial Intelligence Units</i>	7	3	53	93	181	116	180

4.2.6. Memoranda of Understanding with foreign Financial Intelligence Units

	2011 (April)	2012	2013	2014	2015	2016	2017
Total	0	2	5	14	6	5	18

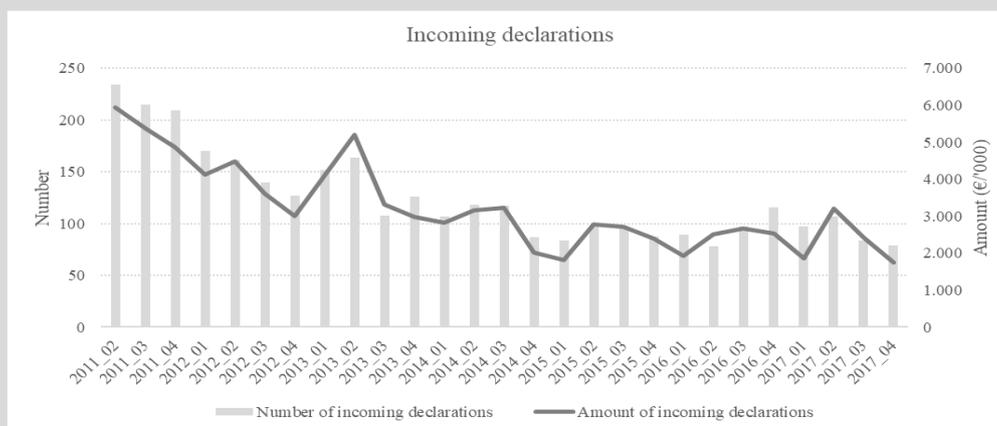
4.3. DECLARATIONS OF CROSS-BORDER TRANSPORTATION OF CURRENCY

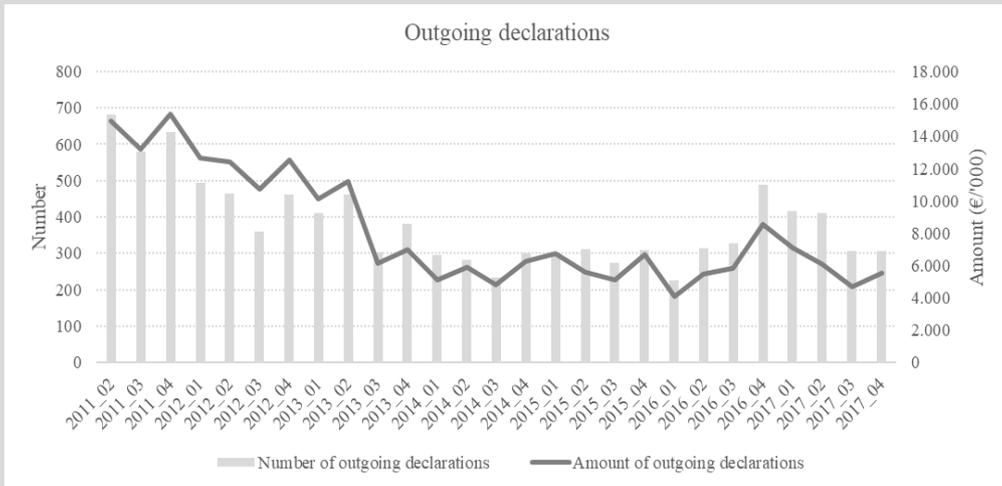
4.3.1. Number and Amount of the Declarations

	2011 (April)	2012	2013	2014
Number	2,552	2,380	2,107	1,540
Amount	€ 59,689,056.03	€ 63,604,278	€ 50,055,535.53	€ 33,279,632.64
<i>Incoming declarations</i>				
<i>Number</i>	658	598	550	429
<i>Amount</i>	€ 16,192,071.57	€ 15,203,937.92	€ 15,596,858.27	€ 11,235,606.85
<i>Outgoing declarations</i>				
<i>Number</i>	1,894	1,782	1,557	1,111
<i>Amount</i>	€ 43,496,984.46	€ 48,400,340.08	€ 34,458,677.26	€ 22,044,025.79

	2015	2016	2017
Number	1,563	1,737	1,806
Amount	€ 33,853,411.37	€ 33,598,780.16	€ 32,630,799.91
<i>Incoming declarations</i>			
<i>Number</i>	367	380	367
<i>Amount</i>	€ 9,697,570.61	€ 9,642,657.58	€ 9,222,729.22
<i>Outgoing declarations</i>			
<i>Number</i>	1,196	1,357	1,439
<i>Amount</i>	€ 24,155,840.76	€ 23,956,122.58	€ 23,408,070.69

Box 5 – Declarations of Cross-Border Transportation of Currency





GLOSSARY/ACRONYMS

AML/CFT, *Prevention and Countering of Anti-Money Laundering and the Countering of the Financing of Terrorism*

AIF, *Financial Intelligence Authority*

CoSiFi, *Financial Security Committee*

FATCA, *United States Foreign Account Tax Compliance Act*

FATF, *Financial Action Task Force*

FIU, *foreign Financial Intelligence Unit*

GRA, *General Risk Assessment*

IOR, *Institute for the Works of Religion*

MONEYVAL, *Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism of the Council of Europe*

MOU, *Memorandum of Understanding*

NPO, *Non-Profit Organization*

SAR, *Suspicious Activity Report*