

FINANCIAL SECURITY COMMITTEE

CoSiFi

**HOLY SEE
VATICAN CITY STATE**

GENERAL RISK ASSESSMENT

**ON THE PREVENTION AND COUNTERING
OF MONEY LAUNDERING AND THE FINANCING OF TERRORISM**

December 2018

FOREWORD

The General Risk Assessment of the Holy See and the Vatican City State is the result of the Holy See's firm commitment to establishing an effective system to prevent and combat money laundering, the financing of terrorism and the proliferation of means of mass destruction.

The document shows how, also considering the uniqueness and geographical configuration of the jurisdiction, the potential risks come mainly from outside and are connected to international or cross-border activities. On the domestic level, a number of specific areas have been identified in which to strengthen safeguards, such as donations, public procurement contracts and non-profit organisations registered in the Vatican City State.

The objective is to protect the jurisdiction and to make the Holy See an increasingly credible and effective player in international cooperation, given the challenges facing the international community in a complex and ever-changing world.

Msgr. Paolo Borgia

President

A. INTRODUCTION

Methodology

1. The General Risk Assessment (GRA) on the prevention of Money Laundering (ML) and the Financing of Terrorism (FT) is a process aimed at identifying and analyzing the potential risk sources and factors in connection to ML/FT in the Holy See and Vatican City State based on the methodology provided by the World Bank (WB): “*National Money Laundering and Terrorist Financing Risk Assessment Tool*” (methodology).

2. The GRA process is based on two pillars:

- (a) Identification and assessment of ML/FT Threats;
- (b) Identification and assessment of ML/FT vulnerabilities.

3. The Financial Security Committee (CoSiFi)¹ is the competent authority for the establishment of criteria and procedures and the approval of the GRA on the prevention and countering of ML/FT and its regular update².

4. For the preparation of the GRA process the CoSiFi adopted the World Bank methodology. In particular, the following modules were used:

- (a) Module 1: “Threats Assessment”;
- (b) Module 2: “Domestic Vulnerabilities”;
- (c) Module 3: “Financial Sector Vulnerability”;
- (d) Module 8: “Terrorism Financing Risk Assessment”.

¹ The CoSiFi is the coordinating body composed by the Holy See and Vatican City State competent Authorities for the prevention and countering of ML, FT and the proliferation of weapons of mass destruction (see Apostolic Letter issued “*Motu Proprio*” by Pope Francis on 8 August 2013 for the *Prevention and Countering of Money Laundering, the Financing of Terrorism and the Proliferation of Weapons of Mass Destruction*).

According to the *Rescriptum “Ex Audientia SS.MI”* of April 4, 2016 “Modifying the Statute of the Financial Security Committee”, are member of the CoSiFi: a) the Assessor for General Affairs of the Secretariat of State, who is its Chair; b) the Under-Secretary for the Holy See’s Relations with States; c) the Secretary General of the Governorate of the Vatican City State; d) the Prelate Secretary of the Secretariat for the Economy; e) the Promoter of Justice at the Tribunal of the Vatican City State; f) one of the Adjunct Auditors of the Office of the General Auditor; g) the Director of the Financial Information Authority; h) the Director of the Security and Civil Protection Services of the Governorate; i) the Commander of the Corps of the Pontifical Swiss Guard.

² See Article 2 (a) (b) of the Statute of the CoSiFi.

Process, Phases and Coordination

5. To conduct the GRA, the CoSiFi created two technical Working Groups (on “Threats and Vulnerabilities”³ and “Financial Sector”⁴) and designated the Director of the Financial Information Authority (FIA) as the coordinator of the project. In the course of the assessment process, two *ad hoc* workshops, with the participation of the World Bank’s (WB) focal points, were held. (Box 1)

Box 1

GRA Process

The risk assessment process was structured in 3 phases.

Phase 1

Starting in July 2015, the CoSiFi conducted a thorough analysis of the WB methodology with a view to reaching an adequate understanding of the instrument and how it should be implemented in the unique institutional, legal and financial framework of the Holy See and the Vatican City State.

Phase 2

Between October 21st and 23rd, 2015, was held a first workshop for the technical Working Groups with assistance of the WB contact points. During that workshop the risk assessment process was discussed; the WB methodology was presented and the relevant elements (“input variables”), relevant data, information and documents were identified.

Phase 3

On the 20th and the 21st October, 2016, a second workshop for the technical Working Groups was held with the participation of the WB contact points. Following that workshop, each Working Group continued their assessment of the relevant factors. The competent Authorities of the Holy See and Vatican City State were actively engaged in the process, taking part in the evaluation meetings and discussing on the assessment process, its trend and results. The coordinators of the Working Groups collected the relevant inputs and submitted them to the project coordinator.

On November 24th, 2017, the coordinator of the project submitted the consolidated draft of the GRA to the CoSiFi.

6. The GRA was adopted by the CoSiFi in its meeting of November 28th, 2017. The first update was adopted at the meeting of 13 December 2018. Particular attention was paid to the methodology of the Financial Action Task Force (FATF) for assessing the effectiveness of the AML/CFT system, including the 11 “immediate outcomes”,⁵ in view of the next round of evaluation of the AML/CFT system by the Moneyval Committee.

³ The Working Group no. 1, on “Threats and Vulnerabilities”, was coordinated by the Secretariat for the Economy and was composed of: AIF; Office of the Promoter of Justice at the Tribunal of the Vatican City State; Corps of the Gendarmerie; Corps of the Pontifical Swiss Guard; Office of the Auditor General; Secretariat for the Communication; Directorate for the Telecommunications; Service for the transit of goods (Directorate of General Services).

⁴ The Working Group no. 2, on the “Financial Sector”, was coordinated by the AIF and was composed of: Administration for the Patrimony of the Apostolic See (“APSA”); Institute for the Works of Religion (“IOR”); Vatican Post Office.

⁵ FATF, Methodology, *For Assessing Technical Compliance with the FATF Recommendations and The Effectiveness of AML/CFT Systems*, October 2018.

Strategy and Levels of Risk Assessment

7. The GRA is based on an overall strategy for identifying, assessing and mitigating risks, oriented towards a risk-based approach, which in turn represents the reference point, on the one hand, for the adoption of appropriate policies, strategies and measures in all areas of the AML/CFT system, and on the other hand, for a consistent particular assessment of risks, including the assessment of operational risks, by institutions that carry out financial activities on a professional basis (**Box 2**).

Box 2

Legal framework

Articles 9-10 of Law on *Transparency, Supervision and Financial Intelligence*, No. XVIII of 8 October 2013, foresees three levels of risk assessment – “General”, “sectorial”, and “operational”. Thus, within the comprehensive approach adopted by the Holy See, these levels constitute three autonomous but inter-connected spheres of action.

General Risk Assessment

The General Risk Assessment, approved and updated by the CoSiFi, encompasses all potential risks and vulnerabilities related to the prevention and countering of money laundering and the financing of terrorism.

Sectorial Risk Assessment

AIF, in its capacity of supervisor, according to Article 9 of Law no. XVIII, communicates to the entities carrying out financial activities on a professional basis⁶ the results of the general risk assessment, providing the relevant data, information and analyses in view of their own sectorial risk assessment⁷.

Operational Risk Assessment

The “obliged subjects shall identify, evaluate, manage and mitigate the risks of money laundering and the financing of terrorism. To that end, each subject prepares and periodically updates its own risk evaluation taking into account, *inter alia*: (a) the category of counterparts; (b) the State or geographical area in question; (c) the typology of relationship, product, service, operation, transaction and channel of distribution⁸.”

The “risk assessment shall be circumstantiated and sent to the Financial Information Authority, which may require its review⁹.”

Scope

8. The scope of the GRA process is limited to activities and entities that fall legally under the jurisdiction of the Holy See and Vatican City State.

9. While analysing the AML/CFT system as a whole, including the institutional framework and the activities of the competent authorities of the Holy See and the Vatican City State (§ 17), the regulatory framework (§ 19), the use of cash and the cross-border transportation of currency (§§ 29 ff.), as well as the non-profit organizations registered in the Vatican City State (§§ 32 ff.), given their relevance and international outlook, the GRA focuses primarily on the financial activities carried out on a professional basis by the authorised entities subject to supervision by the Financial Information Authority.¹⁰ (§ 39).

⁶ Article 1 (22) defines “obliged subjects” the “subjects obliged to fulfill the requirements established by Title II, according to articles 2 and 3”. The “obliged subjects” within the State are indicated in a list published and updated by the AIF (see Article 4).

⁷ Article 9 (2) (b) (ii) e (iii) of Law No. XVIII

⁸ Article 10 (1) of Law No. XVIII.

⁹ Article 10 (2) of Law No. XVIII.

Consistently with Article 10 (4): “The senior management of the obliged subject shall adopt policies, procedures, measures and controls necessary to fulfill the requirements established in this article. Such provisions shall be communicated promptly to the Financial Information Authority, which may require its modification or strengthening”.

¹⁰ See Article 1 (2) of Law no XVIII of 8 October 2013 (Law XVIII) on *Transparency, Supervision and Financial*

Timeframe

10. The AML/CFT system was introduced on 2011 by Pope Benedict XVI, and was consolidated in 2013 by Pope Francis with the *Apostolic Letter issued 'Motu Proprio' 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”).

11. The assessment of the functioning of the AML/CFT system has been enhanced with qualitative data provided by the competent Authorities and relevant entities of the Holy See and of Vatican City State.

12. Thus, the relative short time that the domestic AML/CFT system has been in place does not appear to constitute an obstacle to the reliability and quality of the assessment process and of its outcome.

13. Information and data included in the GRA are updated up to December 2018 or up to September 2018 as indicated.

Objectives

14. The scope of the assessment process is twofold:

- (a) To identify and analyze the main sources and factors of risk in the area of ML/TF, with a view to developing an Action Plan that would enable the Holy See and the Vatican City State to better allocate resources in order to prevent and mitigate the potential risks;
- (b) To provide guidance for the “sectorial risk assessments” to be conducted by those entities that carry out financial activities on a professional basis.

B. SCOPE OF THE GENERAL RISK ASSESSMENT

15. The GRA process is limited to activities and entities that legally fall within the jurisdiction of the Holy See and Vatican City State.

16. The following activities do not fall within the scope of the GRA:

- (a) Sovereign activities, including the sovereign financial activities (namely, the financial activities carried out by or on behalf of the Holy See and Vatican City State).
- (b) Activities of the entities of the Catholic Church (such as dioceses, parishes etc.) located outside the Vatican City State (since those entities and activities are subject to the jurisdiction of other States).

C. BACKGROUND INFORMATION

C.1 INSTITUTIONAL FRAMEWORK

Competent Authorities

17. Several authorities of the Holy See and the Vatican City State have specific political, strategic and operational competences for the prevention and countering of ML and FT, pursuant to Article 8 of Law no XVIII, and its respective Statutes and regulations:

- (a) The *Secretariat of State* is competent for:
 - (i) The definition of policies and general strategies for the prevention and countering of money laundering and the financing of terrorism;
 - (ii) The adhesion to and implementation of international treaties and agreements;
 - (iii) The participation in international institutions and bodies, including those competent for the definition of AML/CFT norms and best practices;
 - (iv) The supervision of non-profit organisations¹¹.
- (b) The *President of the Governorate* of the Vatican City State is competent for:
 - (i) The adoption of regulations and preventive measures;
 - (ii) The application of administrative sanctions in the cases foreseen by the Law;
 - (iii) The adoption and update of a list containing the names of subjects (natural and legal persons) that threaten international peace and security.

¹¹ See Article 8 of Law No CCXI of 22 November 2017.

- (c) The *Financial Security Committee* (see § 18) promotes the coordination and cooperation between the competent Authorities.
- (d) The *Office of the Promoter of Justice* is competent for the prosecution of ML/FT crimes, and connected predicate offences, also when committed by public officials serving at the Dicasteries and other entities and institutions dependent on the Holy See¹². It is also competent for potential cases of administrative liability of foundations and legal entities registered in the Vatican City State resulting from crimes, in the cases foreseen by the Vatican law¹³. A *Section for Economic and Financial Crimes* was established in 2016.
- (e) The *Tribunals of the Vatican City State* are competent for the Judiciary Activity, and ML/FT cases¹⁴.
- (f) The *Corps of Gendarmerie* is competent for:
 - (i) The conduction of criminal investigations under the direction of the Promoter of Justice;
 - (ii) The adoption of up-to-dated investigative techniques in the area of AML/CFT;
 - (iii) The vocational training of its officers in the field of AML/CFT;
 - (iv) The cooperation with analogous bodies from other States for the prevention and countering of criminal activities, including ML and FT, as well as their predicate offences.

The *Economic and Financial Police Unit* was established in 2016.

- (g) The *Financial Information Authority* is competent for:
 - (i) Supervision and regulation of the entities carrying out financial activity on a professional basis and in the cases foreseen by the Law¹⁵ (including the adoption of regulations and instructions, and the application of administrative sanctions in the cases foreseen by the Law¹⁶);
 - (ii) Financial intelligence;
 - (iii) Cooperation and exchange of information with similar authorities of foreign States.
 - (iv) Regular training on the AML/CFT system.

¹² See Article 1-3 of the “*Motu Proprio*” on the *Jurisdiction of Judicial Organs of the Vatican City State in Criminal Matters* promulgated by Pope Francis on 11 July 201.

¹³ *Idem* Article 4.

¹⁴ See Law “*Approving the Judiciary Order of the Vatican City State*”, no. CXIX of 21 November 1987.

¹⁵ See Articles 2 and 3 of Law no. XVIII.

¹⁶ See Articles 47 and 66 of Law no. XVIII.

Coordination and Domestic Cooperation

18. The domestic cooperation among the competent Authorities is formally required by articles (6), and 69 (a) of Law No. XVIII. In 2013, the CoSiFi was established to serve the purpose of promoting the stable coordination among all the relevant Authorities. The CoSiFi holds regular meetings. The CoSiFi is competent in particular for the adoption and regular updating of the General Risk Assessment (*supra* § 3). In 2016, the CoSiFi was enlarged with the participation of the Corps of the Pontifical Swiss Guard, as well as the Secretariat for the Economy and the Office of the General Auditor, i.e. two out of the three “new economic bodies” established back in 2014.

The Office of the Promoter of Justice, the Gendarmerie Corps and AIF regularly hold, on average on a weekly basis, meetings to coordinate analyses and investigations related to money laundering cases. In the period 2011-September 2018, for the purposes of the financial intelligence activity, AIF had 366 exchanges of information with the Authorities of the Holy See and of the State, of which 16 cases of spontaneous communication of information related to the prevention and fight against money laundering. The new Article 48 (n) of Law No. XVIII sets forth that the competent Authorities shall provide AIF with "feedback on the use of information [...] and on the outcome of investigations or inspections carried out on the basis of such information". The concrete implementation of this rule will have to be followed carefully in order to evaluate the effective functioning of the system.

C.2 LEGAL FRAMEWORK

19. A stable institutional and legal AML/CFT framework has been created

Its main legal sources are:

Legislative Framework

- (a) Law n. XVIII, as amended by Law No. CCXLVII of 19 June 2018, also in view of the transposal of *Directive (EU) 2015/849 of 20 May 2015* (“IV Anti-Money Laundering Directive”), in implementation of the Monetary Agreement between the European Union and the Vatican City State;
- (b) The Law *on supplementary norms on criminal matters*, n. VIII of 11 July 2013;
- (c) The Law *on Amendments to the Criminal Code and the Criminal Procedure Code*, n. IX of 11 July 2013;
- (d) The Law *on General Provisions on Administrative Sanctions*, No. X of 11 July, 2013;
- (e) The Law *on the registration and supervision of non-profit organisations*, n. CCXI of 22 November 2017;

Regulatory Framework

Following the first GRA, AIF issued 3 new regulations, and updated the Instruction on high risk States, in order to implement the provisions of Law No. XVIII:

- (a) Regulation no. 2 establishing the information and data accompanying transfers of funds and the technical requirements for transfers and direct debits in euros of 12 December 2017, which defines the technical requirements for the transfer of funds, in implementation of Articles 31, 32, 33, 34, 35, 36 and 37 of Law no. XVIII;
- (b) Regulation no. 4 on obligations of customer due diligence of entities carrying out financial activities on a professional basis, of 19 September 2018, in implementation of Articles 9 (2) (b) (v) (viii), 13, 22 (3), 24 (2) and 25 (2) (3) on due diligence of Law no. XVIII.

More specifically, Regulation no. 4 defines the methods for identifying and checking customer identity, and for assigning an appropriate user profile (category and status, economic profile, risk profile) in a manner consistent with a risk-based approach.

- (c) The Regulation on suspicious activity reports, no. 5 of 19 September 2018, in implementation of Article 40 of Law no. XVIII.

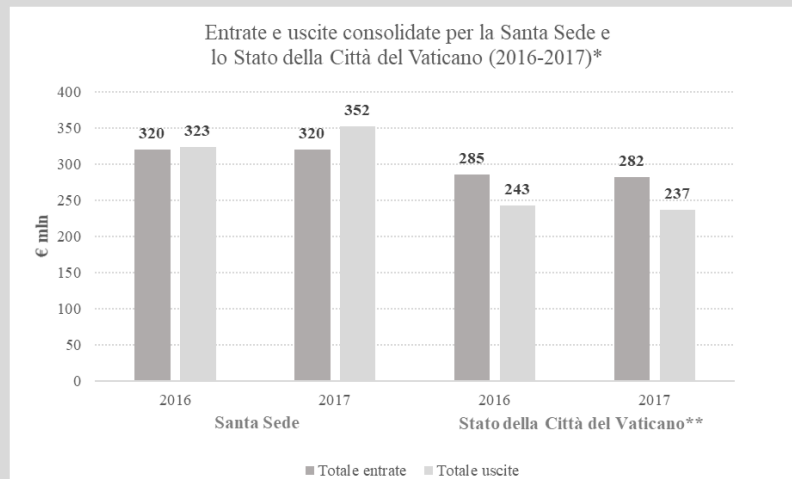
More specifically, Regulation No. 5 establishes anomaly indicators, both general in the field of ML and FT (including the sector of non-profit entities and their potential exploitation), and sectorial, in specific areas identified by the first GRA (donations, public procurement contracts, compliance with tax obligations, auditing, cross-border transport of cash and market abuse), as well as special reporting forms.

- (d) Instruction no. 1 containing the list of high-risk States at high, with strategic deficiencies in their systems for preventing and combating money laundering and terrorist financing, of 23 October 2017, as updated on 12 December 2017, 1 March 2018, 9 July 2018 and 29 November 2018, taking into account the indications of the FATF and the European Union.

C.3 ECONOMIC FRAMEWORK

20. The most recent data, registered in the period 2016-2017, shows the small size of the economy of the Holy See and of the Vatican City State (**Box 3**).

Box 3



(Source: Secretariat for the Economy***)

* Data do not include Peter's Pence.

** Data concerning the Governorate and the Paul VI Fund.

*** Data prepared in accordance with the Vatican Financial Management Policies (VFMP) approved 'in a specific form' by Pope Francis on 24 October 2014. The figures for the Holy See refer to the scope of consolidation approved on 12 April 2018.

The Holy See

21. The Holy See does not have a productive system. Its revenue consists mainly of the proceeds of its sovereign financial activities and assets, as well as the contribution from the Vatican City State (Vatican Museums, etc.) (**Box 4**). It also receives contributions from the local churches (dioceses, parishes, etc.)¹⁷, as well as from donations (mainly by the faithful of the Catholic Church)¹⁸ (**Box 5**).

Box – 4

Sovereign finance

Sovereign Financial Activities

The Administration of the Patrimony of the Apostolic See (APSA) is the body responsible for the administration of the properties owned by the Holy See in order to provide the funds necessary for the Roman Curia¹⁹.

APSA is responsible, *iter alia*, for “administering the patrimony, including both movable assets and real estate, both of the Holy See and of entities that have entrusted their assets to it”²⁰, “acquiring goods and services from external suppliers for itself, for the Dicasteries of the Holy See and associated Institutions, in accordance with the appropriate procedures and internal controls”²¹, “paying invoices, acquiring them in the original form, and entering them into the balance sheet of each Dicastery”²² and “carrying out treasury services, paying salaries to personnel”²³.

The APSA carries out financial activities exclusively on an institutional basis, that is, it carries out financial activities exclusively on behalf of governmental bodies of the Holy See and of the Vatican City State. It therefore does not fall within the definition of “entities carrying out financial activity on a professional basis”²⁴.

¹⁷ See Canon 1271.

¹⁸ See *Letter of the Holy Father John Paul II to His Eminence Cardinal Agostino Casaroli, Secretary of State, regarding the Meaning of Work in the Apostolic See*, issued 20 November 1982.

¹⁹ See Articles 171-172 of the *Pastor Bonus*.

²⁰ See § 3 (a) of the *Apostolic Letter issued Motu Proprio “I beni temporali”* by Pope Francis on 4 July 2016.

²¹ See § 3 (b) of the *Apostolic Letter issued Motu Proprio “I beni temporali”*.

²² See § 3 (c) of the *Apostolic Letter issued Motu Proprio “I beni temporali”*.

²³ See § 3 (d) of the *Apostolic Letter issued Motu Proprio “I beni temporali”*.

²⁴ Following the entry into force of the Law on the *Prevention and countering of the laundering of proceeds of criminal activities and of the financing of terrorism* No. CXXVII of 30 December 2010, APSA conducted a review of its client base and identified a limited number of non-institutional customers. As a consequence, APSA was

The Vatican Post Office provides postal services²⁵, under the Post and Telegraph Service of the Directorate for Communications of the Governorate of the Vatican City State²⁶. It carries out limited financial service, both in terms of number of transactions and of the amounts involved, on behalf of other bodies of the Holy See and of the Vatican City State (such as collection of administrative fees and payment of invoices issued by the Governorate) and of third parties (such as issuance and payment of postal money orders²⁷; and payment of bills using Italian Postal forms).

Supervision and Auditing

The Apostolic Letters issued “*Motu Proprio*” *Fidelis Dispensator et Prudens* promulgated by Pope Francis, dated 24 February 2014, created three new bodies responsible for the supervision and auditing of sovereign finance:

- (a) Council for the Economy: competent for the oversight of the administrative and financial structures and activities of the bodies of the Roman Curia and of the Vatican City State²⁸;
- (b) Secretariat for the Economy: competent for the supervision over the bodies mentioned under (a)²⁹;
- (c) Office of the Auditor General: competent for the auditing of the bodies mentioned under (a)³⁰.

The Apostolic Letter issued “*Motu Proprio*” *I Beni Temporalis* promulgated by Pope Francis on 4 July 2016 further consolidated the system of supervision by introducing a clear separation of the management of the patrimony of the Holy See (competence of the APSA) from the supervision (competence of the Secretariat for the Economy)³¹.

Pursuant to Article 1 (c)-(i) of the “*Motu Proprio*”, in the Secretariat for the Economy, the Section for Control and Vigilance is responsible for monitoring and overseeing the activity of the APSA. This includes:

- carrying out the activities of monitoring, checking, analysis and offering recommendations in conformity with Article 8 of the Statutes of the Secretariat for the Economy;
- submitting annually to the Council for the Economy the budget and balance sheet of the APSA, in conformity with Article 9 § 1 of the Statutes of the Secretariat for the Economy;
- formulating recommendations and/or requesting information and documentation pursuant to Article 9 § 2 of the Statutes of the Secretariat for the Economy;
- approving, on the basis of the criteria established by the High Authority in conformity with Article 11 of the Statutes of the Secretariat for the Economy, every act of alienation, acquisition, and extraordinary administration undertaken by the APSA;
- ensuring that adequate corrective measures are taken whenever potential harm to the patrimony comes to light, in conformity with Article 12 of the Statutes of the Secretariat for the Economy;
- requesting that the Office of the Auditor General make specific inspections in conformity with art. 13 of the Statutes of the Secretariat for the Economy;
- carrying out the provisions of Article 14 of the Statutes of the Secretariat for the Economy, regarding the exchange of information of a fiscal nature that may involve the APSA.

qualified as “entity carrying out financial activities on a professional basis” subject to AIF’s supervision. Targeted supervision activities started in 2012 and ended with an on-site inspection in 2015. During the on-site inspection AIF verified that APSA had closed all the relationships with non-institutional customers and determined that the APSA did not qualified anymore as an “entity that carries out financial activities on a professional basis”. APSA still has the duty to preserve all data, information and documents related to those relationships (see Articles 38-39 of Law No. XVIII) and those data, information and documents are accessible to AIF, including through on-site inspections (See AIF, *Annual Report 2015*, § 2.3.1, pp. 11-12).

²⁵ See Article 17 (3) of the Law No. CCCLXXXIV of 16 July 2002.

²⁶ See Article 17 (1) of the Law No. CCCLXXXIV of 16 July 2002.

²⁷ See the provisions set out under Article 1 (c) of the *Convention on postal services between the Vatican City State and the Kingdom of Italy* of 29 July 1929, stipulated on the basis of Article 6 (3) of the *Lateran Treaty*.

²⁸ See Articles 1-3 of the *Apostolic Letter issued ‘Motu Proprio’ Fidelis Dispensator et Prudens* promulgated by Pope Francis on February 24 2014.

²⁹ See Article 4-6.

³⁰ See Article 7.

³¹ See Preamble, § 4 of the *Apostolic Letter issued ‘Motu Proprio’ I Beni temporalis* promulgated by Pope Francis on July 4th, 2016

Box – 5

Donations

Donations are accepted through *ad hoc* institutional channels, including the “Office of Peter’s Pence”, the “Office of Papal Charities” and the “Pontifical Mission Societies”.

Office of Peter’s Pence

“Peter’s Pence” is the financial support offered by the faithful to the Holy Father as a sign of their sharing in the concern of the Successor of Peter for the many different needs of the Universal Church and for the relief of those most in need³². Acceptance of Peter’s Pence” is coordinated by the “Office of Peter’s Pence” within the Section for General Affairs of the Secretariat of State.

Donations are mainly received via *wire transfers* (to a devoted current account at an Italian financial intermediary) or by *credit card*³³. Small donations can be received in cash or with checks (the relevant data relating to the donor are registered by the Office of Peter’s Pence.

Office of Papal Charities

The “Office of Papal Charities” is the institution charged with providing charity to the poor on behalf of the Holy Father³⁴. Acceptance of donations is coordinated by the same Office.

Donations are received mainly via *wire transfers* (to a devoted current account at an Italian financial intermediary) or by *credit card*. Small donations can be received in cash or with checks (the relevant data relating to the donor are registered by the “Office of Papal Charities”.

Pontifical Mission Societies

The “Pontifical Mission Societies” gathers four Societies – organized on a supra-national, national, and diocesan level – coordinated by the Congregation for the Evangelization of Peoples³⁵, namely:

- (a) The Society for the Propagation of the Faith³⁶;
- (b) The Society of Saint Peter the Apostle³⁷;
- (c) The Pontifical Society of the Missionary Childhood or Holy Childhood³⁸;
- (d) The Pontifical Missionary Union³⁹.

The Pontifical Societies are subject to the jurisdictions where they are located and/or operate.

Each Pontifical Society has its own specific mission, but they share in common their intention to serve the Holy Father and the Bishops, as well as their commitment to the education and development of the people of God.

Donations are offered to the national Directions and managed by the General Directions to support humanitarian and charitable activities with the involvement of the competent Apostolic Nunciatures.

Other institutional channels

Organs and offices of the Holy See can and do receive donations from the faithful or from other natural or juridical persons (foundations, etc.).

Under can. 1267 (2): “[t]he offerings [...] cannot be refused except for a just cause and, in matters of greater importance if it concerns a public juridical person, with the permission of the ordinary; the permission of the same ordinary is required to accept offerings burdened by a modal obligation or condition”

³² See: <http://www.peterspence.va/storia>.

³³ See: <http://www.peterspence.va/dona>.

³⁴ See:

http://www.vatican.va/roman_curia/institutions_connected/elem_apost/documents/rc_elemosineria_pro_20121106_profile_en.html.

³⁵ See Article 91 of the Apostolic Constitution “Pastor Bonus”.

³⁶ See:

http://www.vatican.va/roman_curia/congregations/cevang/documents/rc_con_cevang_20100524_profile_en.html.

³⁷ See:

http://www.vatican.va/roman_curia/congregations/cevang/documents/rc_con_cevang_20100524_profile_en.html.

³⁸ See:

http://www.vatican.va/roman_curia/congregations/cevang/documents/rc_con_cevang_20100524_profile_en.html.

³⁹ See:

http://www.vatican.va/roman_curia/congregations/cevang/documents/rc_con_cevang_20100524_profile_en.html.

According to Law No. XVIII, “in case of suspect or reasonable grounds to suspect, that funds or other assets are the proceeds of criminal activities, or are linked or related to the financing of terrorism or to be used for terrorism, terrorist acts or by terrorist organizations or those who finance terrorism, public authorities of the Holy See shall file a suspicious activity report to the Financial Information Authority⁴⁰.”

The most recent data show a progressive increase of cooperation between Authorities of the Holy See and the Vatican City State and the Financial Information Authority, including cases of suspicious donations.

Vatican City State

22. The Vatican City State is not a Member of the European Union. On January 2002, it adopted the Euro as its currency⁴¹.

23. Pursuant to the Monetary Agreement between the Vatican City State and the European Union, of December 17th, 2009 (“Monetary Agreement”), the State is entitled to issue each year a set number of EURO coins. The annual ceiling for coins to be issued is determined by a Joint Committee composed of representatives of the Vatican City State, the Italian Republic, the European Central Bank (ECB), and the European Commission, in accordance with the provisions of the Monetary Agreement.

24. The annual ceiling for 2018 is of 2,584,053.45 euro, out of which 318,785 euro are to be put in circulation⁴².

25. On November 21st 2018, the Vatican City State was admitted by the European Payments Council (EPC) to the geographical scope of the Single Euro Payments Area (SEPA),⁴³ with a favourable opinion from the European Commission. From March 1, 2019, institutions authorised to transfer funds and render payment services may apply to be included in the scope of application of the SEPA payment schemes.

26. The revenue of the Vatican City State is composed mainly of the results of the management of its patrimony and the revenues from services provided to resident citizens, employees and their families (such as the food store, and general store) and general public (such as: admission to the museums, postal services, sale of commemorative coins and medals)⁴⁴.

27. Considering the particularities and the limited size of its economy, it is not possible to assign a “gross value” to the economic activities performed in the Vatican City State or to calculate the cost of the goods and services consumed in the State. The Gross Domestic Product (GDP) index is not applicable to the jurisdiction.

28. In Vatican City State there are no free markets in the economic, financial and professional sectors (§ 37)⁴⁵.

⁴⁰ See Article 40 (2) of Law No. XVIII.

⁴¹ See Law No. CCCLVII of 26 July 2001.

⁴² The annual ceiling for 2018 was agreed at the meeting of the Joint Committee on the Implementation of the Monetary Agreement held in October 2017. With regard to money, it seems useful to remember that the legal interest rate is the same as that applied in the Italian Republic (see Article 3 of Law no. CCCLXXXIII of 14 June 2002).

⁴³ As of 1 March 2019, the SEPA geographical area will be extended to 36 jurisdictions: Andorra, Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Slovakia, Slovenia, Spain, Vatican City State, Sweden, Switzerland, United Kingdom.

⁴⁴ See also *Mutual Evaluation Report of the Holy See (including Vatican City State)*, 4 July 2012, § 37, p. 24.

⁴⁵ See Article 7 of Law *On the economic, commercial and professional system*, No. V of 7 June 1929.

There is no private real estate. Given the strategic function and potential vulnerability of the sector⁴⁶, as well as some conducts registered in the sector, a regulation on public procurement contracts was drafted and is currently under assessment by the Superior Authorities, in view also of the implementation of Article 9 of the *Mérida Convention against Corruption*, as ratified by the Holy See on 16 September, 2016 (**Box 6**).

Box - 6

Provisions of the Mérida Convention on public procurement

Pursuant to article 9 of the Convention, States parties shall, in accordance with the fundamental principles of their legal systems, “take the necessary steps to establish appropriate systems of procurement, based on transparency, competition and objective criteria in decision-making, that are effective, *inter alia*, in preventing corruption”.

Declarations of Cross-Border Transportation of Currency

29. Pursuant to article 81 (1) of Law No. XVIII: “Every person carrying out a cross-border transportation of currency⁴⁷ equal to or above € 10,000, whether entering or leaving the State, shall make a written declaration to the offices of the Corps of Gendarmerie or to the offices authorized by the Financial Information Authority”. Pursuant to paragraph 5 of the same article, an authentic copy of the declarations shall be sent to AIF within 24 hours. Pursuant to article 86 (1), a declaration is also required “In case of the discovery of an unusual cross-border transportation of gold or precious metals or stones”.

30. The statistics concerning the period 2011-September 2018 (**Box 7**) show a progressive reduction of the instances of cross-border transportation of cash. This trend is linked mainly to the progressive use of other forms of transfer of values, in particular wire transfers.

⁴⁶ See Organisation for Economic Co-operation and Development (“OECD”), *Preventing Corruption in Public Procurement*, 2016, p. 6

⁴⁷According to Article 1 (7) of the Law No. XVIII of 8 October 2013 “Currency” means: “a) currency, including banknotes and coins that are in circulation as a means of exchange. b) bearer negotiable instruments, including monetary instruments in bearer form such as traveller’s cheques; negotiable instruments, including cheques, promissory notes and money orders, that are either in bearer form, endorsed without restrictions, made out to a fictitious payee, or otherwise in such form that title thereto passes upon delivery; incomplete instruments, including cheques, promissory notes and money orders, signed, but with payee’s name omitted.”.

Box - 7**Key figures (2011-September 2018)**

Number of Declarations of Cross-Border Transportation of Cash								
	2011 (Since April)	2012	2013	2014	2015	2016	2017	2018
<i>Incoming Declarations</i>	658	598	550	429	367	380	367	214
<i>Outgoing Declarations</i>	1,894	1,782	1,557	1,111	1,196	1,357	1,439	704

(Source: Financial Information Authority)

Amount of Cash Declared								
	2011	2012	2013	2014	2015	2016	2017	2018
<i>Incoming Declarations</i>	16,192,071.57	15,203,937.92	15,596,858.27	11,235,606.85	9,697,570.61	9,626,657.58	4,223,154.30	5,839,330.20
<i>Outgoing Declarations</i>	43,492,649.84	48,400,340.08	34,458,677.26	22,044,025.79	24,144,340.76	23,972,122.58	13,072,222.20	13,723,671.93

(Source: Financial Information Authority)

31. Pursuant to Article 81 (1) of Law No. XVIII, making a false or incomplete declaration, or not making a declaration of cross-border transportation of cash when legally required to do so, is punishable with pecuniary sanctions.⁴⁸ In 2015, AIF proposed to the President of the Governorate of Vatican City State⁴⁹ the application of a pecuniary administrative sanction in a case of omitted declaration. The Governorate took prompt action, and applied the administrative sanction. The sanction was then appealed. The following administrative procedure, which involved also the Office of the Promoter of Justice, was concluded in June 2017, with a decision of the Tribunal confirming the sanction.

Non-Profit Organisations

32. A limited number of entities fall within the definition of a "non-profit organisation" following the meaning of FATF Recommendation No. 8, and are subject to Law No. CCXI on the *Registration and Supervision of Non-Profit Entities* of November 22, 2017, which established the obligation to be registered in the Registry of Non-Profit Entities kept at the Governorate of the State, and has submitted these entities to the supervision of the Secretariat of State.⁵⁰

This allows for preventing and mitigating the potential FT risks significantly.

⁴⁸ Article 85 reads: "1. In case of a false, omitted or incomplete declaration, the holder of the currency is bound to rectify, submit or complete the declaration referred to in article 81. 2 In case of a false, omitted or incomplete declaration, the holder of the currency incurs a fine ranging from a minimum of 10% to a maximum of 40% of the sum in his possession exceeding Euros 10,000. 3. As a guarantee of payment of the fine, the Corps of Gendarmerie, at the same time of verification of the violation, seizes up to 40% of the sum exceeding the EUR 10,000 limit. 4. The seizure pursuant to paragraph 3 continues until the sanctioning procedure is concluded".

⁴⁹ Competent Authority for the application of pecuniary administrative sanctions for the breach of cross-border requirements under Law No. X on "General Provisions on Administrative Sanctions" of 11 July 2013.

⁵⁰ See Article 8 of Law n. CCXI of 22 November 2017.

One year after the entry into force of Law No. CCXI of 22 November 2017, only one of the non-profit organisations with a registered office in the State has been registered in the Registry of non-profit organisations. In order for the system to function effectively, it would be advisable to check the cases in which the conditions for the application of the administrative sanctions set out in Article 12 of Law no. CCXI are met.

33. All entities registered in the State shall be registered in the Registry of legal persons kept by the Governorate,⁵¹ in which all relevant information on the structure, composition and activities of entities is registered.

The Register of the Legal Persons is divided into four sections:

- (a) Entities with canon law juridical personality;
- (b) Entities with Vatican civil law personality⁵²;
- (c) Voluntary organizations⁵³;
- (d) Non-profit organisations⁵⁴.

Entities are listed in both sections (a) (b) if they have canonical and civil juridical personality.

34. The *Motu Proprio* of August 8, 2013 established that "non-profit organizations having canonical legal personality and registered in the Vatican City State are required to comply with the laws of the Vatican City State regarding: a) measures to prevent and combat money laundering and terrorist financing; b) measures against persons who threaten peace and international security"⁵⁵. In addition pursuant to Law No. XVIII, legal persons listed in the registers of legal persons of the State, shall register, update and keep for a period of ten years all the documents, data and information relevant to their own nature and activity, and their beneficial owners, beneficiaries, members and administrators, disclosing them, upon request, to the competent authorities."⁵⁶

On this basis, Law No. CCXI of 22 November 2017 expressly established the obligation for non-profit organisations to report suspicious activities.

The new AIF Regulation no. 5 on suspicious activity reporting of 19 September 2018 has introduced specific indicators of anomalies related to the risk of misuse of non-profit entities for the purpose of terrorist financing, to assist both non-profit entities and the authorities of the Holy See and the State responsible for their registration and supervision.

⁵¹ In particular, by the Office of the Registry, according to Article 22 of the Law *on the government of the Vatican City State*, No. CCCLXXXIV of 16 July 2002.

⁵² See the Law *on civil legal persons* No. CCVI of 28 June 1993.

⁵³ See Law *on regulation of voluntary activities*, No. CLXXXVII of 22 May 1992.

⁵⁴ See Article 4 of Law *on registration and supervision of non-profit organizations* of 22 November 2017.

⁵⁵ Article 1.

⁵⁶ Article 5 (2).

Regulation no. 5 is part of the regulatory framework in force in the State and available on the AIF website. In order to promote its knowledge and correct application, AIF has forwarded a Circular to non-profit organizations through the Governorate. A refresher training session is also appropriate to assist non-profit organizations. To this end, discussions are underway between the Secretariat of State, the Governorate of the State and AIF.

**D. OBJECT OF THE GENERAL RISK ASSESSMENT:
FINANCIAL ACTIVITIES CARRIED OUT ON A PROFESSIONAL BASIS**

35. The Vatican City State does not have a banking sector, nor an independent monetary policy. *Designated Non-Financial Businesses and Professions* (DNFBPs) are not registered in the Vatican City State.

36. The GRA focuses on the limited financial sector present in the Vatican City State and defined, for the purposes of its risk assessment, as the sector composed of entities that carry out financial activities on a professional basis, and which are supervised by the Financial Information Authority⁵⁷.

37. The financial sector of the Vatican City State⁵⁸ is public in nature and is *de facto* closed. In the State:

- (a) There is no financial market [*e.g.* regulated market, multilateral trading facilities (“MTFs”) nor organized trading facilities (“OTFs”)];
- (b) No public debt instruments, capital instruments, securities or associated instruments are issued;
- (c) No insurance companies, electronic money institutions, trust companies, securities firm exist;
- (d) There are no foreign financial entity branches, subsidiaries or offices.

38. To be authorized to carry out a financial activity on a professional basis (namely, on behalf of third parties or non-governmental subjects) two conditions have to be fulfilled:

- (a) The entity must be created by the competent Authorities of the Holy See⁵⁹; and
- (b) The entity must be authorized by the Financial Information Authority, according to the principles and rules on prudential supervision⁶⁰.

39. To date, only the Institute for the Works of Religion (IOR) has been authorized by the Financial Information Authority to carry out financial activities on a professional basis⁶¹.

⁵⁷ See Article 1 (2) of Law No. XVIII.

⁵⁸ For the only purpose of the GRA, the financial sector is defined as the sector composed by the entities carrying out financial activities on a professional basis, authorized and supervised by the Financial Information Authority.

⁵⁹ See Article 7 of Law No. V of 7 June 1929; Art. 54 (3) of Law No. XVIII.

⁶⁰ See Article 54 (1) of Law No. XVIII, and Art. 4 of AIF Regulation No. 1 on *Prudential Supervision of Entities Carrying out Financial Activities on a Professional Basis*, dated December 23rd, 2014 (Regulation No. 1).

⁶¹ The IOR was authorized by the Financial Information Authority on 10 July 2015, and is subject to the AML/CTF regime established by Title II of Law No. XVIII, as well as to the prudential supervision regime, established by Title III of the same Law as implemented by AIF Regulation No. 1.

GENERAL RISK ASSESSMENT

MAIN RISKS AND ACTIONS

VATICAN CITY STATE

Area	0.44 Km ² (0.17 square miles)
Citizens	619
Resident population	454
- Resident Vatican citizens	245
- Third countries citizens	207
Currency	Euro
Per-capita GDP	N/A

(Source: Governorate of the Vatican City State)

MAIN GOALS

Effectiveness and sustainability of the domestic AML/CFT system

The effective functioning and sustainability of the domestic AML/CFT system is a priority for the Holy See, both to protect its fundamental interests and to ensure integrity of the limited financial activities carried out in the Vatican City State.

International Cooperation

The unique geographical situation of the Vatican City State and the universal projection of its financial sector expose it continuously to international and cross-border threats and require effective and proactive international cooperation.

MONEY LAUNDERING (ML) – Level of risk: *Medium-low*

General threat	H	M	M	M	H	H
	MH	M	M	M	MH	H
	M	ML	M	M	MH	MH
	ML	ML	ML	M	MH	MH
	L	L	ML	M	MH	MH
		L	ML	M	MH	H
	Overall vulnerability					

MAIN RISKS

The potential risks identified are linked mainly to international and/or cross-border activities. Most Suspicious Activity Reports (SARs) filed to the Financial Information Authority (AIF) by the reporting subjects, as well as the Reports submitted by AIF to the Office of the Promoter of Justice, are linked to foreign jurisdictions. That fact does not exclude *per se* links and legal effects within the Vatican City State and thus require an effective AML/CFT domestic system as well as effective international cooperation.

MAIN ACTIONS

Overall, the institutional and legal framework appears to be comprehensive.

At the same time, some areas need further analysis, in order to strengthen the current AML/CFT system, and protect key sectors and sovereign activities.

In consideration of the issues identified, the following suggested actions are recommended:

A. Further strengthening the effectiveness and sustainability of the AML system, in particular:

(1) Strengthening the structure of the Financial Information Authority.

(2) Strengthening the structure of the Office of the Promoter of Justice and the Section for Economic and Financial Crimes.

(3) Strengthening the structure of the Tribunal and the Court of Appeal at the Tribunals of the Vatican City State.

B. Further protecting key sectors and sovereign activities

(4) Ensuring that the new legislation on public procurement contracts, including procedures checks and balances, meet the requirements set forth to implement Article 9 of the Mérida Convention against corruption, as ratified by the Holy See in 2016.

(5) Providing the Offices of the Holy See and Vatican City State active in key sectors or carrying out sovereign activities with refresher training sessions on the new regulatory framework set forth by AIF Regulation no. 5 on suspicious activity reports.

C. Providing refresher training sessions to entities carrying out financial activities on a professional basis

(6) Providing the entities that carry out financial activities on a professional basis with refresher training sessions on the new regulatory framework as set forth by AIF Regulations no. 4 and no. 5 on customer due diligence and suspicious activity reporting, and in general on the implementation of a risk-based approach and sectorial risk assessment.

FINANCING OF TERRORISM (FT) – Level of risk: low

General threat	H	M	M	MH	H	H
	MH	M	M	MH	MH	H
	M	ML	M	MH	MH	MH
	ML	ML	ML	MH	MH	MH
	L	L	ML	ML	MH	MH
		L	ML	M	MH	H
			Overall vulnerability			

MAIN RISKS

There is no concrete element or evidence of potential terrorist financing (TF) risks. AIF has not received any suspicious activity reports directly or indirectly related to the FT. Furthermore, AIF has not received any requests from its foreign counterparts' Financial Intelligence Units (FIUs) regarding FT schemes, with potential links to the jurisdiction. A limited number of non-profit entities registered in the State fall within the definition of 'non-profit organisation' under FATF Recommendation No 8. These entities have been subject to specific legislation on registration and supervision, which prevents potential risks of misuse of these entities for FT purposes.

MAIN ACTIONS

The Holy See is aware of the potential FT risks to which it is exposed, and has developed a targeted and coordinated regulatory and institutional framework.

At the same time, some areas deserve further consideration in view of the strengthening of the current AML/CFT system.

In view of the issues identified, the following actions are suggested:

Completing the registration of non-profit entities in the Register of Non-Profit Entities kept at the State Governorate, ensuring full implementation of existing law in this area.

Providing non-profit entities with registered offices in the State with a refresher training session on the new regulatory framework established by AIF Regulation No. 5 on suspicious activity reporting.