

Annex 1

Anomaly Indicators

SECTION I

GENERAL INDICATORS

A. Anomaly indicators related to money- laundering (and predicate offences)

1. Geographic area

Introduction

Reporting subjects shall consider the geographical area as a potential anomaly indicator.

These indicators have a specific relevance for supervised entities, especially for the entities carrying out financial activities on a professional basis, which, by offering services not only to organs of the Holy See and the State, but also to other subjects (for example, employees and retirees of the Holy See and the State; entities of the Catholic Church; diplomatic personnel accredited to the Holy See; etc.) are exposed toward all regions of the world.

These indicators are also relevant for public authorities, for instance, to the ends of the supervision or audit of institutional subjects, and for non-profit entities, for the purpose of proper management and reduction of risks associated with their activity.

The occurrence of these indicators does not imply in itself that the activity is suspect. The absence of these indicators does not exclude in itself that the activity is not suspect.

Reporting subjects shall carry out an overall weighting in the light of all available information, adopting a risk-based approach, in assessing whether an activity is suspect and whether there are conditions for sending a suspicious activity report.

Anomaly indicators

The following circumstances constitute anomaly indicators related to the geographical area.

1.1. Subjects, activities, operations or transactions, are directly or indirectly related to States included in the list of high-risk States published by the Financial Information Authority.

1.2. Subjects, activities, operations or transactions, are directly or indirectly related to States at risk of money laundering or financing of terrorism:

a) included in the lists published by international or regional bodies;

b) subject to enhanced monitoring mechanisms by international or regional bodies.

1.3. Subjects, activities, operations or transactions, are directly or indirectly related to States at risk of fiscal crimes:

a) included in the lists published by international or regional bodies;

b) subject to enhanced monitoring mechanisms by international or regional bodies.

2. Profile or behavior of the customer

Introduction

Reporting subjects shall consider the behavior of the customer as a potential anomaly indicator.

These indicators have a specific relevance for supervised entities, especially for the entities carrying out financial activities on a professional basis, which, by offering services not only to organs of the Holy See and the State, but also to other subjects (for example, employees and retirees of the Holy See and the State; entities of the Catholic Church; diplomatic personnel accredited to the Holy See; etc.) shall carry out the due diligence, and attribute a consistent profile to the customer.

These indicators are also relevant for public authorities, for example to the ends of the supervision or audit of institutional subjects, or more in general for the evaluation of the consistency of the behavior of the institutional subjects, or the delegates or in charge of handling institutional relationships or accounts.

The occurrence of these indicators does not imply in itself that the activity is suspect. The absence of these indicators does not exclude in itself that the activity is not suspect.

Reporting subjects shall carry out an overall weighting in the light of all available information, adopting a risk-based approach, in assessing whether an activity is suspect and whether there are conditions for sending a suspicious activity report.

Anomaly indicators

The following circumstances constitute anomaly indicators related to the profile or the behavior of the customer.

Customer's profile

2.1. The customer, or the legal entity, or its directing officers, or representatives, or members, or employees, or fiduciary, are known to have been or to be under criminal investigations or proceedings, or preventive measures of real nature, such as freezing, seizing, or confiscation, of funds or other assets.

2.2. The customer, or the directing officers, or the representatives, or members, or employees, or fiduciary, of the legal entity, are known to have been or to be under criminal investigations or proceedings, or preventive measures of personal nature, such as the arrest; or are known to have been or to be contiguous, even though family members or close associates, to subjects under such investigations or proceedings, or measures.

Example: From open or accessible sources, or from communications by public authorities, the reporting subject becomes aware of the initiation of criminal investigations or proceedings, or the adoption of preventive measures, even in foreign States.

2.3. The customer, or the legal entity, have been or are subject to inspections or inquiries by competent authorities, even in foreign States.

Inconsistent behavior

2.4. The customer has a behavior inconsistent with the category and status, profile, and activity, or the behavior held in the previous periods, or the nature and purpose of the relationship or account.

Example: The customer performs or requests operations or transactions of significant amount, especially if in cash, inconsistent with his economic or risk profile, or activity.

2.5. The customer who does not appear to carry out significant economic activities, or who appears to have economic or financial difficulties, performs or requires operations or transactions of significant amount.

2.6. The delegate, or person in charge of operating, performs or requests operations not related to the activity of the beneficial owner of the relationship or account, or in such a way as to suspect that the relationship or account is not used in the interests of the beneficial owner.

2.7. The directing officer, or representative, or member, or employee, or fiduciary, of a legal entity, uses the legal entity's relationship or account to perform operations or transactions not related to the activity of the legal entity, or in such a way as to suspect that the relationship or account are used for a personal, or a third party's, interest.

2.8. The personal relationship or account of a directing officer, or representative, or member, or employee, or fiduciary, of a legal entity, is used in order to perform operations or transactions related to the activity of the legal entity.

Unusual behavior

2.9. The customer is excessively interested on the modality of implementation of the legislation on the prevention and countering of money laundering and financing of terrorism, or to the functioning of the internal controls, or attempting to induce personnel to circumvent these controls, even with excessively confidential attitudes.

Non-cooperative or suspicious behavior

2.10. The customer (or delegate, or person in charge of operating) refuses to provide required information or is reluctant in providing information.

2.11. The customer (or delegate, or person in charge of operating) provides false or incomplete information on his identity, or activity, on their assets, liabilities and financial position, or the nature and purpose of the relationship or account, or activity, operation or transaction.

2.12. The directing officer, or representative, or member, or employee, or fiduciary, of a legal entity, provides false or incomplete information on the organization or activity, or assets, liabilities and financial position of the legal entity, or the nature and purpose of the relationship, or activity, or operation, or transaction.

2.13. The customer (or delegate, or person in charge of operating) exhibits identity documents whose authenticity appears doubtful, or expired, or refuses to provide identity documents.

2.14. The directing officer, or representative, or member, or employee, or fiduciary, of a legal entity, provides constitutive deeds, statutes or other relevant documents whose authenticity appears doubtful, or refuses to provide such documents.

2.15. The customer (or delegate, or person in charge of operating) provides information significantly inconsistent with those obtained by reliable sources.

2.16. The customer (or delegate, or person in charge of operating) with excessive frequency and without an apparent reason, modify the information provided, or the address of residence or domicile, or use mailboxes, or request the sending of communications to an address other than that of residence or domicile.

2.17. The customer refuses to open a relationship or account, or to perform the operation or transaction, or expresses the willingness to close the relationship or account, after the request of information.

Circumvention of legal obligations

2.18. The customer frequently performs, or requests, operations or transactions in cash for amounts that are just below the limits imposed by the law for the declaration of cross-border transportation of cash.

2.19. The customer frequently performs, or requests, operations or transactions for amounts that are just below the due diligence obligations.

3. Typology of relationship, product or service, operation or transaction, including channels of distribution.

Introduction

Reporting subjects shall consider the typology of relationship, operation or transaction, including channels of distribution, as potential anomaly indicators.

These indicators have a specific relevance for supervised entities, especially for the entities carrying out financial activities on a professional basis, which shall carry out the authorized activities complying with the regulatory framework into force, in favor of the subjects included in the categories of customers authorized to access services provided by the entity, evaluating carefully the operations carried out with foreign intermediaries, in particular if of doubtful reputational profile or operating in high-risk States or States at risk.

These indicators are also relevant for public authorities, for example to the ends of the supervision or audit of institutional subjects, or more in general for the evaluation of the economic-financial operations carried out, and of operations carried out with foreign intermediaries.

The occurrence of these indicators does not imply in itself that the activity is suspect. The absence of these indicators does not exclude in itself that the activity is not suspect.

Reporting subjects shall carry out an overall weighting in the light of all available information, adopting a risk-based approach, in assessing whether an activity is suspect and whether there are conditions for sending a suspicious activity report.

Anomaly Indicators

The following circumstances constitute anomaly indicators related to the typology of relationship, product or service, operation or transaction, including channels of distribution.

Services ensuring anonymity

3.1. The customer requests the opening of anonymous or encrypted relationships or accounts, or under fictitious or fanciful names.

3.2. The customer (or the delegate, or the person in charge of operating) requests the performing of operations or transactions ensuring the anonymity.

Fictitious ownership of funds

3.3. The customer requests the opening of a relationships or accounts, expressly declaring, or otherwise suggesting, that funds or other assets are attributable to the effective ownership of a third party.

3.4. The customer avoids direct contact with the entity by issuing mandates or assignments frequently, especially if in cash or on safe- deposit boxes, without an apparent reason.

3.5. The customer, during direct contacts with the entity, is constantly accompanied by third parties who appear excessively interested in the operations, or who raise suspicion that the customer is conditioned.

3.6. The customer shows that he does not have adequate knowledge of the nature and purpose of the relationship or account, or the object and amount of the operation or transaction, or provides unrealistic, confusing or inconsistent indications, raising the suspicion that he acts on behalf of a third party.

3.7. The customer requests the closing of the relationship or account by cash withdrawal, or through a transfer of the balance in favor of a third party, or in such a way as to give rise to the suspicion that the original beneficial owner of the funds or other assets is a third party.

3.8. The customer requests the documentation required for the adhesion to voluntary tax compliance programmes with foreign States on behalf of a third party.

3.9. The customer receives the deposit of funds or other assets without an apparent link to his activity, and subsequently transfers the funds or other assets to a third party for the same, or a very similar, amount.

3.10. The customer concludes contracts with obligations and guarantees in favor of a third party without an apparent connection to the customer or his activity.

3.11. The delegate, or the person in charge to operate, performs or requests operations or transactions without an apparent connection to the customer's activity, or otherwise behaves in such a way as to give rise to the suspicion that he is the beneficial owner of the funds or other assets.

3.12. The delegate, or the person in charge to operate, performs or requests operations of cash withdrawal or deposit, or otherwise behaves in such a way as to give rise to the suspicion that the relationship or account is used to receive or deposit his own remunerations.

Example: A professional (for example a legal or technical advisor) is the delegate or person in charge to operate on the relationship or account of a third legal entity, and directly performs cash withdrawals to receive the payments for the services provided to the legal entity.

3.13. A third party unrelated to the original beneficial owner stakes a claim on relationships or accounts qualified as dormant.

Services to unauthorized subjects

3.14. The customer requires the opening of a relationship or account, or perform, or requires, operations or transactions, on behalf of a third party not included in the categories of customers authorized to access services provided by the entity.

3.15. A subject not belonging to the categories of customers authorized to access services provided by the entity, requires the opening of relationships or accounts, or the performing of operations or transactions, attempting to induce personnel to circumvent the controls, even with excessively confidential attitudes.

Complex unnecessarily or illogic activities

3.16. The customer (or delegate, or person in charge of operating) performs or requests unnecessarily complex or illogic operations or transactions.

3.17. The customer (or delegate, or person in charge to operate) performs or requests operations or transactions without economic and financial benefits, regardless of any evaluation related to the risks, the applied fees, or other costs.

3.18. The customer (or delegate, or person in charge to operate) performs, or requests, operations or transactions for the purchase or sale of movable or immovable property for significant amounts, or at costs that are clearly not proportional to their estimated or market value.

3.19. The customer closes, or expresses the sudden willingness to close, a relationship or account, shortly after their opening, or through an operation of cash withdrawal, or the transfer of the settlement on relationships or accounts of fiduciary legal entities.

3.20. The customer frequently receives deposits of funds or other assets from a plurality of intermediaries, and said deposits are followed by transfers to relationships or accounts of fiduciary legal entities.

3.21. The customer requests the opening of relationships or accounts to perform operations or transactions in a short period of time, followed by the closing of the relationships or accounts.

3.22. The customer (or delegate, or person in charge to operate) performs, or requests, operations or transactions in favour of a legal entity that has been recently created, or whose nature and activity are generic or inconsistent with the category and status, profile, and activity, of the customer, without an apparent reason.

Unusual activities

3.23. A relationship or account with a low level of operations, or with few movements, or inactive for a long period of time, including accounts qualified as dormant, have a sudden increase in operations, especially if for a short period of time, through incoming operations or transactions for significant amounts, even if fragmented, such as money wires, or cashing or depositing checks in round figures, or depositing cash, followed by subsequent transfers with destinations, or beneficiaries, or modalities, that give rise to suspicion.

3.24. The customer (or delegate, or person in charge to operate) frequently performs, or requests, incoming operations or transactions, especially through cash deposits, motivated by donations, or legacy inheritance, or gambling winnings.

3.25. The customer (or delegate, or person in charge to operate) frequently performs, or requests, accesses to the safe-deposit boxes, or custody services, or deposits or withdrawals of sealed envelopes, especially if performed or requested on behalf of a third party, or in such a way as to suspect that he operates on behalf of a third party.

3.26. The customer (or delegate, or person in charge to operate) presents, or shows the willingness to present, assets for significant amounts, with limited circulation or out of circulation, with a request of cash settlement or of deposit as a guarantee for loans or lines of credit.

Activities in high-risk sectors

3.27. The customer (or delegate, or person in charge of operating) performs or requests the purchase or sale of significant quantities of precious metals or stones, or coins, or other values, without an apparent reason.

3.28. The customer (or delegate, or person in charge to operate) performs or requests operations or transactions in high-risk sectors or with counterparts operating in high-risk sectors, such as, for instance, real estate agents, or dealers in precious metals and stones, or subjects that trade goods or services in relation to cash operations or transactions.

Use of cash

3.29. The customer performs, or requests, operations or transactions in cash for significant amounts, with a particular frequency in a short time frame, with no apparent reason.

3.30. The customer performs, or requests, cash deposits for significant amounts, in round figures, or with high-denomination banknotes, with no apparent reason, especially if his previous operations do not have these characteristics.

3.31. The customer performs, or requests, cash deposits for significant amounts, with a successive withdrawal request for equal or very similar amounts, without using cash in the meanwhile, with no apparent reason.

3.32. The customer performs, or requests, cash deposits for significant amounts to settle credit or debit card bills, especially if there are frequent cash withdrawal operations with the same or similar cards bills.

3.33. The customer performs, or requests, cash deposits for significant amounts, with banknotes wrapped in unusual ways, or counterfeit, or worn-out, with no apparent reason.

3.34. The customer performs, or requests, cash deposits for significant amounts, with a concurrent request to emit cashier's checks, or *traveller's cheque*, or bearer securities, with no apparent reason.

3.35. The customer performs, or requests, cash deposits for significant amounts, with successive cash withdrawal operations performed from an automated teller machine (ATM), or a point of sale (POS), especially if performed within the same day or in a short time frame.

3.36. The customer performs, or requests, cash withdrawals a third party performs cash deposits for an equal or very similar amount, within the same day or in a short time frame, or otherwise with modalities such as to give rise to the suspicion of a transfer of funds between the two subjects.

3.37. The customer performs or requests banknotes exchange operations, especially if he requires high-denomination banknotes, or if performed avoiding their transit on the relationship or account, with no apparent reason.

3.38. The customer requests information on the exchange of non-legal tender with legal tender, especially if the requests are frequent or for significant amounts.

B. Anomaly indicators related to the financing of terrorism

Introduction

The Holy See adopted a strict policy for the prevention and countering of the financing of terrorism, on two levels.

First, pursuant to the Art. 71 (1) of the Law of 8 October 2013, No. XVIII, the President of the Governorate of the Vatican City State regularly promotes a list of subjects that threaten international peace and security. The lists are drafted and updated taking into account the lists published by the relevant international and regional organizations, such as the United Nations and the European Union.

Second, the Law 22 November 2017, No. CCXI, on “*Registration and supervision of non-profit entities*”, formalized a central register of non-profit entities and introducing specific obligations for non-profit entities, including the obligation to report suspicious activity.

Reporting subjects shall carefully assess the potential risks of financing of terrorism on the basis of the anomaly indicators indicated below.

In view of facilitating the assessment by reporting subjects, both general anomaly indicators and anomaly indicators related to non-profit entities are provided. The latter are divided into two areas: “risk factors”; and “terrorist abuse in non-profit entities”. The indicators useful for the public authorities that supervise non-profit entities are highlighted, also on the basis of the guidelines of the Financial Action Task Force (FATF)¹.

Within this context, it is necessary above all to take into account the link between subjects, activities, operations or transactions with conflict areas or high-risk states, or the recurrence of names on the list of subjects threatening international peace and security, or the performance of investigations or criminal proceedings, or the adoption of preventive measures of a personal or real nature, for conducts or facts related to terrorism of financing of terrorism.

These indicators have a specific relevance for supervised entities, especially for the entities carrying out financial activities on a professional basis, which, by offering services not only to organs of the Holy See and the State, but also to other subjects (employees and retirees of the Holy See and the State; entities of the Catholic Church; diplomatic personnel accredited to the Holy See), including non-profit entities, and are therefore exposed toward all regions of the world.

These indicators also relevant for public authorities, for instance, to the ends of the supervision or audit of non-profit entities, and for some non-profit entities, for the purpose of proper management and reduction of risks associated with their activity.

The occurrence of these indicators does not imply in itself that the activity is suspect. The absence of these indicators does not exclude in itself that the activity is not suspect.

¹ FATF, *Best practice, Combating the abuse of non-profit organizations (Recommendation 8)*, June 2015. FATF, *Report, Risk of terrorist abuse in non-profit organisations*, June 2014.

The mission of non-profit entities of catholic inspiration implies humanitarian activity in favor of the of civil populations established in high-risk States or areas of conflict, without any discrimination based on religion or belief.

Reporting subjects shall carry out an overall weighting in the light of all available information, adopting a risk-based approach, in assessing whether an activity is suspect and whether there are conditions for sending a suspicious activity report.

B.1. General Anomaly indicators

The following circumstances are anomaly indicators related of the financing of terrorism.

1. Geographic area

1.1. Subjects, activities, operations or transactions are directly or indirectly related to area of conflict.

See also Section I, A, 1.1.-1.3.

2. Profile and behavior of the customer

Customer's profile

2.1. The customer is included in the list of subjects that threaten international peace and security published by the President of the Governorate of the Vatican City State, as well as in the lists of designated subjects issued by the competent organs of the Security Council of the United Nations and of the European Union.

2.2. The user is known for the promotion of terrorist organizations or for the apology of terrorism or the financing of terrorism.

Example: From open or accessible sources, or from communications by public authorities, the reporting subject becomes aware of the initiation of criminal investigations or proceedings for the promotion of terrorist organizations or for the apology of terrorism or the financing of terrorism, also through web sites or social networks.

See also Section I, A, 2.1.-2.3.

Inconsistent behavior

See Section I, A, 2.4-2.8.

Unusual behavior

See Section I, A, 2.9.

Non-cooperative or suspicious behavior

See Section I, A, 2.10.-2.11.

Circumvention of legal obligations

See Section I, A, 2.18.-2.19.

3. Typology of relationship, product or service, operation or transaction, including channels of distribution

Services ensuring anonymity

See Section I, A, 3.1.-3.2.

Use of cash

3.1. The customer performs cash withdrawal operations, even for modest amount, and in a short period of time, from an automated teller machine (ATM), or a point of sale (POS), located in different States, especially if in parallel the booking or buying of tickets to/from areas of conflict, high-risk States or States at risk is registered, without a apparent reason.

See also Section I, A, 3.29.-3.38.

B.2.1. Anomaly indicators related to non- profit entities

The following circumstances constitute anomaly indicators related to the non-profit entities.

1. Geographic area

1.1. The non-profit entity is active in areas with known transfer for terrorism purposes of funds or other assets into the accounts of non-profit entities, or their directing officials, or legal representatives, or employees, or fiduciary.

1.2. The non-profit entity transfers or requests the transfer of funds or other assets or is active in areas where terrorist organizations are known to have a substantial presence.

For the public authorities

1.3. The non-profit entity records are kept in areas where terrorist organizations are known to have a substantial presence.

1.4. Directing officials, or representatives, or employees, or fiduciary, of non-profit entities, travel frequently into areas where terrorist organizations are known to have a substantial presence.

2. Organization and activity

2.1. Non-profit entity uses unnecessarily complex or illogic financial schemes for its activity.

2.2. Third parties are used to open non-profit entity's relationships or accounts or to perform or request operations or transactions.

2.3. Non-profit entity or its representatives, or fiduciary, exhibit false, or incomplete, or conflicting documentation.

For the public authorities

2.4. Non-profit entity has opaque leadership or decision-making structures.

2.5. The non-profit entity has unreported programmes or activities, or occult partners.

2.6. The non-profit entity explains in a generic or vague terms its programmes and activities to its supervisory authority.

2.7. The non-profit entity avoids mandatory suspicious activity reporting duties.

2.8. The non-profit entity's expenditures are not consistent with its programmes and activities.

2.9. The non-profit entity is unable to account for the final use of all of its funds or other assets.

2.10. The non-profit entity is unable to account for the origin of its funds or other assets.

2.11. The non-profit entity has inconsistencies in its accounting or mandatory reporting duties.

3. Financial, material or logistical support to known, suspected or proscribed terrorist entities

3.1. The non-profit entity performs or requests the transfer of funds through cash-couriers in areas with known terrorist activity.

3.2. The non-profit entity structures the operations or transactions in such a way to avoid their traceability.

3.3. The non-profit entity performs or requests the transfer of funds or other assets providing generic or vague justifications.

3.4. The non-profit entity uses a shell organization as a funding conduit.

3.5. The representatives, or fiduciary, of a non-profit entity, fail to submit the cross-border declarations of transportation of cash.

3.6. The relationships or accounts of a non-profit entity's accounts are used by third entities whose own accounts are under restrictions.

3.7. Funds or other assets of a non-profit entity's funds are commingled with personal or private funds.

3.8. Funds or other assets of non-profit entity are transferred to entities not associated with declared programmes or activities.

For the public authorities

3.9. Accounts related to some programmes or activities are concealed.

3.10. The non-profit entity's facilities are frequented by individuals believed to support terrorist activities.

3.11. The non-profit entity procures dual-use equipment.

3.12. A non-profit entity's activities are found to support subjects included in the list of subjects who threaten international peace and security, issued by the President of the Governorate of the Vatican City State, as well as in the lists of designated subjects issued by the competent organs of the Security Council of the United Nations and of the European Union.

4. Support of recruitment and other criminal offences

4.1. The non-profit entity's publications accessible from open sources, or communications by speakers, support terrorism or known, suspected or listed terrorist entities.

For the public authorities

4.2. Subjects involved in terrorist activities are linked to the non-profit entity.

4.3. The advertised non-profit entity is fictitious.

4.4. The non-profit entity's facilities conceal criminal activities.

4.5. The directing officials, or representatives, or members, or employees, or fiduciary, of the non-profit entity, are engaged in criminal activities.

B.2.2. Anomaly indicators related to terrorist abuse in non-profit entities

The following circumstances constitute anomaly indicators related to the terrorist abuse in non-profit entities.

1. Geographic area

See Section I, B.2.1., 1, 1.1.-1.4.

2. Organization and activity

For the public authorities

2.1. From open sources one becomes aware that the non-profit entity is engaged in activities related to terrorism.

2.2. The non-profit entity merges with another organisation believed to support terrorist activities.

2.3. Directing officials, or representatives, or members, or employees, or fiduciary, of the non- profit entity are, or have been, directing officials, or representative, or fiduciary, of other organisations believed to support terrorist activity.

2.4. The non-profit entity suffers from an internal conflict, for instance, where one faction is known to be sympathetic or actively supportive towards terrorist entities.

3. Financial, material or logistical support to known, suspected or proscribed terrorist entities

3.1. The non-profit entity's funds or other assets are transferred to known, suspected or listed terrorist entities.

3.2. The non-profit entity receives funds or other assets from known, suspected or listed terrorist entities.

For the public authorities

3.3. Non-profit shares property with another organization believed to support terrorist activity.

3.4. Reliable information indicates that the non- profit entity or its representatives are engaged in supporting terrorist activity.

3.5. Reliable information indicates that the non- profit entity or its representatives are linked to third parties that support or are engaged in terrorist activity.

3.6. The identities of directing officials, or representatives, or employees, or fiduciary, of the non-profit entity, are found to match that of members of organizations believed to support terrorist activity.

4. Support of recruitment and other criminal offences

For the public authorities

4.1. Directing officials, or representatives, or employees, or fiduciary, of a non-profit entity, are engaged in activities that support recruitment to violence.

4.2. Criminal activities consistent with terrorist operations are concealed in non-profit entity facilities.

4.3. Directing officials, or representatives, or employees, or fiduciary, of the non-profit entity, are engaged in criminal activities consistent with terrorist operations.

SECTION II

SPECIFIC INDICATORS

A. Donations

Introduction

Within the Vatican City State there is no autonomous production system, nor a free market, or a market economy, nor a Gross Domestic Product (GDP).

Donations constitute a relevant source of support for the mission of the Holy See, and more in general for the Catholic Church.

Reporting subjects shall carefully assess the potential risks related to donations on the basis of the anomaly indicators indicated below.

In view of facilitating the assessment by reporting subjects, anomaly indicators and anomaly indicators related to the geographic area and the profile of the donor or the legal entity used for the execution of the donation, as well as the characteristics and the modalities of execution of the donation, are provided.

These indicators have a specific relevance for public authorities, for example, to the ends of the supervision or audit of institutional subjects and non-profit entities, and more in general in view of promoting the awareness of the potential risks related to donations.

These indicators are also relevant for supervised entities, especially for the entities carrying out financial activities on a professional basis, which, by offering services not only to organs of the Holy See and the State, but also to other subjects (for example, employees and retirees of the Holy See and the State; entities of the Catholic Church; diplomatic personnel accredited to the Holy See; etc.) can detect potential anomalies related to the execution of donations intermediated on the relationship or account of the donor or the recipient.

The occurrence of these indicators does not imply in itself that the activity is suspect. The absence of these indicators does not exclude in itself that the activity is not suspect.

Reporting subjects shall carry out an overall weighting in the light of all available information, adopting a risk-based approach, in assessing whether an activity is suspect and whether there are conditions for sending a suspicious activity report.

Anomaly indicators

The following circumstances constitute anomaly indicators related to donations.

1. Geographic area

1.1. The donor, or the legal entity used as vehicle for the execution of the donation, or the donation, is directly or indirectly related to States included in the list of high-risk States issued by the Financial Information Authority.

1.2. The donor, or the legal person used as vehicle for the donation, or the donation, are directly or indirectly related to States at risk of money laundering or financing of terrorism:

- a) included in the lists published by international or regional bodies;
- b) subject to enhanced monitoring mechanisms by international or regional bodies.

1.3. The donor, or the legal person used as vehicle for the donation, or the donation, are directly or indirectly related to States at risk of fiscal crimes:

- a) included in the lists published by international or regional bodies;
- b) subject to enhanced monitoring mechanisms by international or regional bodies.

2. Profile and behavior of the donor

2.1. The donor, or the legal entity used as vehicle for the execution of the donation, or its directing officers, or representatives, or employees, or fiduciary, are known to have been or to be under criminal investigations or proceedings, or preventive measures of real nature, such as freezing, seizing, or confiscation, of funds or other assets.

2.2. The donor, or the directing officers, or the representatives, or employees, or fiduciary, of the legal entity used as vehicle for the execution of the donation, are known to have been or to be under criminal investigations or proceedings, or preventive measures of personal nature, such as the arrest; or are known to have been or to be contiguous, even through family members or close associates, to subjects under such investigations or proceedings, or measures.

Example: From open or accessible sources, or from communications by public authorities, the reporting subject becomes aware of the initiation of criminal investigations or proceedings, or the adoption of preventive measures, even in foreign States.

2.3. The donor, or the legal entity used as vehicle for the execution of the donation, have been or are subject to inspections or inquiries by competent authorities, even in foreign States.

2.4. The donor is a politically exposed person or a family member or a close associate to a politically exposed person.

2.5. The legal entity used as a vehicle for the execution of the donation is directly or indirectly related to a politically exposed person or a family member or a close associate to a politically exposed person.

2.6. The donor refuses to provide the required information, or is reluctant in providing information.

2.7. The donor withdraws the donation offer, or expresses the will to withdraw, following the request for information.

3. Proposal and execution of the donation

3.1. The donation is proposed through third parties or through fiduciary legal entities so that the donor or the beneficial owner of the funds or other assets remain anonymous.

3.2. The donor proposes that part of the donation be returned, in whatever form, or proposes to allocate the donation in sectors or activities in which he is directly or indirectly involved, or proposes the creation of fiduciary legal entities, or proposes the opening of relationships or current accounts, of which he has direct or indirect control or management.

3.3. The amount of the donation is significant and the reason behind the donation is not clear.

3.4. In the phase of the proposal of the donation the donor does not have the availability of the funds or other assets that he intends to donate.

3.5 The modality to execute the donation are unnecessarily complex or illogic or inconvenient form an economic and financial perspective.

3.6. The donor proposes to execute the donation through the deposit or transfer a significant amount of cash, without an apparent reason.

3.7. The donor is not capable to indicate the origin of the funds or other assets that he intends to donate.

3.8. The donor indicates that the donation must be executed urgently, providing generic or vague justifications, or without providing a clear reason.

B. Public procurement contracts

Introduction

Within the Vatican City State, specific provisions are into force on the selection procedures for awarding public works, services and supplies.

Within a broader framework, it is also worth mentioning that the 16 September 2016 the Holy See signed and ratified the *United Nations' Convention Against Corruption* of the 31 October 2003, which in Article 9 (1), taking into account the potential risks related to public procurement contract², provides specific indications in order for the procedures for awarding public works, services and supplies to ensure transparency and objective decision- making criteria.

Reporting subjects shall carefully assess the potential risks related to the procedures for awarding public works, services and supplies.

In view of facilitating the assessment by reporting subjects, specific anomaly indicators are provided.

These indicators have a specific relevance for public authorities, in particular for those with the power of monitoring the procedures for awarding public works, services and supplies, and in general for all the institutional subjects, in view of promoting the awareness of the potential risks related to the public procurements.

These indicators are also relevant for supervised entities, especially for the entities carrying out financial activities on a professional basis, which can record and report potential anomalies related to the transfer of funds for the execution of public works, services and supplies.

The occurrence of these indicators does not imply in itself that the activity is suspect. The absence of these indicators does not exclude in itself that the activity is not suspect.

Reporting subjects shall carry out an overall weighting in the light of all available information, adopting a risk-based approach, in assessing whether an activity is suspect and whether there are conditions for sending a suspicious activity report.

Anomaly indicators

The following circumstances constitute anomaly indicators related to public procurement contracts.

1. Geographic area

1.1. The subject participating in the procedure for awarding public works, services or supplies, is directly or indirectly related to States included in the list of high-risk States issued by the Financial Information Authority.

² Organisation for Economic Co-operation and Development (OECD), *Preventing corruption in public procurement*, 2016.

1.2. The subject participating in the procedure for awarding public works, services or supplies, is directly or indirectly related to States at risk of money laundering or financing of terrorism:

- a) included in the lists published by international or regional bodies;
- b) subject to enhanced monitoring mechanisms by international or regional bodies.

1.3. The subject participating in the procedure for awarding public works, services or supplies, is directly or indirectly related to States at risk of fiscal crimes:

- a) included in the lists published by international or regional bodies;
- b) subject to enhanced monitoring mechanisms by international or regional bodies.

2. Profile and behavior of the subject

2.1. The subject participating in the procedure for awarding public works, services or supplies, or the legal entity used as vehicle for the execution of the public procurement contract, or its directing officers, or representatives, or employees, or fiduciary, are known to have been or to be under criminal investigations or proceedings, or preventive measures of real nature, such as freezing, seizing, or confiscation, of funds or other assets.

2.2. The subject participating in the procedure for awarding public works, services or supplies, or the directing officers, or the representatives, or employees, or fiduciary, of the legal entity used as vehicle for the execution of the public procurement contract, are known to have been or to be under criminal investigations or proceedings, or preventive measures of personal nature, such as the arrest; or are known to have been or to be contiguous, even through family members or close associates, to subjects under such investigations or proceedings, or measures.

Example: From open or accessible sources, or from communications by public authorities, the reporting subject becomes aware of the initiation of criminal investigations or proceedings, or the adoption of preventive measures, even in foreign States.

2.3. The subject participating in the procedure for awarding public works, services or supplies, or the legal entity used as vehicle for the execution of the public procurement contract, have been or are subject to inspections or inquiries by competent authorities, even in foreign States.

2.4. The subject participating in the procedure for awarding public works, services or supplies is a politically exposed person or a family member or a close associate to a politically exposed person.

2.5. The legal entity used as a vehicle for the execution of the public procurement contract is directly or indirectly related to a politically exposed person or a family member or a close associate to a politically exposed person.

2.6. The subject participating in the procedure for awarding public works, services or supplies, or the legal entity used as vehicle for the execution of the public procurement contract, have been or are subject to inspections or inquiries by competent authorities, even in foreign States.

2.7. The subject participating in the procedure for awarding public works, services or supplies is a politically exposed person or a family member or a close associate to a politically exposed person.

3. Selection phase

3.1. The subject participates to the procedure for awarding public works, services or supplies, in the absence of the necessary requisites, or with the intervention or supply of means by third parties with no apparent connection with the subject, or with third parties' funding or supply of other assets of dubious origin, or with guarantees by third parties, lacking an adequate explanation.

Example: The subject participates in the procedure for awarding public works, services or supplies even though the incoherence of the public contract's object with respect to the profile or sector in which the subject is ordinarily active, or with respect to the subject's organisational and managerial characteristics, is clear.

3.2. A group of subjects completely disproportionate, in relation to the economic value and the performances object of the public procurement contract, participates in the procedure for awarding public works, services or supplies, especially if the single participant is in turn grouped or syndicated.

3.3. A group of subjects participates in the procedure for awarding public works, services or supplies, even though the common program does not consider this participation amongst the strategic objectives of the group.

3.4. The subject participates in the procedure for awarding public works, services or supplies, in the absence of a clear economic benefits, without an apparent reason.

Example: The economic benefits linked to the public procurement contract are not clear, considering the size of the subject, or its ordinary operative headquarters.

3.5. The subject proposes itself for the financing or sponsorship of public works, services or supplies of a significant amount, proposing one or more executing subjects lacking the necessary requisites, or grouped in an anomalous way, without an apparent reason.

3.6. The subject participating in the procedure for awarding public works, services or supplies, during the selection procedure, transfers or leases the company or one of its branches, or transforms, merges or splits the company, without an apparent reason.

3.7. The subject proposing itself to finance or sponsor public works, services or supplies, during the assessment of the offer, transfers or leases the company or one of its branches, or transforms, merges or splits the company, without an apparent reason.

3.8. The subject participating in the procedure for awarding public works, services or supplies, (in the cases in which the set criteria is that of the lowest price) lowers the amount that is the object of the valuation so that it is abnormally low based on the estimation performed by the awarding entity, especially if the execution of the public procurement contract is characterized by a high degree of complexity.

3.9. The subject participating in the procedure for awarding public works, services or supplies, (in the cases in which the set criteria is that of the lowest price) lowers the amount that is the object of the valuation, indicating expressly, or otherwise suggesting, that said reduction is conditioned on the awarding of the public procurement contract, or of future public procurement contracts, or on investments by the awarding entity in sectors or activities in which the subject is directly or indirectly involved.

4. Awarding phase

4.1. The public procurement contract is repeatedly awarded to the same subject, without a clear necessity of avoiding breaks in continuity in performing a public work, service or supply, without an apparent reason.

5. Execution phase

5.1. The contractor proposes modifications in the contractual clauses during the execution phase, relating to a variation in the original services, to the lengthening of the works', services or supplies completion terms, to renewals or extensions, in cases other than those provided, or causing a significant increase in the contractual amount.

5.2. The contractor resorts a sub-contractor in cases other than those provided, without a previous indication when making the offer, or without the necessary deposit of the sub-contract to the awarding entity, or the documents attesting that the sub-contractor possesses the necessary requisites.

5.3. The contractor sells credits deriving from the execution of the contract to subjects other than banks and financial intermediaries whose company's object is the purchase of receivables, or without complying with the provisions related to the form and previous notification of the transfer, without prejudice to the cases or prior consent by the awarding entity.

5.4. The contractor, or sub-contractor, in the execution phase of the public procurement contract shows a clear lack of adequate experience, qualification, organisational and managerial skills, technical and executive skills, or economic and financial skills.

5.5. The contractor, during the execution of the public procurement contract, transfers or leases the company or one of its branches, or transforms, merges or splits the company, without an apparent reason.

5.6. The subject sponsoring the public works, services or supplies, during the execution of the public procurement contract, transfers or leases the company or one of its branches, or transforms, merges or splits the company, without an apparent reason.

6. Payments

6.1. The contractor, or sub-contractor, requests the payment or transfer of funds or other assets to relationships or accounts in high-risk States, or in State at risk of money laundering or financing terrorism, or fiscal crimes.

6.2. The contractor, or sub-contractor, requests the payment or transfer of funds or other assets to personal or private relationships or accounts.

6.3. The contractor, or sub-contractor, requests payments or transfers of funds or other assets to relationships or accounts in the name of third parties, although attributable to the same effective ownership of the contractor.

Example: The beneficial owner of the company that carried out the work, or provided the service or supplies, requires payment on the relationship or account of a third party attributable to its effective ownership, but which has not signed the public procurement contract or had no role in the execution of the public procurement contract.

C. Compliance with tax obligations

Introduction

Within the Vatican City State there are no productive economic activities and there is no structured internal fiscal system.

At the same time, the Holy See and the State adopted policies and measures in order to ensure the cooperation and exchange of information at the international level, and the correct implementation of the fiscal obligations by the interested subjects in relation to goods and services, funds or other assets.

At the international level, the Holy See has signed cooperation and information exchange agreements in order to promote the compliance of fiscal obligations and the payment of taxes on capital incomes by foreign subjects who are the owners of a relationship or account at the entities carrying out financial activities on a professional basis.

To this end, the Holy See has signed the *Convention between the Holy See (also in the name of, and on behalf of, the Vatican City State) and the Government of the Italian Republic on fiscal matters* on the 1 April 2015, and the *Agreement between the Holy See (also in the name of, and on behalf of, the Vatican City State) and the United States of America to promote the compliance of fiscal obligations and implement the "Foreign Account Tax Compliance Act"* on the 10th June 2015.

Moreover, more generally, since 2015 the Financial Information Authorities provided the entities carrying out financial activities on a professional basis with specific anomaly indicators to prevent the risk that customers' adhesion to voluntary compliance programmes is performed so as to circumvent the legislation on prevention and contrast of money laundering and financing of terrorism³, also based on the guidelines provided by the Financial Action Task Force⁴.

At the internal level, the Service for the Transit of Goods of the Governorate of the Vatican City State carries out the controls on the fulfilment of the fiscal requirements and the payment of indirect taxes on the goods that transits in the State or in the extraterritorial areas of the Holy See, present in the Italian territory, also in implementation of the *Customs Agreement between the Vatican City State and the Kingdom of Italy* of the 30 June 1930, and the successive implementing Protocol of the 15 February 2007.

Reporting subjects shall carefully assess the potential risks of circumvention of fiscal obligations by the interested subjects.

In view of facilitating the assessment by reporting subjects, anomaly indicators related to: a) adhesion to voluntary tax compliance programmes in foreign States; b) the risk of fraud on indirect taxes on goods that transit in the State or the extraterritorial areas of the Holy See, present in the Italian territory, are provided.

³ AIF, *Rapporto Annuale*, Anno IV-2015, p. 14, Città del Vaticano 2016.

⁴ FATF, *Best Practices Paper, Managing the Anti-Money Laundering and Counter-Terrorist Financing Policy Implications of Voluntary Tax Compliance Programmes*, October 2012.

These indicators have a specific relevance for supervised entities, in particular for entities carrying out financial activities on a professional basis, which, by offering services not only to organs of the Holy See and the State, but also to other subjects (for example, employees and retirees of the Holy See and the State; entities of the Catholic Church; diplomatic personnel accredited to the Holy See; etc.) subject to the correct implementation of fiscal obligations towards their respective home States, relatively to funds or other assets held in the Vatican City State.

These indicators are also relevant for public authorities, for example, to the ends of the supervision or audit of institutional subjects and non-profit entities, and more in general in view of the controls on the compliance of fiscal obligations and the payment of indirect taxes on goods that transit in the State or the extraterritorial areas of the Holy See present in the Italian territory.

The occurrence of these indicators does not imply in itself that the activity is suspect. The absence of these indicators does not exclude in itself that the activity is not suspect.

Reporting subjects shall carry out an overall weighting in the light of all available information, adopting a risk-based approach, in assessing whether an activity is suspect and whether there are conditions for sending a suspicious activity report.

Anomaly indicators

1. Adhesion to voluntary tax compliance programmes

The following circumstances constitute anomaly indicators related to the adhesion to voluntary tax compliance programmes.

1.1. Operations or transactions associated with the activities covered by the voluntary tax compliance program present an amount that is not consistent or proportionate to the category and status, profile, and activity, of the customer.

1.2. Funds attributable to a defined beneficial owner are held through complex structures (normally, legal entities).

1.3. The information provided by the customer in the context of the identification obligations established by the voluntary tax compliance programmes are not consistent with the information provided by the same customer as part of the process of customer due diligence.

1.4. The details of the operations or transactions carried out by the customer are not in line with the information provided by the same customer to the competent Authorities of the Holy See or the State for the execution of voluntary tax compliance programmes.

1.5. The customer is not able, or seems to be unwilling, to provide all the information about a relationship or account, or the relevant operations or transactions for the purposes of voluntary tax compliance programmes.

1.6. The customer is not able, or seems to be unwilling, to provide all relevant information about the nature and origin of the funds in view of the identification of the ownership of the financial assets object of voluntary tax compliance programmes.

1.7. Participation in voluntary tax compliance programmes for “past periods” and the “transition period” is carried out by subjects acting as delegates of the beneficial owner.

1.8. Unusual operations and transactions are carried out by the customer immediately in the proximity of the adhesion to voluntary tax compliance programmes.

2. Fraud on indirect taxes

The following circumstances constitute anomaly indicators related to the risk of fraud on indirect taxes.

2.1. The subject requesting the exemption from the payment of indirect taxes in a foreign State is not entitled to the exemption.

Example: The subject requesting the exemption from the payment of indirect taxes in a foreign State does not fall in the categories of subjects established by the Articles 15 and 16 of the Treaty between the Holy See and Italy of the 11 February 1929, or the Customs agreement between the Vatican City State and the Kingdom of Italy of the 30 June 1930.

2.2. The subject refuses to provide required information or is reluctant in providing information.

2.3. The subject requests the exemption from the payment of indirect taxes in a foreign State by exhibiting documents whose authenticity appears doubtful, or incomplete, or inadequate.

2.4. The subject waives the exemption procedure from the payment of indirect taxes in a foreign State, or expresses the will of renunciation, following the request for information.

Example: The subject requests the exemption from the payment of indirect taxes in a foreign State exhibiting documents with no fiscal value, or invoices whose authenticity appears doubtful, or shows the request without the authorization or the signature of the Superior, if it's an organ of the Holy See or the Vatican City State, or the person in charge, if it's an extraterritorial area of the Holy See on Italian territory.

2.5. The subject requests the exemption from the payment of indirect taxes in a foreign State for goods and services that, by nature or sum total, are not immediately attributable to the category and status, profile, and activity, of the subject, or in such ways as to give rise to suspicion that the subject is acting on behalf of a third party who is not entitled to the exemption.

2.6. The subject requests the exemption from the payment of indirect taxes in a foreign State frequently or for significant amounts, without an apparent reason.

2.7. The subject requires the exemption from the payment of indirect taxes in a foreign State relatively to goods provided or services supplied by the same subjects or groups of subjects, frequently and for significant amounts, in such ways as to give rise to suspicion that there is a fraud scheme in the background.

D. Auditing

Introduction

The legislative and regulatory framework of the Holy See established the obligation of audit, both institutional and independent.

The Motu Proprio “*Fidelis Dispensator et Prudens*” of the 24 February 2014 established the Office of the Auditor General, entrusted with the task of auditing the dicasteries of the Roman Curia, the institutions connected to the Holy See or those related to it, and the administrations of the Governorate of the Vatican City State specified by Article 1 (1) of the Statute of the Council for the Economy.

According to the Statute, the Office of the Auditor General, *inter alia*, “*sends a report to the Financial Intelligence Authority, pursuant to the relevant laws, when there are reasonable grounds to suspect that funds, assets, activities, operations or transactions are linked or related to money-laundering or the financing of terrorism*”.

For the entities carrying out financial activities on a professional basis, subject to the Financial Information Authority’s supervision, auditing is disciplined by art. 58 (2) (j) of Law N. XVIII of the 8 October 2013, and by articles 41-43 of Regulation N. 1 on “*Prudential supervision of the entities carrying out financial activities on a professional basis*”, and is executed according to the accounting principles specified by the same Authority with the “*Circular relating to the preparation of the annual financial statements and the consolidated financial statements of entities carrying out financial activities on a professional basis*” of the 15 December 2016.

Auditors and external audit firms have to comply with the above-mentioned Law N. XVIII of the 8 October 2013, pursuant to article (2) a- *bis*), including the necessity to be authorized to perform auditing within the State, and the obligation of sending suspicious activity reports to the Financial Information Authority.

Reporting subjects shall carefully assess all the anomalous elements emerging from the auditing activity.

In view of facilitating this assessment, specific anomaly indicators to assist the competent auditing authorities, in particular the Office of the General Auditor, and external auditors, are provided.

The occurrence of these indicators does not imply in itself that the activity is suspect. The absence of these indicators does not exclude in itself that the activity is not suspect.

Reporting subjects shall carry out an overall weighting in the light of all available information, adopting a risk-based approach, in assessing whether an activity is suspect and whether there are conditions for sending a suspicious activity report.

Anomaly indicators

The following circumstances constitute anomaly indicators related to the auditing.

1. Geographic area

1.1. The audited subject, or the performed activity, are directly or indirectly connected to States included in the list of high-risk States issued by the Financial Information Authority.

1.2. The audited subject, or the performed activity, are directly or indirectly connected to States at risk of money-laundering or financing terrorism:

- a) included in the lists published by international or regional bodies;
- b) subject to enhanced monitoring mechanisms by international or regional bodies.

1.3. The audited subject, or the performed activity, are directly or indirectly connected to States at risk of fiscal crimes:

- a) included in the lists published by international or regional bodies;
- b) subject to enhanced monitoring mechanisms by international or regional bodies.

2. Profile and behavior of the subject

Subject's profile

2.1. The audited subject, or the directing officers, or representatives, or members, or employees, or fiduciaries of the audited legal person, are included in the list of subjects threatening the international security and peace, published by the President of the Governorate of the Vatican City State, as well as in the lists of designated subjects issued by the competent organs of the Security Council of the United Nations and of the European Union.

2.2. The audited subject, or the directing officers, or representatives, or members, or employees, or fiduciaries of the audited legal person, are known to have been or to be under criminal investigations or proceedings, or preventive measures of real nature, such as freezing, seizing, or confiscation, of funds or other assets.

2.3. The audited subject, or the directing officers, or representatives, or members, or employees, or fiduciaries of the audited legal person, are known to have been or to be under criminal investigations or proceedings, or preventive measures of personal nature, such as the arrest; or are known to have been or to be contiguous, even through family members or close associates, to subjects under such investigations or proceedings, or measures.

Example: From open or accessible sources, or from communications by public authorities, the reporting subject becomes aware of the initiation of criminal investigations or proceedings, or the adoption of preventive measures, even in foreign States.

2.4. The audited subject has been or is subject to inspections or inquiries by competent authorities, even in foreign States.

Non cooperative or suspicious behavior

2.5. The audited subject refuses to provide the required information, or is reluctant in providing information.

Example: The audited subject does not provide information or does not allow to access accounting documents or to turn to third parties (counterparts, consultants, etc.) from which the information and accounting documents can be acquired.

2.6. The audited subject provides false or incomplete information.

Example: The audited subject provides false or incomplete information about the activity carried out, or the economic, financial or patrimonial situation, or provides information inconsistent with the evidence from the accounting documents or registered during the audit.

2.7. The audited subject provides information significantly inconsistent from those obtained from reliable sources.

2.8. The subject turns down the voluntary audit, or manifests the will to renounce, after the request of information.

Unusual behavior

2.9. The customer is excessively interested in the procedures and modalities of auditing, attempting to induce personnel to circumvent these controls, even with excessively confidential attitudes.

3. Further indicators

Rigged accounting documents

3.1. The accounting documents appear to be rigged, or are only exhibited on duplicates or other supports, differing from the original.

Unnecessarily Complex, illogic, or unusual operations or transactions

3.2. The accounting documents show operations or transactions, including investments, which, because of their characteristics or amounts, do not appear consistent with the category and status, or profile, or activity of the audited subject.

3.3. The accounting documents show operations or transactions unnecessarily complex or illogic.

Example: The accounting documents show operations or transactions complex or illogic or done in such ways as to raise the suspicion that they have been performed to give an untruthful representation of the economic, financial or patrimonial situation.

3.4. The accounting documents show operations or transactions with no economic

and financial benefits.

3.5. The accounting documents show operations or transactions for the acquisition or sale of movable or immovable property for significant amounts, or at costs that are clearly not proportional to their estimated or market value.

3.6. The accounting documents show valuations of goods or services with different methods from those adopted in the previous periods, or normally applied, or that determine remarkable variations.

Contracts

3.7. The accounting documents show the drafting of agreements apparently attributable to standard contracts, with modifications aimed at favouring flows of funds or other assets, especially if cash, not consistent with the standard contract.

3.8. The accounting documents show advance payments to suppliers or consultants for overall amounts significant and superior to those normally required.

3.9. The accounting documents show sales of goods or provision of services inconsistent with the category and status, profile, and activity, of the audited subject.

Donations

3.10. The accounting documents show donations by third parties in such ways as to give rise to the suspicion that there are other commercial activities in the background.

3.11. The accounting documents show donations in favour of third parties that are performed in such ways as to give rise to the suspicion that there are other commercial activities in the background.

Financing, obligations or guarantees

3.12. The accounting documents show financing, obligations or guarantees provided by third parties, or in favour of third parties, that do not appear to have connections with the audited subject, or with no apparent reason.

3.13. The accounting documents show financing obtained based on guarantees and acts whose authenticity is doubtful, or relationships or accounts, or funds or other assets whose existence, nature, or solidity, is not evident.

3.14. The accounting documents show financing obtained by the audited subject without any guarantees.

Payments

3.15. The accounting documents show payments with instruments or modalities that, because of their characteristics or amounts, do not appear consistent with the category and status, profile, and activity, of the audited subject.

3.16. The accounting documents show payments for significant overall amounts in favour of third parties that do not appear to have connections with the audited subject.

3.17. The accounting documents show payments performed by the audited subject on behalf of third parties that do not appear to have connections with the audited subject.

3.18. The accounting documents show payments in favour of the audited subject by third parties that do not appear to have connections with the audited subject.

3.19. The accounting documents show payments performed by the audited subject in favour of third parties different from those indicated by the invoices or receipts to be paid.

3.20. The accounting documents show payments relative to the carrying out of an activity, the supply of goods or provision of services that do not appear to have been carried out, supplied or provided.

3.21. The accounting documents show payments performed by the audited subject in such a way not to allow their traceability, or with the intervention of third parties, without an apparent reason.

3.22. The accounting documents show payments received by the audited subject in such a way not to allow their traceability, or with the intervention of third parties, without an apparent reason.

Invoices or bills whose authenticity appears doubtful

3.23. The accounting documents show the issuing of invoices or bills related to activities, goods or services that do not appear to have been carried out, supplied or provided by the audited subject.

3.24. The accounting documents show the issuing of invoices or bills without essential data or borne by third parties who are inexistent or of convenience, or anyway whose authenticity is doubtful, without an apparent reason.

Stocks and reserve storage

3.25. The accounting documents show a significant inconsistency between stocks and reserve storage, and the goods registered in the inventories, without an apparent reason.

Companies or activities in foreign States

3.26. The accounting documents show companies, or foundations, or legal arrangements, such as trusts, in foreign States, kept in ways such as to give rise to suspicion about the intention of the audited subject not to register these companies, or foundations, or legal arrangements, without an apparent reason.

Relationships or accounts in foreign States

3.27. The accounting documents show relationships or accounts in foreign States, kept in ways such as to give rise to suspicion about the intention of the audited subject not to register these relationships or accounts, without an apparent reason.

3.28. The accounting documents show the opening and successive closing of relationships or accounts, in the State or in foreign States, without a connection to the activity performed by the audited subject, without an apparent reason.

3.29. The accounting documents show that the directing officers, or representative, or members, or employees, or fiduciary, of an audited legal entity, use the legal entity's relationship or account to perform operations or transactions not connected to the activity of the legal entity, or in ways such as to suspect that the relationship or account is used in the personal interest or in that of a third party's.

3.30. The accounting documents show that the personal relationship or account of a directing officer, or representative, or member, or employee, or fiduciary, of the audited legal entity, is used to perform operations or transactions connected to the activity of the legal entity.

Evasion of legal requirements

3.31. The accounting documents show frequent operations or transactions in cash for amounts just below the limits established by the law for the cross-border declaration of transportation of cash.

3.32. The accounting documents show operations or transactions for amounts that are just below the due diligence obligations.

Activities in high-risk sectors

3.33. The accounting documents show purchases or sales of significant quantities of precious metals or stones, or coins, or other values, without an apparent reason.

3.34. The accounting documents show operations or transactions in high-risk sector such as, for example, real estate agents, or dealers in precious metals and stones, or subjects that trade goods or services in relation to cash operations or transactions.

Use of cash

3.35. The accounting documents show frequent transfers of funds, or payments, as compensations or down payments, in cash, for significant overall amounts, without an apparent reason.

3.36. The accounting documents show frequent payments of invoices or bills in cash, for significant overall amounts, without an apparent reason.

3.37. The accounting documents show debt collection in cash, especially if the collection is followed by the transfer of funds to third parties, without an apparent reason.

3.38. The accounting documents show collection of invoices or bills in cash, for significant overall amounts, without an apparent reason.

See also Section I, A, 3.29.-3.38. ff.

E. Cross-border transportation of cash

Introduction

Article 81 of Law No. XVIII of 8 October 2013 has established the obligation to declare cross- border transportation of cash for amounts equal or greater than 10.000 euros.

The declaration shall be presented to the offices of the Corps of Gendarmerie or to the offices authorized by the Financial Information Authority, that at present are the *Administration of the Patrimony of the Apostolic See (APSA)* and the *Institute for the Works of Religion (IOR)*.

Reporting subjects shall carefully assess the potential risks related to cross-border transportation of cash.

In view of facilitating the assessment by reporting subjects, specific anomaly indicators are provided.

These indicators have a specific relevance for public authorities, in particular the Corps of Gendarmerie and the offices authorized to receive the declarations of cross-border transportation of cash. For the purpose of an effective monitoring of the flows and the use of cash, the authorized offices, in particular, are required to combine the valuation of these indicators with those related to suspicious behaviour of consumers, such as, for example, the frequent performance or request by the consumer of operations in cash for amounts that are just below the limits established by the law for the cross-border declaration of transportation of cash.

The occurrence of these indicators does not imply in itself that the activity is suspect. The absence of these indicators does not exclude in itself that the activity is not suspect

Reporting subjects shall carry out an overall weighting in the light of all available information, adopting a risk-based approach, in assessing whether an activity is suspect and whether there are conditions for sending a suspicious activity report.

Anomaly indicators

The following circumstances constitute anomaly indicators related to the cross-border transportation of cash.

1. Geographic area

1.1. The declaring subject, or the object of the declaration of cross-border transportation, are directly or indirectly related to States included in the list of high-risk States issued by the Financial Information Authority.

1.2. The declaring subject, or the object of the declaration of cross-border transportation, are directly or indirectly related to States at risk of money laundering or financing of terrorism:

- a) included in the lists published by international or regional bodies;
- b) subject to enhanced monitoring mechanisms by international or regional bodies.

1.3. The declaring subject, or the object of the declaration of cross-border transportation, are directly or indirectly related to States at risk of fiscal crimes:

- a) included in the lists published by international or regional bodies;
- b) subject to enhanced monitoring mechanisms by international or regional bodies.

2. Profile and behavior of the subject

2.1. The declaring subject, or the directing officers, or representatives, or members, employees, or fiduciary or the declaring legal entity, are known to have or been or to be under criminal investigations or proceedings, or preventive measures of real nature, such as freezing, seizing, or confiscation, of funds or other assets.

2.2. The declaring subject, or the directing officers, or representatives, or members, or employees, or fiduciary, of the declaring legal person, are known to have been or to be under criminal investigations or proceedings, or preventive measures of personal nature, such as the arrest; or are known to have been or to be contiguous, even through family members or close associates, to subjects under such investigations or proceedings, or measures.

Example: From open or accessible sources, or from communications by public authorities, the reporting subject becomes aware of the initiation of criminal investigations or proceedings, or the adoption of preventive measures, even in foreign States.

2.3. The declaring subject has been or is subject to inspections or inquiries by competent authorities, even in foreign States.

2.4. The declaring subject is a politically exposed person or a family member or a close associate to a politically exposed person.

2.5. The declaring legal person is directly or indirectly related to a politically exposed person or a family member or a close associate to a politically exposed person.

2.6. The declaring subject refuses to provide required information, or is reluctant in providing information.

2.7. The declaring subject provides false or incomplete information on the object of the declaration.

2.8. The declaring subject exhibits identification documents that are expired, or whose authenticity is doubtful, or refuses to show identification documents.

2.9. The declaring subject provides information significantly inconsistent from those obtained from reliable sources.

2.10. The declaring subject renounces to the cross-border transportation, or manifests the will to renounce, following the request for information.

3. Further indicators

3.1. The object of the declaration, because of its characteristics or amount, appears to be inconsistent or disproportionate to the category and status, profile, and activity, of the declaring subject.

3.2. The declaring subject is excessively interested on the control of the cross-border transportation of cash, attempting to induce personnel to circumvent these controls, even with excessively confidential attitudes.

3.3. The declaring subject is accompanied by third parties who appear excessively interested in the declaration, or who raise suspicion that the customer is conditioned.

3.4. The declaring subject shows that he does not have adequate knowledge of the object of the declaration, or provides unrealistic, confusing or inconsistent indications, raising the suspicion that he acts on behalf of a third party.

Example: The declaring subject cannot indicate accurately the origin and destination of the cash, or the route followed, or the means of transport used.

F. Market abuses

Introduction

The limited financial activities carried out in the State are placed within the framework of a public regime.

In the State, indeed:

- a) there is no financial market [for example: 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.

At the same time, the Holy See and the State have adopted adequate policies and measures, also in order to ensure the cooperation and exchange of information at the international level, to prevent and combat abuses in the financial sector, including abuses or communications of privileged information, or manipulations of foreign or international markets.

Pursuant to Article 63 of Law No. XVIII of 8 October 2013, the Financial Information Authority indicates the organisational and managerial requirements that the supervised entities shall fulfil, especially the entities carrying out financial activities on a professional basis, in order to promote a high moral and professional level within the entities, and to prevent any abuse in the financial sector.

Law No. CCLVII of 28 September 2018 “*Introducing norms concerning market abuse*” has also introduced the criminal offences of abuse of privileged information, illicit communication of privileged information, and market manipulation in the Vatican legislation.

Reporting subjects shall carefully assess the potential risks related to market operations.

In view of facilitating the assessment by reporting subjects, specific anomaly indicators are provided.

These indicators have a specific relevance for supervised entities, especially for the entities carrying out financial activities on a professional basis, which, even though not issuing securities, may be in the possession of privileged information.

These indicators are also relevant for public authorities, especially for those carrying out financial activities institutionally, in view of promoting the awareness of the potential risks related to the financial activities.

The occurrence of these indicators does not imply in itself that the activity is suspect. The absence of these indicators does not exclude in itself that the activity is not suspect.

Reporting subjects shall carry out an overall weighting in the light of all available information, adopting a risk-based approach, in assessing whether an activity is suspect and whether there are conditions for sending a suspicious activity report.

Anomaly indicators

The following circumstances constitute anomaly indicators related to market operations.

1. Unauthorized possess or communications of privileged information

1.1. The subject possesses privileged information to which he should not have access on the basis of his function.

1.2. The subject is excessively interested in the acquisition of privileged information to which he should not have access on the basis of his function, or attempts to induce the legitimate possessor of privileged information to communicate them.

1.3. The subject possessing legitimately privileged information communicates such information to a third subject that should not have access to it.

1.4. The customer or a group of customers, especially if connected to the same subject that legitimately possesses privileged information, perform or require operations or transactions with methods and effects such as to give rise to the suspicion of an abuse or communication of privileged information.

2. Market manipulation

Manipulative behaviour relating to false or misleading signals and to price securing

Supervised entities and public authorities shall be taken into account when transactions or orders to trade are examined by market participants and competent authorities:

2.1. The extent to which orders to trade given or transactions undertaken represent a significant proportion of the daily volume of transactions in the relevant financial instrument, related spot commodity contract, or auctioned product based on emission allowances, in particular when those activities lead to a significant change in their prices.

2.2. The extent to which orders to trade given or transactions undertaken by persons with a significant buying or selling position in a financial instrument, a related spot commodity contract, or an auctioned product based on emission allowances, lead to significant changes in the price of that financial instrument, related spot commodity contract, or auctioned product based on emission allowances.

2.3. Whether transactions undertaken lead to no change in beneficial ownership of a financial instrument, a related spot commodity contract, or an auctioned product based on emission allowances.

2.4. The extent to which orders to trade given or transactions undertaken or orders cancelled include position reversals in a short period and represent a significant proportion of the daily volume of transactions in the relevant financial instrument, a related spot commodity contract, or an auctioned product based on emission allowances, and might be associated with significant changes in the price of a financial instrument, a related spot commodity contract, or an auctioned product based on emission allowances.

2.5. The extent to which orders to trade given or transactions undertaken are concentrated within a short time span in the trading session and lead to a price change which is subsequently reversed;

2.6. The extent to which orders to trade given change the representation of the best bid or offer prices in a financial instrument, a related spot commodity contract, or an auctioned product based on emission allowances, or more generally the representation of the order book available to market participants, and are removed before they are executed.

2.7. The extent to which orders to trade are given or transactions are undertaken at or around a specific time when reference prices, settlement prices and valuations are calculated and lead to price changes which have an effect on such prices and valuations.

Manipulative behaviour relating to the employment of a fictitious device or any other form of deception or contrivance

Supervised entities and public authorities shall be taken into account when transactions or orders to trade are examined by market participants and competent authorities:

2.8. Whether orders to trade given or transactions undertaken by persons are preceded or followed by dissemination of false or misleading information by the same persons or by persons linked to them; and

2.9. Whether orders to trade are given or transactions are undertaken by persons before or after the same persons or persons linked to them produce or disseminate investment recommendations that are erroneous, biased, or demonstrably influenced by material interest.