SUPERVISORY AND FINANCIAL
INFORMATION AUTHORITY

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Supervisory and Financial
Information Authority

Palazzo San Carlo 00120
Vatican City

Phone: (+39) 06 698 71 522
e-mail: asif@asif.va
www.asif.va

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LETTER FROM THE PRESIDENT

A year ago, the hope was strong that peace would be achieved alongside the gradual reduction of the pandemic crisis. Conversely, one war has sadly been joined by another, against a backdrop of increasing local conflicts. According to authoritative observers, 2023 has actually marked itself as the year with the highest number of conflicts since World War II.

This situation contributes to making international relations ever more complex and difficult. At the same time, it serves as an incentive to continue the fight against money laundering and terrorist financing at global level. The international organizations in which ASIF participates (MONEYVAL and Egmont) have shown full awareness of this need.

This latter context includes MONEYVAL's approval in April 2023 in Warsaw of its strategy for the years 2023-2027. This strategy envisages, among other things, the development of the strategic role played by MONEYVAL in its regional sphere, with the aim of raising awareness of emerging regional risks and of providing the 35 member states and territories under its purview with an additional impetus to improve their mechanisms for preventing and countering money laundering (ML) and terrorist financing (FT).

ASIF's international engagement is carried out both in the multilateral sphere, through participation in the aforementioned bodies, and in the bilateral sphere, through cooperation with similar financial intelligence units in other jurisdictions. Vatican regulations require that these relations be governed by specific memoranda of understanding. For this reason, numerous new memoranda of this kind were signed in 2023 as well.

Maintaining and developing a strong network of international relations continues to be a fundamental strategic goal of ASIF in serving the interests of the Vatican jurisdiction. Thanks to this network, through which we are able to exchange information for the purposes of ML/FT prevention, we are also able to lay the groundwork for the recovery of assets owed to the jurisdiction as a result of court orders.

The fruitful international relations have been matched by the equally fruitful relations with authorities within the jurisdiction. The day-to-day operations of ASIF benefited from the intense collaboration with the Office of the Promoter of Justice, the Corps of the Gendarmerie and the Office of the Auditor General. There were also many opportunities for collaboration with the Financial Security Committee, and with the Secretariat of State, the Secretariat for the Economy and the Governorate on issues of common interest.

In the latter sphere, the Authority distinguished itself for the constant support it provided in the ongoing process of amending the Vatican's AML/CFT Law and in the definition of the consequent regulatory measures.

No less important were the supervisory activities, both AML/CFT and prudential, which focused on the supervised entity (the Institute for Works of Religion, or IOR). Such activities remain aimed at conducting in-depth assessments of the entity's risks and related mitigation capabilities. The Authority is also actively engaged in the work of evaluating the "particular" risks of the jurisdiction's reporting entities.

The abovementioned activities, in their entirety, serve as a testament to the extent to which ASIF has done its utmost, in compliance with its institutional role, to offer a high-quality contribution to the jurisdiction's efforts to prevent and counter ML and FT, with the constant aim of helping to preserve financial transparency.

CARMELO BARBAGALLO
President

INTRODUCTION

In 2023, activities continued on a regular basis. The Board held quarterly meetings, in attendance, at the ASIF headquarters and the organizational structure of the Authority remained unchanged.

Engagement in the international arena continued to be a priority for the Authority, primarily with reference to MONEYVAL, the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism incardinated at the Council of Europe. In addition to regular working group meetings and plenary sessions in Strasbourg, the President of the Authority participated, as head of the Holy See/Vatican City State Delegation, in the High-Level Meeting of the Committee, held in Warsaw, Poland, in April. Also of significance was the participation in the Egmont Group meetings, the Canada-based organization that brings together some 180 FIUs from around the world.

The Authority's outward projection, including with counterpart authorities in other jurisdictions, has been significant. Beyond ordinary cooperation activities, the exchange of best practices and training experiences has become an established practice. In particular, the solid relations with the Bundesbank and the Bank of Italy have enabled the development of important exchanges in the area of prudential and AML/CFT supervision.

Collaboration with other relevant authorities in the domestic arena was assiduous throughout the year. The Authority provided support to the Financial Security Committee (Co.Si.Fi.), which is overseeing the work on the new General Risk Assessment for the Vatican. ASIF also took part in the meeting of the Joint Committee (in November 2023), the body that oversees the jurisdiction's compliance with the Monetary Agreement with the EU, and collaborated on the development and reform of the jurisdiction's regulatory framework. Finally, the Authority presented in several institutional training sessions, both under the auspices of the Co.Si.Fi. and at the request of some of the Holy See/Vatican City State's dicasteries and entities.

Regarding the activities of the three operational units, a brief summary is provided below.

The Regulatory and Legal Affairs Unit carried out various in-depth studies and provided constant support to the President, the Directorate and to ASIF's other two Units. Noteworthy is the work done in revising Law No. XVIII, the jurisdiction's AML/CFT law. The revision was necessary, among other things, to implement some of the recommendations contained in MONEYVAL's Mutual Evaluation Report of April 2021, as well as to align some provisions with European directives, as agreed upon in the Joint Committee. The Unit also implemented, in consultation with the Supervisory Unit, some amendments to the secondary regulations issued by ASIF: to Regulation No. 2, as a consequence of the aforementioned revision to Law No. XVIII, and to Regulation No. 1, with regard to the use of "outsourcing" by entities that professionally perform activities of a financial nature.

The Supervisory Unit carried out activities aimed at assessing the relevant prudential and AML/CFT profiles of the supervised entity (the IOR) through off-site reviews, as well as through specific in-depth meetings with the IOR, held at least once per month, to discuss technical and organizational aspects involving the IOR's operational structures and control functions. The Unit continued to monitor the implementation of the Remediation Plan developed following the broad-scope prudential inspection of 2020, through a desk-based review of the documents sent by the IOR and through the information provided by the IOR in face-to-face meetings. As part of the Memorandum of Understanding with the Secretariat for the Economy, the Unit monitored the implementation of the procedures put in place by the IOR to comply with the requirements of the Foreign Account Tax Compliance Act (FATCA), as envisioned by the FATCA Agreement signed with the US on June 10, 2015. As part of the AML/CFT supervisory functions, the Unit initiated the process for a targeted assessment of the IOR's suspicious activity reporting process, which began in January 2024.

Regarding the Financial Intelligence Unit (FIU), it received 123 Suspicious Activity Reports in 2023, of which 118 from the IOR, 4 from authorities of the Holy See/Vatican City State, and 1 from a non-profit organization (NPO), numbers that are in line with those recorded in 2022. The Unit submitted 11 reports to the Office of the Promoter of Justice (UPG) during the course of the year (19 in 2022). Domestic cooperation between authorities, entities and institutions of the Holy See/Vatican City State remained intense. In particular, the interaction between the FIU, the UPG and the Corps of the Gendarmerie (CdG) continued, with periodic meetings aimed at examining specific cases. International cooperation also remained invaluable in supporting the operational work of the Unit. In 2023, the Unit sent 22 requests for information or spontaneous communications to its counterpart FIUs, a slight decrease compared with 2022, and received 10 such communications, in line with last year's figure. The Unit was particularly active in its efforts to expand its international network, signing memoranda of understanding with 9 counterpart FIUs in 2023 (Algeria, Azerbaijan, Bahamas, Curaçao, Lebanon, Mauritius, Nepal, Senegal and Zambia), increasing the number of memoranda from 67 to 76.

Finally, with regard to cross-border cash transportation declarations, in 2023 ASIF recorded 165 incoming declarations, for a total amount of €15,462,762, and 361 outgoing declarations, for a total amount of €5,201,311. The increase in inflows continued in 2023, consolidating a trend that has been underway since 2019, while the figure for outflows remained relatively stable. With reference to the former, however, the vast majority of inflows were attributable to the activities of Vatican public authorities.

GIUSEPPE SCHLITZER
Director

1 THE SUPERVISORY AND FINANCIAL INFORMATION AUTHORITY

1.1 ESTABLISHMENT AND COMPOSITION

The Supervisory and Financial Information Authority (ASIF), formerly the Financial Information Authority (AIF), is the competent institution of the Holy See and Vatican City State for supervision and regulation for the purposes of countering money laundering and terrorist financing and for financial intelligence, as well as for the prudential supervision and regulation of entities that carry out financial activities on a professional basis.

The Authority was established by Pope Benedict XVI with the *Motu Proprio* of 30 December 2010, for the prevention and countering of illegal activities in the area of monetary and financial dealings. The mandate was consolidated by Pope Francis with the *Motu Proprio* of 15 November 2013. Finally, with the Chirograph of 15 December 2020, the Authority's powers were further defined and its organizational structure was strengthened, also through the renaming and approval of the current Statute. The new Statute forms part of the overall reform undertaken by the Holy Father for the Holy See and the Vatican City State in matters of transparency and the strengthening of controls in the economic-financial sphere.

In accordance with Article 1 of the Statute, ASIF has the status of an institution connected to the Holy See, has canonical public legal personality, has its headquarters in the Vatican City State and, pursuant to Article 2, carries out its institutional functions in full autonomy and independence.

The Authority consists of the President, the Board, the Directorate and three operational units: the Supervisory Unit, the Regulatory and Legal Affairs Unit, and the Financial Intelligence Unit (FIU).

The institutional activities assigned to ASIF is regulated, *inter alia*, by Law No. XVIII of 8 October 2013, and its subsequent amendments and modifications.

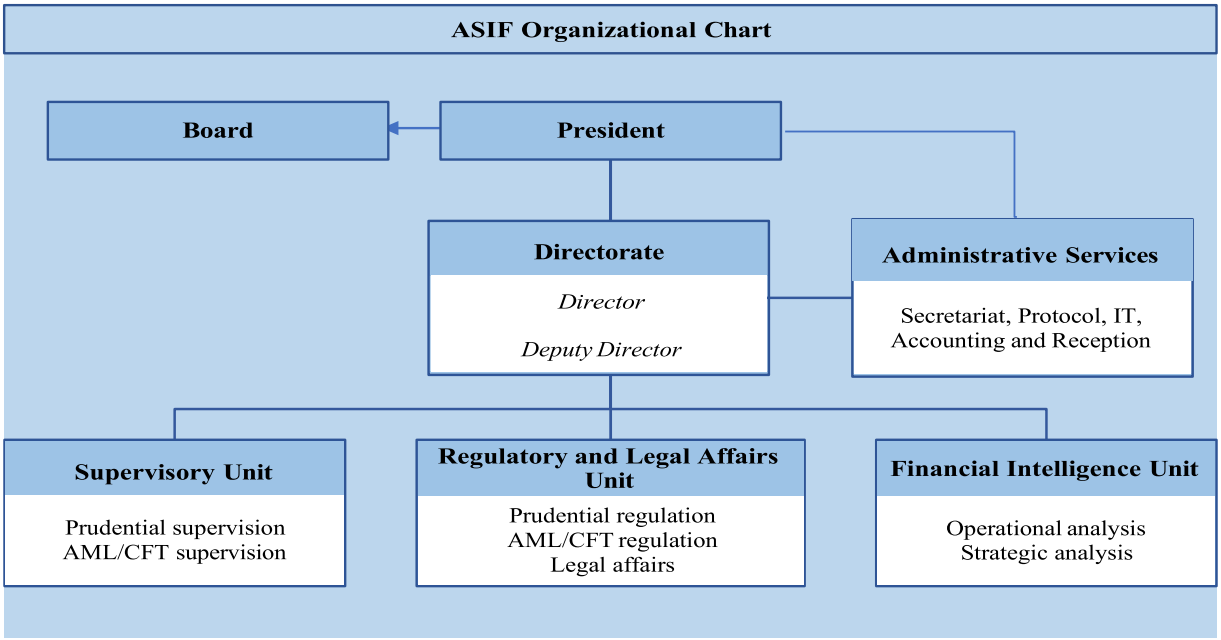
1.2 BODIES

The Board is composed of four members and the President, appointed by the Supreme Pontiff for a period of five years. Each member must have proven integrity, be free from any conflict of interest and must possess recognized professional competence in the legal, economic and financial sectors, as well as in matters that fall within the scope of the Authority's functions.

The Board is assigned the following functions, exercised following a proposal by the President: (a) defining the strategies and objectives of the Authority as well as its security and confidentiality policies; (b) preparing the Authority's internal regulations; (c) adopting regulations, instructions and guidelines in the cases provided for by law; (d) approving the financial statements and the budget, as well as the annual report, the confidential report for the Council for the Economy and the on-site and off-site inspection schedule for supervised entities; (e) formulating proposals for the appointment of members of the Directorate, and for the hiring of staff; and (f) applying administrative sanctions in the cases provided for by law.

In 2023, the Board was composed of Prof. Giuseppe Boccuzzi (Italy), Mr. Kevin Ingram (UK), Prof. Roberto Sanchez Mariano (USA), Prof. Antonella Sciarrone Alibrandi (Italy), and the President, Mr. Carmelo Barbagallo (Italy). In December 2023, Prof. Antonella Sciarrone Alibrandi submitted her resignation following her appointment as judge to the Italian Constitutional Court.

1.3 ORGANIZATIONAL STRUCTURE



The President, in addition to being the legal representative of the Authority, presides over and informs the Board on the progress of the core activities of the Authority, and supervises the correct performance of such activities, with particular reference to: (a) the separation between the supervisory, regulatory and financial intelligence units; (b) the prevention of conflicts of interest;
(c) the effectiveness of the security and confidentiality measures; (d) the definition of the Authority's economic needs and related expenditure process.

The Directorate consists of the Director and the Deputy Director. The Director is responsible for the Authority's operational activities and ensures their effectiveness and efficiency, as well as their appropriate execution in accordance with the confidentiality and security standards. He also supervises and manages the staff, promoting their training and professional development. In addition, the Director proposes to the President the recruitment of personnel, the adoption of regulations, instructions and guidelines, the schedule of off-site and on-site inspections of the supervised entities, the application of administrative sanctions, and the financial statements and budget of the Authority.

The Deputy Director supports the Director in managing, coordinating and supervising the staff and the operational activities of the Authority and replaces him in the event of his absence.

In 2023, the Authority's internal structure remained unchanged, consisting of three operational units: the Supervisory Unit, the Regulatory and Legal Affairs Unit and the Financial Intelligence Unit, which serves as the jurisdiction's FIU.

The Administrative Services support the functions of the Authority as a whole, and are responsible for the following: (a) accounting, reporting and treasury; (b) human resources; (c) training; (d) procurement; (e) protocol; (f) information technology and telecommunications; and (g) secretarial services for the President and the Directorate.

1.4 FUNCTIONS

1.4.1 REGULATION AND LEGAL AFFAIRS

Prudential regulation of entities that carry out financial activities on a professional basis and, in the cases provided for by law, in the matter of preventing and countering money laundering and terrorist financing

The Regulatory and Legal Affairs Unit carries out regulatory activities in accordance with the provisions of Law No. XVIII and the current regulatory framework.

The Unit drafts and amends regulations, instructions, guidelines and circulars relating to the activities of the other Units of ASIF and of the supervised entity, as well as other forms of guidance for specific sectors, categories of entities, or types of activities.

In addition, it monitors and analyzes the legal sources of the Holy See and of the Vatican City State relevant to the Authority's activities and the principles and sources of international and European legislation. It also follows the regulatory activities of the international and European technical bodies responsible for preventing and countering money laundering and terrorist financing, and prudential supervision.

Moreover, the Unit participates in technical working groups with the competent Authorities of the jurisdiction in drafting and amending primary legislation and prepares opinions with regard to the same.

The head of the Unit serves as the Authority's legal counsel, and represents the Authority in the tribunals.

1.4.2 SUPERVISION

a) Prudential supervision of entities that carry out financial activities on a professional basis

Prudential supervision, which includes on-site and off-site inspections, protects the sound and prudent management of intermediaries and the overall stability and efficiency of the financial system. In this context, the Supervisory Unit analyzes the documentation sent by the IOR, the only body authorized to professionally carry out activities of a financial nature in the jurisdiction, in line with the provisions of Title III of Law No. XVIII and Regulation No. 1 on the prudential supervision of entities that carry out financial activities on a professional basis.

The Unit assists in the preparation of Memoranda of Understanding with foreign supervisory authorities and verifies the adoption by the IOR of the procedures for compliance with the Foreign Account Tax Compliance Act (FATCA).

In addition, the Unit transmits periodic statistical data to the European Central Bank (ECB) on monetary and financial stocks and on interest rates applied by entities that professionally carry out activities of a financial nature.

b) Supervision for the purpose of preventing and countering money laundering and terrorist financing

The Unit also supervises and verifies the implementation by the supervised entity of the obligations established by Title II of Law No. XVIII through desk-based reviews of the documents and data submitted by the entity and through on-site inspections.

In the context of the jurisdiction's AML/CFT system, the Unit performs a preventive function of the potential risks to which the financial system is exposed, according to an approach that identifies, measures, controls and monitors the risks themselves, and assesses the safeguards in place and their adequacy.

In this regard, the Unit assists in the training activities organized by Vatican entities and provides support to working groups related to the evolution of the international AML/CFT system and aspects related to MONEYVAL.

1.4.3 FINANCIAL INTELLIGENCE

One of the Authority's primary functions, performed by the Financial Intelligence Unit, is the receipt and analysis of suspicious activity reports (SARs) submitted by the reporting entities[1],[1] a category which includes all the authorities and entities of the Holy See and Vatican City State. The Unit analyzes each SAR to assess the presence of money laundering, terrorist financing or the commission of a predicate offence, and submits reports to the Office of the Promoter of Justice (OPJ) on the cases that, in its estimation, could give rise to a criminal investigation.

Another primary function of the FIU is strategic analysis, i.e. the use of available and obtainable information to identify trends and patterns related to money laundering and terrorism financing. The FIU carries out at least one strategic analysis per year, which is used by the FIU to identify ML/FT threats and vulnerabilities.

The FIU is also responsible for the international exchange of information with its foreign counterparts for the purpose of preventing and countering money laundering and terrorist financing.[2] In this context, in 2013 ASIF became a member of the Egmont Group, which brings together over 180 financial intelligence units at a global level.

1.4.4 CROSS-CUTTING AREAS OF RESPONSIBILITY

In addition to the key functions outlined above, ASIF performs numerous other functions as required by Law No. XVIII. These include: (i) supporting the activities of the Financial Security Committee (Co.Si.Fi.), of which the Director of ASIF is Secretary; (ii) participating in the jurisdiction's delegations to international bodies competent in AML/CFT matters; and (iii) carrying out periodic training programs for reporting entities on the AML/CFT system (in particular on the identification and assessment of risks; the definition of appropriate mitigation measures according to a risk-based approach; the identification of transactions that may be related to money laundering or terrorist financing and the actions to be taken in such cases).

[1] Pursuant to Article 1 (23) of Law No. XVIII, reporting entities include obliged entities, legal persons, including non- profit organizations, and public authorities.
[2] Pursuant to Article 69 *bis* of Law No. XVIII, ASIF collaborates and exchanges information with similar authorities of other states, on the condition of reciprocity and on the basis of memoranda of understanding.

2 THE INSTITUTIONAL CONTEXT

2.1 ECONOMIC AND FINANCIAL FRAMEWORK

By virtue of Law No. V on the economic, commercial and professional sectors of 7 June 1929, the Vatican City State has a public property regime and no free market or private financial entities: there are no regulated markets, multilateral trading facilities and organised trading structures; no public debt instruments, no equity instruments, and no securities or associated instruments are issued; there are no private insurance entities, electronic money institutions, trust companies and investment companies; there are no branches, subsidiaries and/or offices of foreign financial entities.

Under the current regulatory framework for prudential supervision, the professional performance of one or more activities of a financial nature is subject to prior authorization by ASIF.

At present, the only entity authorized to carry out financial activities on a professional basis is the IOR. The IOR is a canonical public legal entity in accordance with Canon Law. Its only office is located in the Vatican City State. By statute, its mission is to "provide for the custody and administration of movable and immovable assets transferred or entrusted to it by natural or legal persons, and intended for works of religion or charity" (IOR Statute, Article 2 § 2). In addition, it "accepts deposits of assets from entities or persons of the Holy See and Vatican City State" (IOR Statute, Article 2 § 3).

In order to more effectively carry out its activities, in 2018[3] the IOR entered the Single Euro Payments Area (SEPA), with the favorable opinion of the European Commission.[4] In addition, in June 2021, following the approval of the jurisdiction's know-your- customer (KYC) rules by the Internal Revenue Service (IRS) of the United States, the IOR obtained qualified intermediary status.

In order to achieve full compliance with international standards on transparency, preventing and countering money laundering and the financing of terrorism and weapons of mass destruction, as established by the Financial Action Task Force (FATF), the IOR is subject to the same measures in these areas as are required of a financial institution.

[3] See Press Release of the Holy See of 30 November 2018 [B0885] https://press.vatican.va/content/salastampa/it/bollettino/pubblico/2018/11/30/0885/01934.html.
[4] See IBAN Registry, Release 81 – December 2018, p. 80.

2.2 FINANCIAL SECURITY COMMITTEE AND GENERAL RISK ASSESSMENT

The Financial Security Committee (Co.Si.Fi.) was established with the *Motu Proprio* of 8 August 2013 for the prevention and countering of money laundering, terrorist financing and the proliferation of weapons of mass destruction, confirming the willingness of the Holy See and the Vatican City State to align itself with the efforts of the international community to protect the integrity and transparency of the economic and financial sectors and to counter the aforementioned phenomena.[5]

The Committee performs strategic guidance and coordination functions.[6] By statute, the Secretary of the Committee is the Director of ASIF.

One of the main activities of the Committee is the approval of the General Risk Assessment (GRA), in line with Law No. XVIII. This document – which envisages the involvement of all the competent authorities of the Holy See/Vatican City State[7] – identifies and analyzes the threats and vulnerabilities relating to money laundering, terrorist financing and the proliferation of weapons of mass destruction, and provides recommendations on the actions to be taken.

Carried out on the basis of the World Bank's National Money-Laundering and Terrorist Financing Risk Assessment Tool, the first GRA, in relation to the year 2017, primarily focused on financial activities carried out on a professional basis in the Vatican City State and on the AML/CFT system as a whole, including the protection of the financial assets of the government and of donations, analysed using a risk-based approach. The outcome of the analysis found the risk of money laundering to be medium-low and the risk of terrorist financing to be low.

Co.Si.Fi. has subsequently prepared two updates to the GRA, one in 2018 and one in 2019, which confirmed the medium-low level of risk in the area of money laundering and a low level of risk in the area of terrorist financing. Both updates found no significant domestic threats, linking the highest risk for the jurisdiction to international and/or cross-border activities. However, the updates did indicate that some aspects covered by the assessment could be further strengthened to make the AML/CFT system more effective, namely, aspects relating to donations, non-profit organizations, public authorities and public procurement contracts.

The two updates to the GRA recommended a series of actions that were implemented in the years that followed. These included strengthening internal prevention and risk management mechanisms of public authorities and non-profit organizations with registered offices in the Vatican City State, and organizing training courses for entities of the Holy See and Vatican City State that are active

[5] The Financial Security Committee is composed of the Assessor for the General Affairs of the Secretariat of State (SoS), who serves as the Chair; the Under-Secretary for Relations with States; the Secretary General of the Governorate of the Vatican City State; the Secretary General of the Secretariat for the Economy (SfE); the Promoter of Justice at the Tribunal of the Vatican City State; one of the Deputy Auditors of the Office of the Auditor General (URG); the Director of the Supervisory and Financial Information Authority; the Director of the Security and Civil Protection Services of the Governorate of the Vatican City State; the Commander of the Pontifical Swiss Guard (see Article 1 of the Co.Si.Fi. Statute).

[6] See Article 3 (6) of the ASIF Statute.

[7] See Article 2 of the Co.Si.Fi. Statute.

in relevant sectors, and for entities that professionally carry out activities of a financial nature. With regard to ASIF, particular mention should be made of the general on-site inspection of the IOR in the AML/CFT area, as well as the adoption of Instructions No. 5 and 6.[8]

At the impetus of Co.Si.Fi., numerous other measures were implemented in 2020, as summarized in the 2020 Update to the GRA, adopted in September 2020. The Update confirmed the increase in the perimeter of the process of identification and assessment of money laundering and terrorist financing risks, a process that was originally focused mainly on the IOR. In fact, in order to ensure a complete and exhaustive picture of the potential ML/FT threats and vulnerabilities to which the jurisdiction could be exposed, the following entities have been included in the assessment process: the public authorities of the Holy See and Vatican City State; non-profit organizations registered in the jurisdiction; legal persons registered in the jurisdiction.

At the same time, the strategic plans of Co.Si.Fi. were adopted, along with the action plans of the competent authorities.

During 2022, the activities for drafting a new Update to the GRA were launched, in order to also incorporate the recommendations of MONEYVAL, formulated after the on-site visit of the team of evaluators in the context of the 5th Round of Evaluations. In 2023, these activities continued, also in order to better determine the scope of interest and to incorporate the new instruments made available by the World Bank. The update of the VGR has been entrusted to a working group designated by Co.Si.Fi., whose coordination has been assigned to the Deputy Director of ASIF.

2.3 INTERNATIONAL ACTIVITY

On April 25, 2023, Msgr. Roberto Campisi, the President of the Financial Security Committee and Assessor of the Section for General Affairs of the Secretariat of State, and Mr. Carmelo Barbagallo, Head of the Holy See/Vatican City State's delegation to the MONEYVAL Committee and President of ASIF, represented the jurisdiction in the first High-Level Meeting of the MONEYVAL Committee, held in Warsaw, Poland.

Throughout the year, the jurisdiction's delegation to the MONEYVAL Committee participated in working groups and plenaries held in Strasbourg, France.

In addition, in 2023, the Financial Intelligence Unit of ASIF actively participated in the two annual meetings of the Egmont Group, the first held in Senegal, and the second in the United Arab Emirates.

[8] Instruction No. 5 provides entities that carry out financial activities on a professional basis with indications regarding the positions which, within the Holy See and Vatican City State, qualify as politically exposed persons pursuant to Article 1 (14) (h) of Law No. XVIII of 8 October 2013. The entities that carry out financial activities on a professional basis also benefit from a special list of names, periodically updated by ASIF. Instruction No. 6 requires the entities that carry out financial activities on a professional basis to constantly monitor the lists of designated subjects issued by the competent bodies of the Security Council of the United Nations and the European Union, with the consequent adoption of the preventive measures established by current legislation and the obligation to report suspicious activity.

2.4 TRAINING AND AWARENESS-RAISING ACTIVITIES

In 2023, intensive institutional training was carried out on themes relating to the prevention and countering of money laundering, terrorist financing and the proliferation of weapons of mass destruction. Of particular note are:

(a) the refresher training offered to Vatican legal entities, organized by the Financial Security Committee (February 15 and 16, 2023);

(b) the awareness-raising and training sessions, organized in collaboration with the Dicastery for Promoting Integral Human Development, on "Money Laundering and the Financing of Terrorism and the Proliferation of Weapons of Mass Destruction: definitions, nature and magnitude of the phenomena, impact on economic-financial systems" (July 12, 2023) and "Birth, evolution and development of the Vatican system for preventing and countering money laundering, the financing of terrorism and the proliferation of weapons of mass destruction" (July 20, 2023);

(c) the training session, organized and carried out in collaboration with the Secretariat for the Economy, for the Pontifical Missionary Works (November 28-30, 2023).

In the international sphere, the Deputy Director and the AML/CFT specialist from the Authority's Supervisory Unit were guests of the Hochschule der Deutschen Bundesbank for a series of exchanges and comparisons (April 24-26, 2023), which concluded with a seminar given by the Deputy Director, with the participation of the University's Rector, Prof. Erich Keller, and Professors Andreas Igl and Markus Rose. The Supervisory Unit's prudential supervision specialist participated in the 7th biannual ESE Conference in Berlin, held on October 17 and 18, entitled "Crisis! - The new normal for the financial system?". The initiative was attended by a large number of participants representing institutions from the financial supervision sector, the banking sector, and academia to discuss current supervisory issues.

The Authority was also involved in several lectures and presentations on subjects within its competence.

In particular:

- the Director gave a lecture on the "Vatican Monetary and Financial System" at the Pontifical Lateran University, as part of the course in "Law of the Vatican City State" (May 22, 2023) and several lectures on the "Role of ASIF and Anti-Money Laundering Measures" at the LUMSA University, as part of the "Advanced Course in Vatican Tax and Financial Law" (May 12, 2023);

- the Deputy Director gave a lecture entitled "Public Procurement and the Impact on Money Laundering Risk" at the Pontifical Lateran University as part of the course in "Law of the Vatican City State" (May 17, 2023);

- the Head of the Regulatory and Legal Affairs Unit gave a lecture at LUMSA University, entitled "Vatican Financial Law: Sources, Subjective and Objective Profiles" as part of the "Intensive Course in Vatican Law" (December 1, 2023).

In addition, the Authority welcomed visiting groups of foreign students, to whom its role and functions were explained:

- the CREDO/Lumen Christi Summer Class led by Bishop Prof. Martin Schlag of St. Thomas University (United States), consisting of young Catholic academics and economists from around the world (June 20, 2023);

- the German Marshal Fund's American Marshal Memorial Fellows 2023, led by Prof. Giovanni Farese of the European University of Rome (Oct. 30, 2023).

Finally, we note the article that was co-authored by the President and the Director of the Authority, which appeared in the November issue BANCARIA magazine, entitled "Anti-Money Laundering and Reform of the Vatican Financial System".

3 THE ACTIVITIES

3.1 REGULATORY AND LEGAL AFFAIRS

In 2023, the Regulatory and Legal Affairs Unit (U-RAL) carried out regulatory activities and numerous in-depth legal analyses, and collaborated with other Authorities of the Holy See/Vatican City State in amending the current legal framework. In addition, it participated in the activities of the Joint Committee.

3.1.1 Amendment of Law No. XVIII of 8 October 2013

Law No. XVIII, the jurisdiction's legal framework on transparency, supervision and financial intelligence, was amended by Law No. DCXIV of 7 November 2023. The amendments made to this legislation, with significant input from the Supervisory and Financial Information Authority, were motivated by several factors:

Implementation of FATF observations, transposition of community sources, and improvements for greater adherence to regulatory developments

(i) incorporation of the observations and indications regarding compliance with the 40 Recommendations of the Financial Action Task Force (FATF), set forth in the annex on "Technical Compliance" of the Mutual Evaluation Report of the Holy See, including the Vatican City State, adopted by the 61st Plenary of the MONEYVAL Committee of the Council of Europe on April 26-30 2021, and the changes introduced in the meantime by the FATF;

(ii) transposition of relevant EU law, including the most recent amendment of the Annex to the Monetary Agreement between the European Union and the Vatican City State (Commission Decision (EU) 2023/393 of 15 February 2023) on preventing and combating money laundering and terrorist financing, with particular reference to Directive (EU) 2015/849 of May 20, 2015 (and subsequent amendments and additions included in the amendment of the Annex) and Regulation (EU) 2018/1672 of 23October 2018;

(iii) improvements dictated by greater adherence to the regulatory developments of recent years and the experience gained by the Authority in the ordinary performance of its institutional supervisory and financial intelligence activities, and through the exchanges with counterpart authorities in foreign jurisdictions.

The changes have, therefore, affected some areas specified by way of example in the box.

Amendments to Law No. XVIII

Title I - Definitions

Most of the changes and/or insertions respond to the need to comply with the requirements of MONEYVAL and the FATF and/or as functional to the appropriate transposition of EU law.

Among these, the followings deserve special attention:

(a) amendments to the definitions of "*activities of a financial nature*," particularly with regard to funds transfer (Article 1, numbers 1(d) and 30), "*financing of terrorism*" (Article 1, number 10), "*non-profit organizations*" (Article 1, number 13), "*correspondence relationship*" (Article 1, number 18 *bis*), "*money laundering"* (Article 1, number 19), "*beneficial owner*" (Article 1, number 24), "cross-border wire transfer" (Article 1, number 27), "*domestic wire transfer"* (Article 1, number 28), "*batch transfers*" (Article 1, number 29);

(b) the introduction of new definitions for "*occasional operation or transaction"* (Article 1, number 12 *quater*), "*instrumental legal person"* (Article 1, number 15 *bis*), "*public authorities"* (Article 1, number 15 *ter*), "*money or value transfer service provider"* (Article 1, number 17 *bis*), "*money or value transfer services* (*MVTS*)" (Article 1, number 20 *bis*).

The remaining amendments or insertions stem mainly from the need to align the Law with the legal entity framework or from the need for greater clarity.

Title II - Measures to prevent and counter money laundering, terrorism financing and the proliferation of weapons of mass destruction

Chapter III – Customer Due Diligence

The most significant change concerns the rules on due diligence with regard to "*counterparty not physically present*" (Article 26).

The remaining changes are essentially technical in nature and mainly due to the transposition of MONEYVAL or FATF guidance. Among these, the new regulations concerning "*relationships and transactions involving higher-risk jurisdictions*" (Article 30 *bis*), which envisages the application of enhanced due diligence in those cases, deserve special mention.

Title VI - Measures against subjects who threaten international peace and security

The Title contains amendments, worthy of special consideration, related to the lists of subjects who threaten international peace and security; financial and preventive measures; and implementation guidelines and procedures.

With regard to financial measures (Article 75), this is a more streamlined, effective, and immediate procedure than the previous one, which provided for (i) a scope that was substantially restricted to institutions professionally engaged in activities of a financial nature, and (ii) prior reporting to ASIF by institutions and subsequent action based on ASIF's guidance. At present, reporting entities must verify, without delay, the existence at their institution of funds or other economic resources owned or possessed by listed entities. Reporting subjects and employed individuals are required to immediately freeze: i) funds or other economic resources, owned, possessed, controlled or held by the listed subjects; ii) transfers of funds, money or values directly or indirectly related, exclusively or jointly, directly or indirectly, to subjects in the list; iii) the benefits and profits generated by the subjects in the list or other economic resources. In such cases, reporting subjects are required to promptly send a report to the Supervisory and Financial Information Authority

Regarding preventive measures (Article 76), the amendment was intended to clarify that these measures differ from financial measures, and to provide a more consistent definition in relation to "when" (Article 76 (1)).

Regarding implementation guidelines (Article 81), provision has been made for shared guidelines and procedures that define in a more structured way the profiles covered in this Title.

3.1.2 Regulation No. 2 with which are established the data and information accompanying transfers of fund and the technical requirements for credit transfers and direct debits in euro

Amendment and introduction of new definitions and the reference to Regulation (EU) 2019/2175 of the European Parliament and of the Council of December 18, 2019

Regulation No. 2, *with which are established the data and information accompanying transfers of funds and the technical requirements for credit transfers and direct debits in euro*, was amended in line with the amendments to Law No. XVIII and the requests made by MONEYVAL. The amendments mainly address:

a) Regulation (EU) 2019/2175 of the European Parliament and of the Council of 18 December 2019;

b) Amendments to and/or introduction of the following definitions: "*public authorities"* (Article 3, number 2); "*foreign public authority"* (Article 3, number 3); "*public sector entity*" (Article 3, number 12 *bis*); "*territorial public bodies"* (Article 3, number 12 *ter*); "*financing of terrorism"* (Article 3, number 13 (c)); "*funds or other economic resources"* (Article 3, number 14); "*money or value transfer service provider*" (Article 3, number 25 *bis*); "*money or value transfer services (MVTS*)" (Article 3, number 30 *bis*); "*transfer of funds"* (Article 3, number 35); "*cross-border transfer of funds"* (Article 3, number 36); "*domestic transfer of funds"* (Article 3, number 37); "*batch transfers"* (Article 3, number 38);

c) a more comprehensive provision about "*registration and record-keeping requirements"* (Article 14).

3.1.3 Regulation No. 1 on prudential supervision of entities carrying out financial activities on a professional basis

The introduction of outsourcing and the extension of competence and honorability requirements

In August 2023, the Holy Father approved amendments to Regulation No. 1 on *prudential supervision of entities carrying out financial activities on a professional basis*.

Outsourcing

In particular, outsourcing (Article 33, Regulation No. 1) was used as a functional requirement for the prospective growth and efficiency of the supervised entity.

Indeed, the outsourcing of "functions and activities [...] that would normally be undertaken by the supervised entity" (Article 3, number 30, Regulation No. 1) can have several positive repercussions (in this regard, see the box on p. 22).

In outlining the amendments to the Regulations, the need to minimize the theoretical risks associated with outsourcing was balanced with the need to allow the supervised entity to make use of it. Moreover, the amendments consider the operational peculiarities of the Institute and, therefore, a strict logic of proportionality and risk-based approach has been applied to the regulatory provisions.

Specifically, the following provisions in Article 33 are aimed at mitigating the risks associated with outsourcing:

- a prior framing analysis of outsourcing with a focus on cost/benefit;

- the establishment of a holistic risk management system, with a focus on data and system security, and the assignment of precise tasks to the internal audit function.

The requirements of competence and honorability

Regarding the competence and honorability requirements, the amendments implement, among others, those made by Article 61 of Law No. XVIII.

In particular, the requirements of competence and honorability, already in place for members of management, supervisory bodies and senior management, have been extended to those who hold or are to hold internal control functions or significant organizational and managerial responsibilities within the institution that professionally performs activities of a financial nature (see Articles 6 (1)(e); 18 (5); 19 and 20).

Amendments dictated by Regulation (EU) 2019/876 of the European Parliament and of the Council of May 20, 2019

Regulation No. 1 underwent necessary amendments dictated by Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulations (EU) No. 575/2013 and No. 648/2012.

Specifically, the amendments covered a number of prudential supervisory matters, such as: leverage ratio, net stable funding ratio, own funds requirements and eligible collateral, counterparty risk, market risk, exposures to central banks, exposures to liabilities investment undertakings, large exposures, and reporting and disclosure requirements.

3.2 SUPERVISION

3.2.1 Prudential supervision of the IOR

Compliance with prudential rules is ensured by the system of off-site controls

In 2023, the Supervisory Unit verified the profiles relevant for the sound, prudent and sustainable management of the IOR, both through off-site analyses and feedback and by holding specific in-depth meetings with the Institute, at least monthly, on technical profiles and organizational aspects involving the IOR's operational structures and control functions.

The off-site supervisory activity was aimed at continuously verifying compliance with prudential rules and operating limits and monitoring the development of the Institute's financial and liquidity situation. The checks and analyses are systematic in nature and based on the data and information that the Institute is required to transmit periodically by virtue of either Regulation No. 1 or specific requests from the Authority.

In particular, the Supervisory Unit analyses the following:

a) The monthly prudential reporting on the liquidity coverage ratio (LCR), the net stable funding ratio (NSFR) and financial leverage;
b) The quarterly reporting of regulatory capital and verification of adequacy with respect to the minimum requirements of all relevant risks;
c) The Institute's budget, as well as the financial statement;
d) The communications, on an annual basis, relating to the plan of the control functions, the system of risk objectives (Risk Appetite Framework, RAF) and the internal process for determining capital adequacy (Internal Capital Adequacy Assessment Process, ICAAP);
e) Verification of the requirements of competence and honorability, as well as their continued existence over time in light of any changes that have occurred, including with regard to conflicts of interest.

During the year, the monitoring of actions arising from the Remedial Plan following the full-scope general Prudential Inspection (2020) continued, based on both the documents sent by the Institute and the information provided during meetings. In the meetings with the control functions, the state of "open" remedial actions with reference to both the aforementioned inspection and internal audits was constantly examined.

Monitoring the remedial actions related to the 2020 Prudential Inspection and the findings made by internal control functions

Among other things, the information held by the Unit was updated with reference to the Institute's more general project plan, which affects all components of the organizational structure (macrostructure, IT applications, resources), in view of the objectives outlined in the three-year strategic plan and the expansion of the IOR's role in the process of centralizing the management of financial resources.

Periodic meetings with the Institute to update the information available to the Supervisory Unit for the planning of off-site activities and inspections

On the organizational level, in-depth discussions were held with reference to the Institute's remuneration policies and the implementation of the incentive system. Exchanges and meetings were also held with reference to the Institute's new Internal Regulations, the economic and financial results for the year 2022 with respect to what was planned in the budget, as well as with regard to the trend during the year of the main aggregates and their consistency with the planned objectives. A specific focus was reserved for the finance area, with the involvement of the Risk Management function, in relation to the turbulence that affected the financial markets during the year, in order to monitor any repercussions on the Institute's financial risks.

During 2023, technical analyses were carried out on the evolution of the relevant regulations with particular regard to the European Directives and the European Banking Authority's Guidelines. The Unit also provided technical support as part of the preparatory work of the Joint Committee with regard to the updating of prudential regulations (leverage ratio, net stable funding ratio, own funds requirements and eligible liabilities, counterparty and market risks, exposures to central counterparties, exposures to collective investment undertakings, large exposures, and reporting and disclosure requirements). In addition, technical analyses were carried out with reference to issues concerning the evolution of the regulatory context of the jurisdiction (loans to employees of the Holy See) or aspects relating to the operations of the IOR. In October, the process of adopting the regulatory update on outsourcing and competence and honorability requirements, which aligned the discipline with best practices, was completed. The box, following, summarizes the main innovations in the field of outsourcing.

Constant technical input into the process of updating regulatory standards

New regulations on the outsourcing of functions

In recent years, the interest in outsourcing functions or areas has grown exponentially in order to pursue operational efficiency, also with a view to expanding operations.

In particular, outsourcing can have positive effects, such as:

- the possibility of achieving economies of scale, which are not always achievable for internal lines;
- the increase in the level of specialization in the performance of certain activities;
- the overcoming of difficulties in developing adequate information systems with internal resources alone;
- the streamlining of processes characterized by manual, massive and standardized processing;
- the reduction in costs and more efficient use of personnel.

Nonetheless, there has been a growing need to pay attention to the risks[1], including technological risks, that arise for financial intermediaries and for the financial system as a whole.

Outsourcing is therefore the subject of detailed rules at European and national level, the aim of which is to ensure that intermediaries have governance mechanisms and controls in place to ensure the effective control of the risks arising from outsourcing. In addition, the rules assign specific tasks to supervisors to ensure the identification and monitoring of these risks.

In summary, while outsourcing processes and activities that can be carried out more effectively by third parties or that are not cost-effective to manage in-house can create value for the intermediary, the latter must preserve the governance capacity of the outsourced functions.

Therefore, in the drafting of the proposed legislation, which came into effect in August, special consideration was given to the need to provide for a prior analysis of the framing of the outsourcing with a focus on cost/benefit, the preparation of a holistic system of risk management, with particular attention to the security of data and systems, as well as the assignment of precise tasks to the internal audit function. Attention was also paid to the presence in the agreements with third parties of safeguards to protect in general the Vatican system, as well as the ability of the supervisory activity, in terms of accessing to information and requesting corrective action.

[1] In general they concern, among other things, to the risk of: not having adequate professionalism to solve problems that may occur at the supplier (technical dependence); not maintaining adequate control and coordination of the activity carried out by the outsourcer (dependence in controls); not being able, in the presence of dysfunctions, to easily replace the supplier (functional dependence).

Transmission of monetary and financial statistics to the ECB

Based on the commitments undertaken by the Holy See at the international level, with reference to the Monetary Convention between the European Union and the Vatican City State of 17 December 2009 and to the *ad hoc* regime adopted on 19 December 2014 by the Joint Committee for the implementation of the cited Convention. In 2016 Circular on interest rate and on monetary and financial statistics of entities that carry out financial activities on a professional basis were promulgated.

These documents provide indications for the periodic and concise representation of both interest rates on deposits and exposures to third parties, and on the relevant assets and liabilities of the entities that carry out financial activities on a professional basis. The statistics are produced periodically by the Unit and transmitted to the ECB.

3.2.2 AML/ CFT supervision

Prevention as a weapon to fight criminals and terrorists

The prevention of money laundering and the financing of terrorism and weapons of mass destruction is a crucial activity in protecting the community from the damage that illicit infiltration can cause. In international contexts, supervisory activity plays an important role in protecting the financial system and other sectors from misuse by criminals and terrorists.

Supervisory activity, carried out according to a risk-based approach and a principle of proportionality, aims to apply effective strategies in addressing and mitigating the full spectrum of risks, starting with the highest ones, with the goal of ensuring a sustainable balance between the burdens assumed by supervised entities and the need to ensure inclusion and transparency, keeping the system unscathed from involvement in illicit phenomena.

The Unit is committed to developing and maintaining a sound understanding of ML/TF risks, based on an assessment of inherent risks and the quality of mitigation measures. On this basis, the supervisory strategy is prioritized toward higher or emerging ML/TF risks, while ensuring that appropriate and proportional strategies are in place to address lower risks as well, without precluding access to and use of financial services in pursuit of the Holy See's mission.

With regard to off-site monitoring, the Unit acquires and analyzes data and documents submitted by the IOR, including the particular risk assessment, reports from control functions, and aggregates related to periodic flows on operations, to keep its assessment of the ML/TF risk landscape and risk profiles of the IOR, as well as potential control deficiencies, up-to-date. The knowledge gained from off-site monitoring is also useful in guiding the approach and scopes of on-site inspections.

The Unit, as part of the planning of inspection activities, has initiated the process for a targeted inspection focusing on the suspicious activity reporting process. Specifically, the inspection will analyze compliance with the obligations set forth in Law No. XVIII and ASIF Regulation No. 5, including (i) identifying potential ML/TF suspicions, (ii) refraining from establishing a relationship, executing a transaction or operation, or providing a service in the cases set forth in the regulation, and (iii) safeguarding the integrity, security, and confidentiality of the report.

The inspection project contemplates walk-through analyses, interviews with operational structures and control functions, and sample audits of relevant cases, as well as analysis of the adequacy of IT systems in intercepting potential anomalous activities and the control framework as a whole.

On the regulatory level, the Unit participated in the working groups, also composed of representatives of other competent authorities of the Holy See and Vatican City State, for the amendments to Law No. XVIII, promulgated by Law No. DCXIV of 7 November 2023. These amendments concerned, among other things, Chapter III on customer due diligence, with a view to reinforcing the risk-based concept and streamlining the obligations of the IOR.

Following the amendment to Law No. XVIII, the Unit started working on updating ASIF Regulation No. 4 on customer due diligence, which details the requirements for IOR in the context of opening a relationship, conducting transactions and monitoring on an ongoing basis.

In addition, the Unit contributed to the amendment of Regulation No. 2 with which are established the data and information accompanying transfers of funds and the technical requirements for credit transfers and direct debits in euro, of 27 November 2023, to ensure a timely alignment with the FATF standards and the current legal and regulatory framework of the Holy See and the State.

The Unit collaborated on the analyses regarding the amendments to Instruction No. 1, with which is published the List of High-Risk Jurisdictions and Jurisdictions under Increased Monitoring of 20 March 2023, which resulted from the changes regarding the classification of jurisdictions with strategic deficiencies in their AML/CFT systems and the preventive measures required against them, as adopted by the FATF in the Plenary of February 22-24, 2023.

During the year, in-depth studies were conducted on the organizational impacts for the IOR resulting from the evolution of the regulatory framework (e.g. Regulation No. 6, which regulates the Central Register, and Instruction No. 1, mentioned above) in order to monitor the proper implementations of the requirements, and the impact on operational smoothness.

Internally, the Unit has been involved in drafting the rules to regulate access to the Central Registry and how data is stored, with a view to data protection.

In the context of the Vatican City State and the Holy See, the Unit actively collaborated with other Authorities for the exchange of information, providing specialized support; it also participated in working groups focusing on relations with MONEYVAL.

Crucial in this regard are analyses of the international AML/CFT framework and, in particular, aspects of emerging risks and on procedures and measures arising from changes in the FATF standards.

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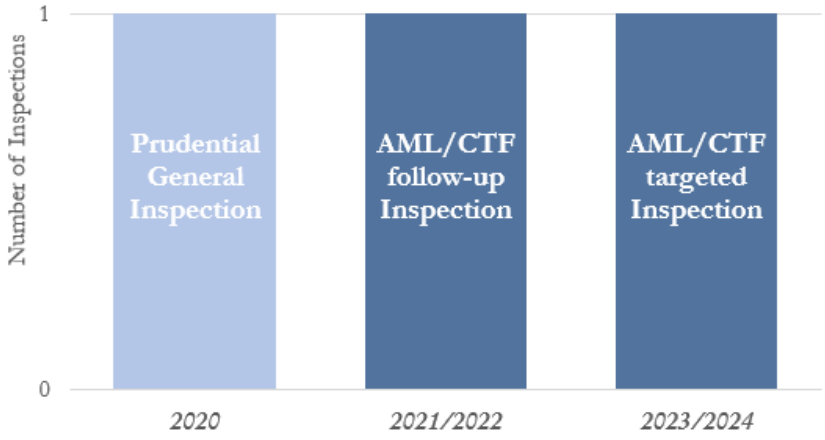
The Unit provided support on AML/CFT matters to the Vatican City State and Holy See entities that requested it, as well as opinions for special cases and extraordinary operations.

Analyses were completed on the sector of Vatican legal persons, whose data and information had been collected with questionnaires developed in 2022, analyzing the potential risks to which they are exposed and the mitigation measures in place regarding AML/CFT. The Unit has, in addition, spoken at the "Update Session for Legal Persons Registered in the Registry of the Governorate of the Vatican City State" having as its subject "New Legislation on Legal Persons, Analysis of Issues Concerning Donations, Supervision and Transparency" held on February 15-16, 2023 and, at the request of the Vatican entities that have shown specific interest in AML/CFT issues, has also provided targeted training sessions.

Inspection findings on the IOR

On-site inspection activities carried out in the period 2020 - 2023

Since 2020, the Supervisory Unit has conducted 3 inspections of the IOR: a full-scope inspection on prudential matters, a follow-up inspection and a targeted one on AML/CFT matters. On an annual basis, FATCA checks are also carried out on behalf of the SfE. (See *3.2.4*)



3.2.3 International collaboration and information exchange

The Unit exchanged best practices with the corresponding authorities of foreign states in various fields, resulting in meeting conducted externally or hosted by ASIF, thus feeding the network of institutional relations and fruitful cooperation.

The Supervisory Unit's prudential supervision specialist attended the 7th biannual ESE Conference in Berlin, held on October 17 and 18, entitled "Crisis! - The new normal for the financial system?". The initiative was attended by numerous participants representing institutions from the financial supervisory sector, the banking industry, and academia in order to address supervisory issues currently under discussion (supervisors' challenges and priorities, the cybersecurity perspective, operational risk management, achieving financial stability in an environment marked by volatility and inflation, the challenge of climate risks, etc.).

In addition, the AML/CFT specialist from the Authority's Supervisory Unit was involved in a knowledge and experience exchange held between April 24 and 26 on issues related to financial sanctions and money laundering prevention at the Deutsche Bundesbank University of Applied Sciences in Hachenburg and at the Bundesbank headquarters in Frankfurt, where training and supervisory knowledge development were also discussed.

Training was carried out at the Bank of Italy, with articulated programs covering, among other things, in-depth insights/tools for the implementation of the Supervisory Review and Evaluation Process (SREP), as well as the models and methods of Supervisory analysis underlying the Unit's work.

3.2.4 Collaboration in tax matters.

Audits show consistency of the IOR's procedures with the FATCA requirements

The Holy See is strongly committed to ensuring international cooperation and the exchange of information for the purposes of preventing tax evasion and facilitating the fulfillment of fiscal requirements by foreign citizens and legal entities having relations with the IOR. In this context, on the basis of a specific Memorandum of Understanding, ASIF has been delegated by the SfE, the competent Authority of the Holy See in this matter, to monitor the adoption of the procedures implemented by the IOR to comply with the requirements of the Foreign Account Tax Compliance Act (FATCA), as envisioned by the FATCA Agreement signed with the U.S. on June 10, 2015. In June 2021, the IOR acquired Qualified Intermediary (QI) status, a recognition that allows the Institute to align itself with the best international standards with reference to the management of financial assets.

3.3 FINANCIAL INTELLIGENCE

ASIF is the central authority for financial intelligence through its Financial Intelligence Unit. The Unit is an important source of information for initiating investigations into money laundering, terrorist financing and predicate offences.

The Unit receives SARs from obliged entities, public authorities, NPOs and legal persons registered in the Holy See/Vatican City State and carries out the operational analysis of SARs, which includes the examination of the SAR, as well as of documents, data and information in order to identify specific targets, trace operations and transactions, establish links or receive and request all documents, data and information relevant to preventing and countering money laundering and terrorist financing.

If there are reasonable grounds to suspect money laundering, terrorist financing or a predicate offense, the Unit submits reports and information to the UPG. Moreover, when necessary, the Unit takes preventive measures such as: suspending, for up to five working days, transactions and operations suspected of money laundering or terrorist financing, as well as any other related transaction or operation, where this does not

hinder investigative or judicial activities; freezing accounts, funds and other assets for up to five working days in case of suspicion of money laundering or terrorism financing, where this does not obstruct investigative or judicial activity.

The Unit is also responsible for exchanging information with its foreign counterparts, spontaneously or upon request, that may be relevant for the processing or analysis of information related to money laundering or terrorist financing and the natural or legal person involved, regardless of the type of associated predicate offences.

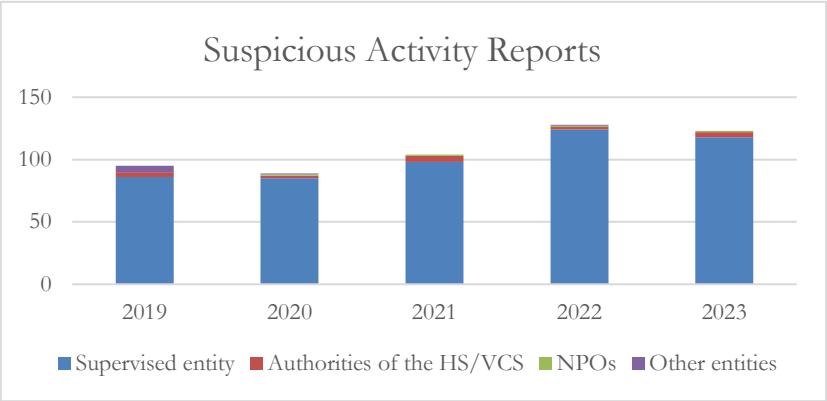
Moreover, it receives and analyses cross-border cash transport declarations.

Lastly, the Financial Intelligence Unit conducts strategic analysis on an annual basis, using, *inter alia*, aggregated data from the SARs in order to identify common patterns and schemes in money laundering and terrorist financing and emerging trends.

3.3.1 Suspicious Activity Reports

In 2023, the Financial Intelligence Unit received 123 suspicious activity reports (SARs), of which 118 from the supervised entity, i.e. the IOR, 4 from authorities of the Holy See/Vatican City State, and 1 from an NPO. The figures are in line with those recorded in 2022.

Over the course of the year, several meetings were held with the IOR aimed at improving the quality and flow of SARs.



3.3.2 Operational analysis

Through operational analysis, the information received from the FIU is developed into operational intelligence, which can be passed on to the UPG for further investigation of cases of money laundering, terrorist financing and predicate offenses. In order to verify that the operational analyses are relevant, and that the use of financial intelligence by law enforcement authorities is effective, the FIU monitors the extent to which the operational analyses contribute over time to the success of investigative and prosecutorial actions. To this end, the operational coordination meetings between the UPG, the CdG and ASIF and the feedback provided by the UPG following the transmission of reports by ASIF are important tools.

While the operational analyses carried out during the year exclusively concerned possible cases of money laundering and predicate offences, countering the financing of terrorism continues to be a priority for the Holy See/Vatican City State (see the box: The risk of terrorist financing in the jurisdiction).

The risk of terrorist financing in the jurisdiction
As already highlighted, the 2019 update to the GRA confirmed a low-level risk of terrorist financing. This is confirmed by the fact that, between 2020 and 2022, ASIF received only 3 reports that were potentially linked to terrorist financing, and all three were subsequently archived. In this framework, as provided for in Article 71 (1) of Law No. XVIII, the President of the Governorate of the Vatican City State periodically issues ordinances updating the 'List of Subjects that Threaten International Peace and Security', incorporating the indications of the United Nations Security Council and the European Union, as well as any indications provided by ASIF or the competent law enforcement authorities. In 2023, the President of the Governorate issued 19 such ordinances. In forwarding the ordinances to the IOR, ASIF requires the adoption of preventive measures, including the freezing of: i) potential funds and other assets owned, held or controlled, exclusively or jointly, directly or indirectly, by subjects included in the lists; ii) potential benefits and profits generated by the aforementioned funds and assets; and iii) potential funds and other assets held or controlled by other subjects, natural persons or entities, in the name, on behalf or for the benefit of subjects included in the lists. The analyzes and subsequent monitoring activities did not reveal any links between the subjects included in the lists and the jurisdiction. In order to promote maximum awareness of the potential risks among all the authorities and entities of the jurisdiction, the ordinances are published, in addition to the website of the Governorate, on the ASIF website.

3.3.3 Preventive Measures

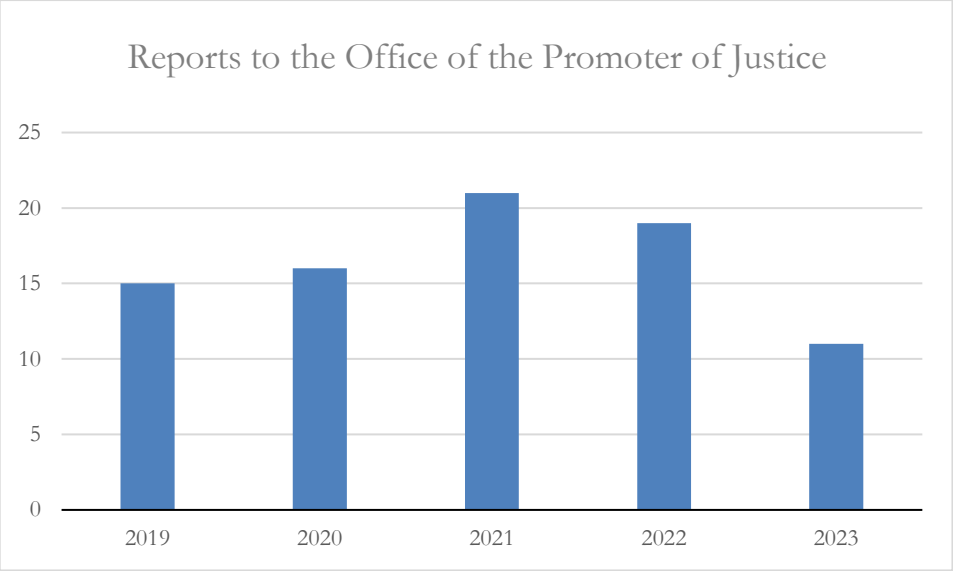
In 2023, there was only one case – involving a modest amount of money (€ 5,848) – that required the use of the suspension tool provided for by Article 48 of Law No. XVIII, which states that ASIF may suspend the execution of a transaction or freeze accounts, funds or other assets for up to 5 working days in case of suspicion of money laundering or terrorist financing.

Indeed, there was a marked decrease in the number of cases that called for the application of preventing measures as compared with the preceding two years: 2021 recorded 4 suspension orders and 1 freezing order, for a total of € 626,188, while 2022 recorded 5 suspension orders, for a total amount of € 829,050.

3.3.4 Reports to the Office of the Promoter of Justice

Improved identification of cases that warrant submission to the UPG

ASIF submitted 11 reports to the UPG in 2023, of which 1 first report and 10 supplemental reports, representing a decrease from the overall number of reports submitted in 2021 (21 reports), and 2022 (19 reports). The decrease is the result of a closer collaboration with the investigative authorities of the jurisdiction in the analysis of cases of possible shared interest, which helped the Unit to better identify the cases that warranted the submission of a report to the UPG.



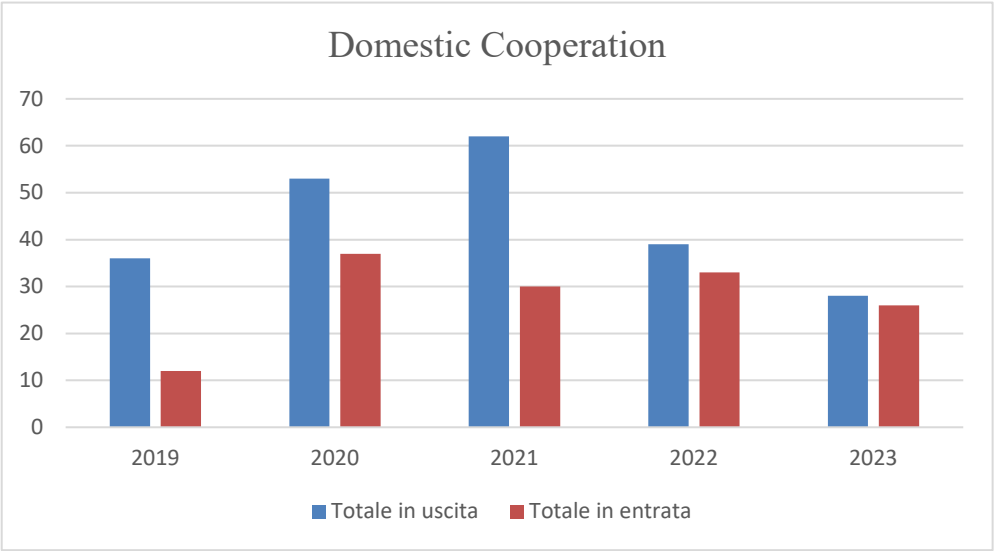
3.3.5 Domestic and international cooperation

Domestic cooperation confirms the jurisdiction's commitment to AML/CFT matters

Domestic cooperation is governed by Article 69 of Law No. XVIII, which provides that the competent authorities, entities and institutions of the Holy See/Vatican City State actively collaborate and exchange information for the purposes of preventing and countering money laundering and terrorist financing.

In 2023, the number of outgoing requests declined compared to 2022, decreasing from 39 to 28. The number of incoming requests recorded a smaller decline, moving from 33 to 26. Taken together, these figures demonstrate the ongoing commitment of ASIF, and the Vatican authorities as a whole, to combating money laundering and terrorist financing.

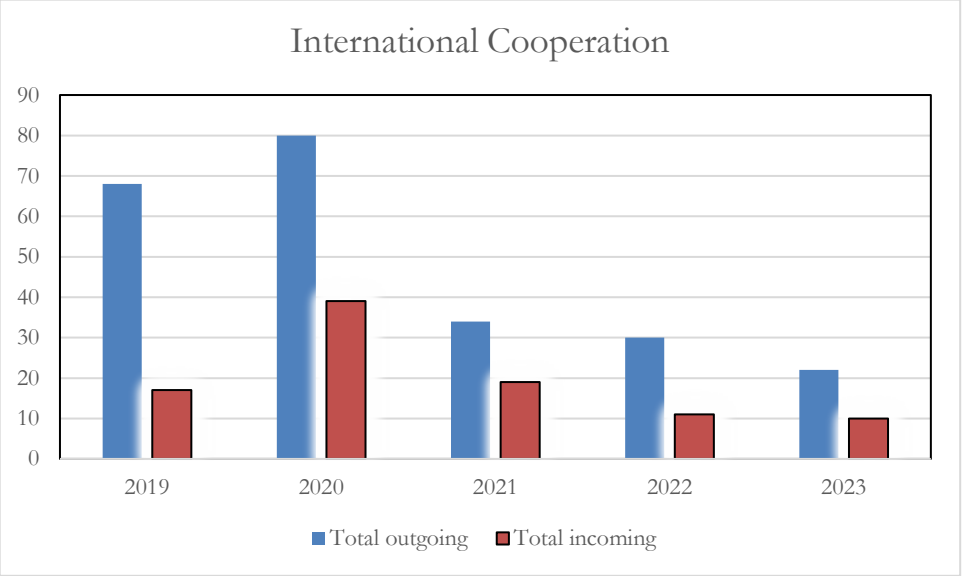
In particular, the interaction between the FIU, the UPG and the CdG continued to be extensive, thanks to the small size of the jurisdiction and the Memorandum of Understanding signed in April 2020. The three authorities continued to meet regularly in 2023 to discuss cases of common interest.



With regard to international cooperation, ASIF sent 22 requests for information or spontaneous communications to foreign FIUs, marking a slight decrease compared with 2022, and received 10 such requests and communications from its counterparts, in line with the figure for last year. As in previous years, international cooperation proved to be very valuable in acquiring relevant information during the operational analysis phase, preparatory to the transmission of a report to the UPG.

The Unit's network of international counterparts expands

Pursuant to Article 69 *bis* of Law No. XVIII, ASIF may cooperate and exchange information with similar authorities of foreign jurisdictions upon the condition of reciprocity and on the basis of memoranda of understanding. In 2023, ASIF signed memoranda of understanding with the FIUs of Algeria, Azerbaijan, Bahamas, Curacao, Lebanon, Mauritius, Nepal, Senegal and Zambia, for a total of 76 memoranda signed since 2012.



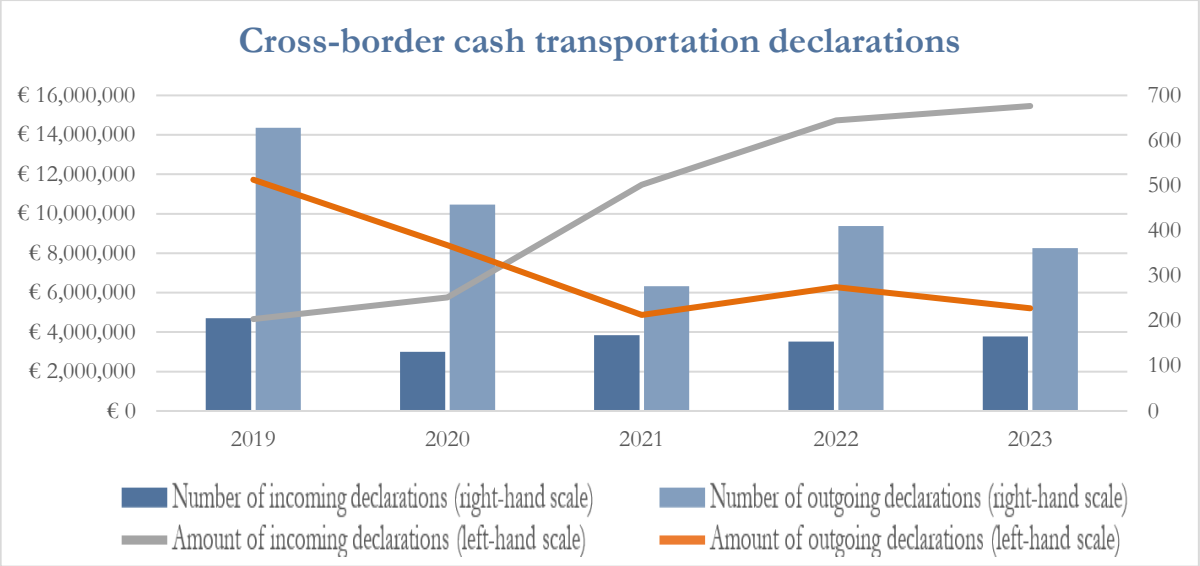
3.3.6 Cross-border cash transport declarations

Most inflows are attributable to the activities of the Vatican public authorities

Article 81 of Law No. XVIII establishes the obligation to declare the cross-border transportation of money (both cash and bearer negotiable instruments) for amounts equal to or greater than 10,000 euros. The declaration must be presented to the CdG, the competent customs authority, or to the offices authorized by ASIF.

In 2023, ASIF recorded 165 incoming declarations, for a total amount of €15,462,762, and 361 outgoing declarations, for a total amount of €5,201,311. These figures confirm the trend of increasing inflows underway since 2019, with outflows remaining largely stable since 2021.

With regard to incoming declarations, it is worth noting that the overwhelming majority of the amounts declared are attributable to the activities of the Vatican public authorities.



3.3.7 Strategic analysis

The FIU's strategic analyses are used at different levels. First, they serve as the main point of reference for ASIF's strategic and operational guidelines and for their constant updating. Second, they are also the subject of guidelines, instructions and training sessions, both for the obliged entity and for the other reporting entities. The analyses can also offer elements of financial intelligence within the context of cooperation and information exchange and for the coordination of operational activities with law enforcement authorities.

In a broader perspective, the strategic analyses are also used within the general risk assessment process undertaken at the jurisdiction-wide level, in that such analyses can shed light on any needs to adopt measures to strengthen the effectiveness or the technical compliance of the AML/CFT system, including through the adoption of standards or requirements for specific sectors, categories of entities or types of services, products, activities, operations, transactions or distribution channels.

In 2023, the strategic analysis focused on identifying any deviations in the five-year trend in the core statistics collected by the FIU, finding no significant deviations therein.

4 STATISTICAL TABLES

4.1 Suspicious Activity Reports

	2019	2020	2021	2022	2023
Total	***95***	***89***	***104***	***128***	***123***
Obliged entity	*86*	*85*	*98*	*124*	*118*
Authorities of the Holy See/Vatican City State	***4***	***2***	***5***	***2***	***4***
Non-profit organisations	*0*	*1*	*1*	*1*	*1*
Other entities	***5***	***1***	***0***	***1***	***0***

4.2 Preventive Measures

	2019	2020	2021	2022	2023
Number of suspended transactions and operations	*3*	*0*	*4*	*5*	*1*
Amount of suspended transactions and operations	***€ 240,000***	***€ 0***	***€ 379,770***	***€ 829,050***	***€ 5,848***
Number of frozen accounts, funds and other economic resources	*1*	*0*	*1*	*0*	*0*
Amount of frozen accounts, funds and other economic resources	***€ 178,970***	***€ 0***	***€ 246,418***	***€ 0***	***€ 0***

4.3 Reports to the Office of the Promoter of Justice

	2019	2020	2021	2022	2023
Total	***15***	***16***	***21***	***19***	***11***

4.4 Domestic Cooperation

	2019	2020	2021	2022	2023
Number of outgoing requests and communications	*36*	*53*	*62*	*39*	*28*
Number of incoming requests and communications	*12*	*37*	*30*	*33*	*26*

4.5 International Cooperation

	2019	2020	2021	2022	2023
Total	***85***	***119***	***53***	***41***	***32***
Requests and communications sent to foreign FIUs	*68*	*80*	*34*	*30*	*22*
Requests and communications received from foreign FIUs	*17*	*39*	*19*	*11*	*10*

4.6 Memoranda of Understanding with foreign Financial Intelligence Units

	2019	2020	2021	2022	2023
Total	***4***	***2***	***3***	**2**	**9**

4.7 Number and amount of cross-border cash transportation declarations

	2019	2020	2021	2022	2023
Number	***834***	***589***	***445***	***564***	***526***
Total amount	***€ 16. 385. 499***	***€ 14. 163. 034***	***€ 16. 343. 571***	***€ 20.999.188***	***€ 20.664.073***
Number of incoming declarations	*206*	*131*	*168*	*154*	*165*
Number of outgoing declarations	***628***	***458***	***277***	***410***	***361***
Incoming declared amount	*€ 4,659,479*	*€ 5,756,557*	*€ 11,474,142*	*€ 14,725,989*	*€ 15,462,762*
Outgoing declared amount	***€ 11,726, 020***	***€ 8,406,477***	***€ 4,869,428***	***€ 6,273,198***	***€ 5,201,311***

5 GLOSSARY/ACRONYMS

AML/CFT, *Anti-money laundering and countering the financing of terrorism*

ASIF, *Supervisory and Financial Information Authority*

CdG, *Corps of the Gendarmerie*

Co.Si.Fi., *Financial Security Committee*

ECB, *European Central Bank*

FATCA, *Foreign Account Tax Compliance Act*

FATF, *Financial Action Task Force*

IBAN, *International Bank Account Number*

IOR, *Institute for Works of Religion*

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

PF, *Proliferation Financing*

SAR, *Suspicious Activity Report*

SEPA, *Single Euro Payments Area*

FIU, *Financial Intelligence Unit*

UPG, *Office Promoter of Justice*