

**SUPERVISORY AND FINANCIAL  
INFORMATION AUTHORITY**

# **ANNUAL REPORT**

YEAR IX - 2020





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Supervisory and Financial Information Authority

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## LETTER FROM THE PRESIDENT



The year 2020 was one of important and profound changes for the Supervisory and Financial Information Authority (ASIF).

In April, a new Directorate took over, and additional staff members were hired in all operational areas. A new statute, approved towards the end of the year, changed the name of the Authority to emphasise its important mandate in the field of prudential supervision. It also divided the structure of the Authority into three units, establishing a Regulatory and Legal Affairs Unit. Finally, a revision of Law No. XVIII - the framework AML/CFT law – provided for, among other things, a broadening of ASIF’s scope of competences, now extended to all ‘reporting’ authorities and entities in the jurisdiction, in agreement with, or in support of, the competent supervisory authorities.

Considerable commitments and responsibilities were undertaken, especially in relation to the evaluation by the Council of Europe’s Committee of Experts on Combating Money Laundering and Terrorist Financing (MONEYVAL) as part of the 5th round of assessments. The delegation, composed of evaluators from MONEYVAL countries and members of the MONEYVAL Secretariat, was welcomed to the Vatican from 30 September to 12 October to examine the progress of the jurisdiction. The result achieved rewards the seriousness and rigour of the approach followed by the authorities of the Holy See and Vatican City State in this important prevention and law enforcement activity. My thanks go to all the colleagues involved and, in particular, to the staff of the Authority over which I preside.

This Report, which has been revamped in terms of both graphics and content, provides an account of these and other activities, as well as the main events of the past year. It shows the considerable changes that the Authority, which was only set up in 2010, has undergone in the course of a little more than a decade, as part of the broader process of adapting the Vatican system to the best international practices in the field of financial transparency.

As recalled by the Holy Father Francis on the occasion of the opening of the 92nd judicial year: ‘the initiatives recently undertaken and those to be undertaken for the absolute transparency of the institutional activities of the Vatican State, especially in the economic and financial field, may always be inspired by the founding principles of ecclesial life and, at the same time, take due account of the parameters and “good practices” current at the international level, and appear exemplary, as is required of a reality such as the Catholic Church’.

CARMELO BARBAGALLO

*President*



# INTRODUCTION

In a context marked by uncertainty due to the pandemic, activity in 2020 was particularly intense in all areas of the Authority's responsibility. The staff, who had to work remotely during the most acute phases of the pandemic, worked in a spirit of service and showed remarkable ability to adapt to a very exceptional situation.

In the year under review, the staffing level, which was insufficient at the start of the year, increased significantly from 9 to 13 full-time employees, a number more in line with the Authority's workload. At the same time, the organizational structure was reconfigured in order to achieve greater efficiency and effectiveness, a process that was completed this year with the redistribution of the Authority's functions into three operational units.

The work of the Authority was greatly focused on matters affecting the jurisdiction as a whole. A fundamental contribution was made to the revision of Law No. XVIII, the framework law for the prevention and countering of money laundering and terrorist financing (AML/CFT), introduced into the Vatican legal system in 2013 (see § 3.1). Constant support was also provided to the Financial Security Committee (Co.Si.Fi.), a body that coordinates and provides strategic guidance to the various authorities that compose it. Finally, of particular note was the role entrusted to ASIF in the context of the 5th round of evaluations by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism of the Council of Europe (MONEYVAL), which conducted an on-site inspection between September and October 2020, eight years after the first. This evaluation process, which began in 2019, was concluded shortly before the publication of this Report; it is extensively reflected in a dedicated box (p. 11).

Significant actions and results were also achieved by the operational units. In the area of prudential supervision, of particular importance were both the preparation of a guide containing the procedures for carrying out the audit and evaluation process, and the general inspection conducted in the spring at the *Istituto per le Opere di Religione* (IOR), the only institution authorised to carry out financial activities on a professional basis in the jurisdiction.

With reference to supervision in the field of money laundering and terrorist financing, the Supervisory Unit continued to monitor the implementation of the IOR's remediation plan following the 2019 inspection. Of particular importance was the extension of the scope of ASIF's competence to all the entities of the Holy See/Vatican City State (public authorities, non-profit organisations, legal persons). This extension was initiated directly by Co.Si.Fi. and was implemented through specific Memoranda of Understanding with the other competent authorities. It was subsequently confirmed through the abovementioned amendments to Law No. XVIII. On the operational level, this has entailed the launching of self-assessment procedures by the entities through specially prepared questionnaires, the organization of training programs for the different categories of entities, the drafting of guidelines to facilitate the internal reorganization processes, and the performance of the first on-site inspections.

As regards financial intelligence, in 2020 the Authority received 89 suspicious activity reports (SARs), 85 of which from the supervised entity, 2 from public authorities, 1 from a non-profit organisation (NPO), and 1 from another entity. It forwarded 16 reports to the Office of the Promoter of Justice (OPJ), of which 10 were first reports and 6 supplementary ones. This confirms an increasing trend in the proportion of reports sent and SARs received, demonstrating a steady improvement in the quality of SARs.

Cooperation activities were intense, both at domestic and international level. In 2020, 49 requests for information were exchanged with other Vatican authorities concerning 124 subjects. This represents an important increase compared with the previous year, which confirms the considerable synergies created between the institutions of the Holy See and the Vatican City State in the fight against criminal activities. As regards international cooperation, ASIF exchanged 58 requests for information with foreign FIUs on 196 subjects and 19 spontaneous communications concerning 104 subjects. International cooperation led to the transmission of financial information to the FIU and to foreign counterparts. Two new Memoranda of Understanding were also signed with foreign FIUs, making a total of 62 Memoranda signed since 2012.

With regard to the cross-border transportation of cash, the number and amount of declarations registered in 2020 confirm the trend already observed in previous years of a progressive decrease in the use of cash. The trend is also due to the availability of other means of funds transfer carried out by the IOR – including the possibility from 2019 to operate through the SEPA circuit – guaranteeing better standards of security and traceability.

Finally, in 2020, ASIF participated in the working group meetings of the Egmont Group (Mauritius, 27-30 January) and the plenary meeting of the MONEYVAL Group (14-18 September) in remote connection with the Council of Europe's headquarters in Strasbourg (France).

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 combating money laundering and terrorist financing and for financial intelligence, as well as for prudential supervision and regulation of entities professionally engaged in activities of a financial nature.

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 organisational structure was strengthened, including through the changing of its name and the approval of the current Statute. The new Statute is part of the overall reform of the Holy See and the Vatican City State, undertaken by the Holy Father, regarding transparency and the strengthening of controls in the economic and financial area.

According to Article 1 of the Statute, ASIF is an institution connected with the Holy See, has canonical public juridical personality and has its legal seat in the Vatican City State. According to Article 2 of the Statute, it performs its institutional functions in full autonomy and independence.

The authority consists of three bodies – the President, the Board and the Directorate – and has three units: the Supervisory Unit, the Regulatory and Legal Affairs Unit, and the Financial Intelligence Unit.

The performance of the institutional activities attributed to ASIF is governed, *inter alia*, by Law No. XVIII of 8 October 2013, and its subsequent amendments and modifications (Law No. XVIII).

## 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 be of proven honour, free from any conflicts of interest and must possess recognised professional competence in the legal, economic and financial fields, as well as in matters falling within the scope of the Authority's functions.

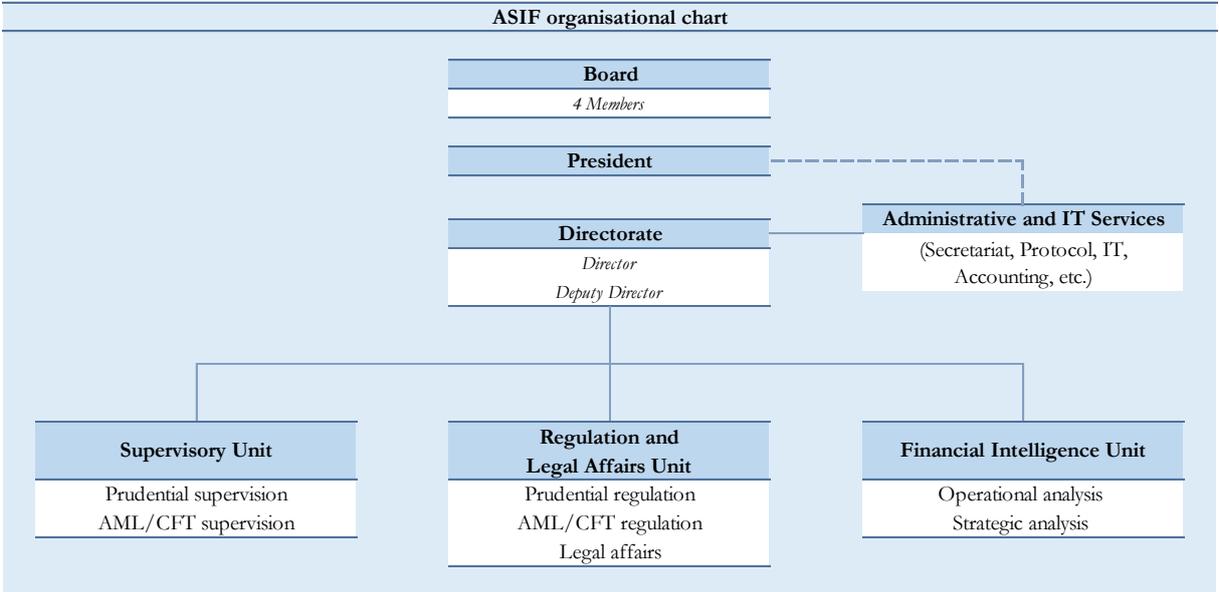
The Board is assigned the following functions: (a) defining the Authority's strategies and objectives as well as its security and confidentiality policies; (b) preparing the Authority's internal regulations; (c) adopting regulations, instructions and guidelines in the cases envisioned by law; (d) approving the financial statements for the previous year and the budget for the coming year, as well as the

annual report, a 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, for the hiring of staff and for the application of administrative sanctions on supervised entities; and (f) applying administrative sanctions in the cases provided for by law.

At the beginning of 2020, the Council was composed of Mr Joseph Yuvaraj Pillay, Ms Maria Bianca Farina and the President, Mr Carmelo Barbagallo. On 12 June 2020, the Holy Father appointed Ms Antonella Sciarrone Alibrandi as a Board member.

In 2020, the Board discussed several issues concerning the governance and composition of ASIF. In particular, it proposed the appointment of the current Director, Mr Giuseppe Schlitzer, and the Deputy Director, Mr Federico Antellini Russo, and the reorganisation of the Authority’s functions into three separate units.

### 1.3 ORGANISATIONAL STRUCTURE



The President, in addition to being the Authority’s legal representative, presides over and informs the Board on the progress of the Authority’s core activities, and supervises the execution of the Authority’s functions, with special regard to (a) the separation between the functions of the supervisory, regulatory and financial information 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. The Deputy Director supports the Director in managing, coordinating and supervising the Authority’s staff and operational activities and replaces him/her in the event of absence.

The internal organisation of the Authority changed during 2020. At the beginning of the year, ASIF consisted of two units: the Supervisory and Regulation Unit and the Financial Intelligence Unit. Towards the end of the year, with the approval of the new Statute and in order to better ensure the performance of institutional supervisory functions, the Supervisory and Regulation Unit was split into two, namely the Supervisory Unit and the Regulatory and Legal Affairs Unit.

The functions in support of the institutional activities are: (a) accounting, reporting and treasury; (b) human resources; (c) training; (d) procurement; (e) protocol, cash and inventory; (f) information technology and telecommunications; and (g) secretarial functions for the President and Directorate.

The Authority's human resources increased from 9 to 13, a level more proportionate to the Authority's workload.

## 1.4 FUNCTIONS

### 1.4.1 Supervision

a) *Prudential regulation of institutions professionally engaged in activities of a financial nature and, where required by law, regulation pertaining to the prevention and countering money laundering and terrorist financing*

The work carried out by the Regulatory and Legal Affairs Unit includes the drafting and updating of regulations, instructions and guidelines and other forms of guidance for specific sectors, categories of entities, and types of activities.

Moreover, the Unit proposes amendments to the existing legislative and regulatory framework, and drafts regulations, instructions, guidelines, orders and circulars, also with a view to their compliance with the relevant regulatory sources and standards at the international and European level. Finally, it carries out any other activity expressly established by Law No. XVIII and by the regulatory framework in force.

b) *Prudential supervision of entities carrying out financial activities on professional basis*

Prudential supervision, which includes remote audits and on-site inspections, aims to protect the sound and prudent management of intermediaries and the overall stability and efficiency of the financial system. In this context, the Supervisory Unit analyses the documentation submitted by the *Istituto per le Opere di Religione* (IOR), the only institution authorised to carry out financial activities on a professional basis in the jurisdiction, in line with the regulatory framework and Regulation No. 1 on the prudential supervision of institutions professionally carrying out activities of a financial nature.

The Unit collaborates 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 is responsible for the transmission to the European Central Bank (ECB) of periodic statistical data on monetary and financial stocks and on interest rates applied by institutions professionally engaged in financial activities.

c) *Supervision to prevent and combat money laundering and terrorist financing*

In the context of the jurisdiction's system for preventing and countering money laundering and terrorist financing (AML/CFT), the Unit performs a key preventive function with a focus on assessing and understanding the potential risks to which the jurisdiction is exposed, using an approach that allows for the identification, measurement, control and monitoring of those risks, as well as the assessment of the level of safeguards and their adequacy.

The Supervisory Unit also oversees the process of drafting and updating the particular risk assessment of the Holy See and Vatican City State entities, supporting them in setting up an effective system of mechanisms and controls to prevent their exploitation for the purposes of money laundering and terrorist financing.

### ***1.4.2 Financial Intelligence***

One of the primary functions of the Authority, carried out by the Financial Intelligence Unit, is the receipt and analysis of suspicious activity reports (SARs) submitted by reporting entities,<sup>1</sup> i.e. all the authorities and entities of the Holy See and Vatican City State. The Unit analyses each SAR to assess whether there is reasonable suspicion of money laundering, terrorist financing or the commission of a predicate offence. If there is such reasonable suspicion, a report is sent to the Office of the Promoter of Justice (OPJ).

The Financial Intelligence Unit is also responsible for the exchange of information at international level with its foreign counterparts for the purpose of preventing and countering money laundering and terrorist financing.<sup>2</sup> In this context, ASIF has been a member of the Egmont Group since 4 July 2013, a forum that brings together more than 160 Financial Intelligence Units from around the globe (see § 3.3 for more details).

### ***1.4.3 Cross-cutting areas of responsibility***

In addition to the key functions outlined above, ASIF performs a number of other functions as set out in Law No. XVIII. These include: (i) supporting the activities of the Financial Security Committee (Co.Si.Fi.), of which the Director of ASIF is the Secretary; (ii) being part of the Holy See's delegations to international financial institutions and technical bodies competent in AML/CFT matters; (iii) carrying out specific periodic training programmes 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, and the identification of transactions that may be related to money laundering or terrorist financing and the actions to be taken in such cases, etc.).

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<sup>1</sup> Pursuant to Article 1(23) of Law No. XVIII, reporting entities include obliged persons, legal persons, including NPOs, and public authorities.

<sup>2</sup> Pursuant to Article 69 *bis* of Law No. XVIII, ASIF cooperates and exchanges information with similar authorities of other States, under conditions 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 Systems of 7 June 1929, the Vatican City State is public in nature and has no free market and no private financial entities. Indeed, there are no regulated markets, multilateral trading facilities and organised trading structures, no public debt instruments or equity instruments, and securities or related instruments are not issued. Moreover, there are no private insurance entities, electronic money institutions, trust companies and investment companies and there are no branches, subsidiaries and/or offices of foreign financial entities.

Under the existing regulatory framework for prudential supervision, the carrying out of one or more activities of a financial nature on a professional basis is subject to prior authorisation by ASIF.

At present, the only entity authorised to carry out financial activities on a professional basis is the IOR, which has entered the Single Euro Payments Area (SEPA), with the favourable opinion of the European Commission.<sup>3</sup> In November 2019, after all the regulatory and technical requirements were verified, the Vatican's International Bank Account Number (IBAN) became active and utilizable for the identification of payment accounts opened with financial institutions in the jurisdiction.<sup>4</sup>

As part of an ongoing process that began in 2020, the Holy See/Vatican City State obtained approval of the jurisdiction's know-your-customer rules (KYC rules) from the US Internal Revenue Service (IRS) in May 2021. As a result, the IRS has published the Attachment for the Holy See/Vatican City State on its website.<sup>5</sup> This approval is a precondition for submitting an application for Qualified Intermediary (QI) status. Therefore, following the approval of the jurisdiction's KYC rules, the IOR submitted an application for QI status to the IRS, which was approved by the IRS on 4 June 2021. The IOR is waiting for the IRS to assign it a QI employer identification number (QI -EIN) in order to operate as a QI.

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<sup>3</sup> See Communiqué of the Holy See Press Office of 30 November 2018 [B0885] <https://press.vatican.va/content/salastampa/it/bollettino/pubblico/2018/11/30/0885/01934.html>.

<sup>4</sup> See IBAN Registry, Release 81 - December 2018, p. 80.

<sup>5</sup> List of Approved KYC Rules, Internal Revenue Service (irs.gov), <https://www.irs.gov/businesses/international-businesses/list-of-approved-kyc-rules>.

## 2.2 FINANCIAL SECURITY COMMITTEE AND GENERAL RISK ASSESSMENT

Co.Si.Fi. was established by 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 prevent and counter these phenomena.<sup>6</sup>

The Committee performs strategic guidance and coordination functions.<sup>7</sup> 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 and the Recommendations of the Financial Action Task Force (FATF). This document – which envisions the involvement of all the competent authorities of the Holy See/Vatican City State<sup>8</sup> – identifies and analyses the threats and vulnerabilities in relation to money laundering, terrorist financing and the proliferation of weapons of mass destruction, and provides recommended actions.

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 analysis conducted in 2017 assessed the risk of money laundering at a medium-low level and the risk of terrorist financing at a low level.

Among the results produced by the 2017 GRA, particular mention should be made of (i) Law No. CCXI of 22 November 2017 on the Registration and Supervision of Non-Profit Entities, which introduces the obligation for non-profit organisations (NPOs) with registered offices in the Vatican City State to report suspicious activities, and (ii) ASIF Instruction No. 1 of 23 October 2017, by which the list of high-risk States with strategic deficiencies in their systems for preventing and combating money laundering and terrorist financing is published.

Co.Si.Fi. has subsequently prepared two updates to the GRA, in 2018 and 2019, which confirmed the medium-low level of risk in the area of money laundering and the low level of risk in the area of terrorism financing. Both updates did not identify significant domestic threats, linking the highest risks for the jurisdiction to international and/or cross-border activities (see the box: *2020 Update to the General Risk Assessment*). However, they did indicate that some aspects could be further

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<sup>6</sup> The Financial Security Committee is composed of: the Assessor for General Affairs of the Secretariat of State (SoS), who serves as the Chair; the Undersecretary 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 Assistant 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 Corps (cf. Article 1 the Co.Si.Fi. Statute).

<sup>7</sup> See Article 3(6) of the ASIF Statutes.

<sup>8</sup> See Article 2 of the Co.Si.Fi. Statutes.

strengthened to make the AML/CFT system more effective, namely, aspects relating to donations, NPOs, public authorities and public procurement contracts.

The two updates to the VGR recommended a series of actions that were subsequently implemented. These included the strengthening of internal prevention mechanisms and of the supervision of public authorities and NPOs with registered offices in the Vatican City State, as well as the organisation of training courses for the offices of the Holy See/Vatican City State that are active in the relevant sectors and for entities professionally engaged in financial activities. 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.<sup>9</sup>

On the impetus of Co.Si.Fi., numerous other measures were carried out during 2020, as summarised in the 2020 Update to the GRA (see the box below).

### 2020 Update to the General Risk Assessment

In September 2020, Co.Si.Fi. approved an Update to the GRA that recorded the progress made since the 2019 assessment in relation to both the development of the suggested actions and the progress of the action plans of the authorities belonging to Co.Si.Fi. and the Tribunal of the Vatican City State.

The Update marks, above all, the increase in the perimeter of the process of identification and assessment of the risks of money laundering and financing of terrorism (ML/TF), a process that was originally focused mainly on the IOR. Prompted by Co.Si.Fi., in order to ensure a complete and exhaustive picture of the potential ML/TF threats and vulnerabilities that the jurisdiction might face, the following entities have been included: the public authorities of the Holy See/Vatican City State, NPOs having their registered office in the State, and legal persons having their registered office in the State.

In addition, following the recommendations in the 2019 GRA, the 2020 Update addresses the following measures:

- the promulgation, on 16 March 2020, of Law No. CCCLI on the Judicial Order of the Vatican City State;

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<sup>9</sup> The purpose of Instruction No. 5 is to provide entities that professionally carry out activities of a financial nature with indications as to the positions that, within the Holy See/Vatican City State, qualify as politically exposed persons pursuant to Article 1 (14) (h) of Law No. XVIII of 8 October 2013. The supervised entity also benefits from a special list of names, periodically updated by ASIF. Instruction No. 6 requires the ASIF-supervised entity to constantly monitor the lists of designated persons issued by the competent bodies of the United Nations Security Council and the European Union, and consequently to adopt the preventive measures established by the regulations in force and to report suspicious activities.

- the strengthening of the internal prevention mechanisms and supervision of public authorities through the promulgation, on 1 June 2020, of the *Motu Proprio* on transparency, control and competition in the procedures for awarding public contracts of the Holy See/Vatican City State;
- training courses for NPOs, public authorities and legal persons on the AML/CFT system;
- the signing of several memoranda of understanding between ASIF and other domestic authorities;
- the promulgation, on 19 August 2020, of Ordinance No. CCCLXIV concerning obligations to prevent and counter illegal activities in the financial and monetary sector and to prevent and counter money laundering, self-laundering, the financing of terrorism and the proliferation of weapons of mass destruction, within the Vatican City State, with reference to voluntary organisations and canonical and civil legal persons registered in the respective registers.

Finally, the 2020 Update recommends further measures to promote increased awareness of potential ML/FT risks, including the strengthening of internal ML/FT prevention mechanisms capable of complying with suspicious activity reporting requirements, and the definition of high and low risk situations for money laundering, terrorist financing and WMD proliferation in order to decide on the most appropriate mitigation criteria using a risk-based approach.

## 2.3 INTERNATIONAL ACTIVITY

In 2020, the President of ASIF was appointed head of the delegation of the Holy See/Vatican City State for the mutual evaluation carried out by the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). An integral part of the mutual evaluation process is the on-site visit, which took place from 30 September to 13 October. The evaluation was concluded in April 2021 with the adoption of the mutual evaluation report during the 61<sup>st</sup> Plenary Meeting (see the box: *MONEYVAL Evaluation of the AML/CFT System of the Holy See/Vatican City State*). Prior to that, ASIF had participated in the 60<sup>th</sup> Plenary Meeting of the MONEYVAL Group, held from 14 to 18 September 2020, by remote connection with Strasbourg, France.

Finally, in 2020, the ASIF Financial Information Unit actively participated in the Egmont Group's working group meetings (Mauritius, 27-30 January 2020). In January 2020, Egmont lifted ASIF's suspension from Egmont Secure Web.

## MONEYVAL's evaluation of the AML/CFT system of the Holy See/Vatican City State

From 30 September to 13 October 2020, the jurisdiction hosted a team of MONEYVAL evaluators in the context of the 5<sup>th</sup> round of mutual evaluations.<sup>1</sup> The visit was part of a multifaceted process that began with the submission of relevant data, documents and information (from December 2019 to September 2020), continued with responses to requests for additional information, and concluded with the working group meeting on 27 April 2021 and the Plenary on 29 April 2021. The Mutual Evaluation Report (MER) was published on 9 June 2021.

The evaluation focused on two aspects: first and foremost, the effectiveness of the legislative framework and of the procedural and organisational safeguards adopted, which are measured against 11 parameters referred to as Immediate Outcomes, and secondly, like the previous evaluations, the technical compliance of the legislative and regulatory framework in force in relation to the FATF Recommendations. The jurisdiction was therefore called upon to demonstrate not only that it had an adequate regulatory framework, but above all that it had concrete mechanisms in place to prevent and counter money laundering and terrorist financing. The parameters considered for effectiveness, in fact, aim to analyse three main areas: the extent to which policies, internal co-ordination and domestic and international co-operation succeed in mitigating the risks of money laundering and terrorist financing; the effectiveness of the mechanisms for preventing the entry of funds of illegal origin into the jurisdiction; and the extent to which countering of money laundering and terrorist financing is effective.

As a demonstration of the jurisdiction's significant commitment to transparency, fairness and international cooperation in the economic and financial sectors, the team members were welcomed on their arrival by His Eminence the Cardinal Secretary of State, Pietro Parolin, and were subsequently received in audience by the Supreme Pontiff, His Holiness Pope Francis (on 8 October 2020).

ASIF, as the central authority of the Holy See/Vatican City State for preventing and countering money laundering and terrorist financing, played an important coordinating role, also in view of the appointment of its President as the head of the jurisdiction's delegation.

As a result of the assessment, the jurisdiction was placed in regular follow-up at the MONEYVAL Plenary, an outcome enjoyed by a limited number of countries, meaning that the next technical compliance assessment will take place in three years, and the next effectiveness assessment, with related onsite visit, in five years. The positive results achieved are especially evident in the effectiveness ratings, which is the distinctive aspect of this round of evaluations. These ratings attest to the favourable results, both in absolute terms and in relation to other

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<sup>1</sup> Prior to this phase, the Holy See (including the Vatican City State) was the subject of a first on-site visit in 2011-2012, with the subsequent adoption of the first Mutual Evaluation Report on 4 July 2012. Over the years, several progress reports have been approved (9 December 2013, 8 December 2015 and 6 December 2017).

jurisdictions.<sup>2</sup>

Effectiveness Ratings					
IO 1	IO 2	IO 3	IO 4	IO 5	IO 6
<i>Risk, policy and coordination</i>	<i>International cooperation</i>	<i>Supervision</i>	<i>Preventive measures</i>	<i>Legal persons and arrangements</i>	<i>Financial intelligence</i>
<b>ME</b>	<b>SE</b>	<b>SE</b>	<b>SE</b>	<b>SE</b>	<b>ME</b>
IO 7	IO 8	IO 9	IO 10	IO 11	
<i>ML investigation and prosecution</i>	<i>Confiscation</i>	<i>FT investigation and prosecution</i>	<i>FT Preventive measures and fin'l sanctions</i>	<i>PF financial sanctions</i>	
<b>ME</b>	<b>ME</b>	<b>SE</b>	<b>ME</b>	<b>ME</b>	

Source: MONEYVAL, Fifth Round Mutual Evaluation Report for the Holy See (including Vatican City State).

(1) The possible ratings are (in descending order): *high* (HE), *substantial* (SE), *moderate* (ME) and *low* (LE).

The key aspects of the report concerning ASIF's operations are summarized as follows. As for ASIF's activities in the area of AML/CFT prevention, the MER acknowledges that 'the supervisor has a good to very good understanding of the risk profile of the ASIF authorised institution' (§ 526). The effectiveness of supervision, which has 'some very good elements of a RBA [risk-based supervision]' (§ 533), is ensured, *inter alia*, by the 'substantial level of information' received (§ 529), through bilateral meetings with representatives from the ASIF authorised institution, and through the inspection activity. Although the assessment team suggests that the interval of four to five years between full scope onsite AML/CFT inspections is too long (see Key Finding f), it is acknowledged that 'the coverage of the 2019 inspection and its quality look to be very good' (§ 540).

This, together with the effective control over the requirements of competence, good repute and the absence of conflicts of interest (§ 513), ensures both that 'the supervisory actions are having a positive effect on compliance with the AML/CFT law' (§ 558) and that 'the quality of supervisory activity and the interaction between the ASIF authorised institution and the supervisor has developed to a level which is not only informative and reliable but also has elements of comprehensiveness' (§ 560), and that 'the supervisor has noted from offsite and onsite supervision that the ASIF authorised institution has improved standards not only by remediating breaches found by the supervisory authority but also by following instructions and improving the culture and controls applicable to AML/CFT at all levels from risk identification and assessment to day-to-day mitigation' (§ 559).

As for ASIF's activities in the area of law enforcement, the AT acknowledges that 'the FIU constitutes an important source of information for initiating investigations into ML, TF and

<sup>2</sup> In this regard, see the interview of the President of ASIF published by *Vatican News* on 9 June 2021: <https://www.vaticannews.va/en/vatican-city/news/2021-06/moneyval-barbagallo-vatican-finance-money-asif.html>.

predicate offences’ (§ 175), so much so that its ‘analytical reports are the main source used by the OPJ to initiate ML investigations’ (§ 247). The AT adds that, ‘the FIU also plays a critical central and coordinating role with the HS/VCS institutional framework’ (§ 175). Indeed, it ‘serves as the national point of contact on AML/CFT matters and cooperates closely, on operational and policy matters, with all the authorities of the HS/VCS’ (§ 229).

There is no shortage of positive references to the quality of the operational activity carried out and the service rendered in the context of AML/CFT activities. Indeed, ‘the FIU’s financial analysis supports the operational needs of LEAs to pursue the investigation of predicate offences and ML/TF. The quality of its work, particularly in recent times, has been commended by investigating authorities – a view with which the AT concurs on the basis of discussions held onsite and sample reports (capturing the period from 2018 to 2020)’ (§ 209 and § 210). ‘All entities met onsite commented positively on the FIU’s timely responsiveness and its willingness to engage and assist where needed, especially in more recent years’ (§ 211).

At the same time, MONEYVAL notes that there has been a total turnover of staff and recommends the new FIU team to deepen their knowledge with training courses (§ 224). In addition, the team suggests implementing a staff retention policy to address the issue of turnover (Recommended Action d) and increase the number of staff in the Unit to better manage the many responsibilities entrusted to it (Recommended Action c). MONEYVAL also identified other areas for improvement, such as the need to eliminate the backlog of cases dating from before 2020 (§ 198) and to make the operational analysis manual more comprehensive (§ 212).

The team of assessors also particularly appreciated the organisation of internal training seminars on the AML/CFT system, the intensification of cooperation with the Corps of the Gendarmerie (CdG) and the OPJ, and the high level of cooperation with international counterparts.

Particularly noteworthy is the completion on the part of NPOs of the first detailed AML/CFT risk assessment – which includes the provision of targeted guidelines and recommendations for the strengthening of existing safeguards and controls – and the launch of a similar process for public authorities and legal entities.

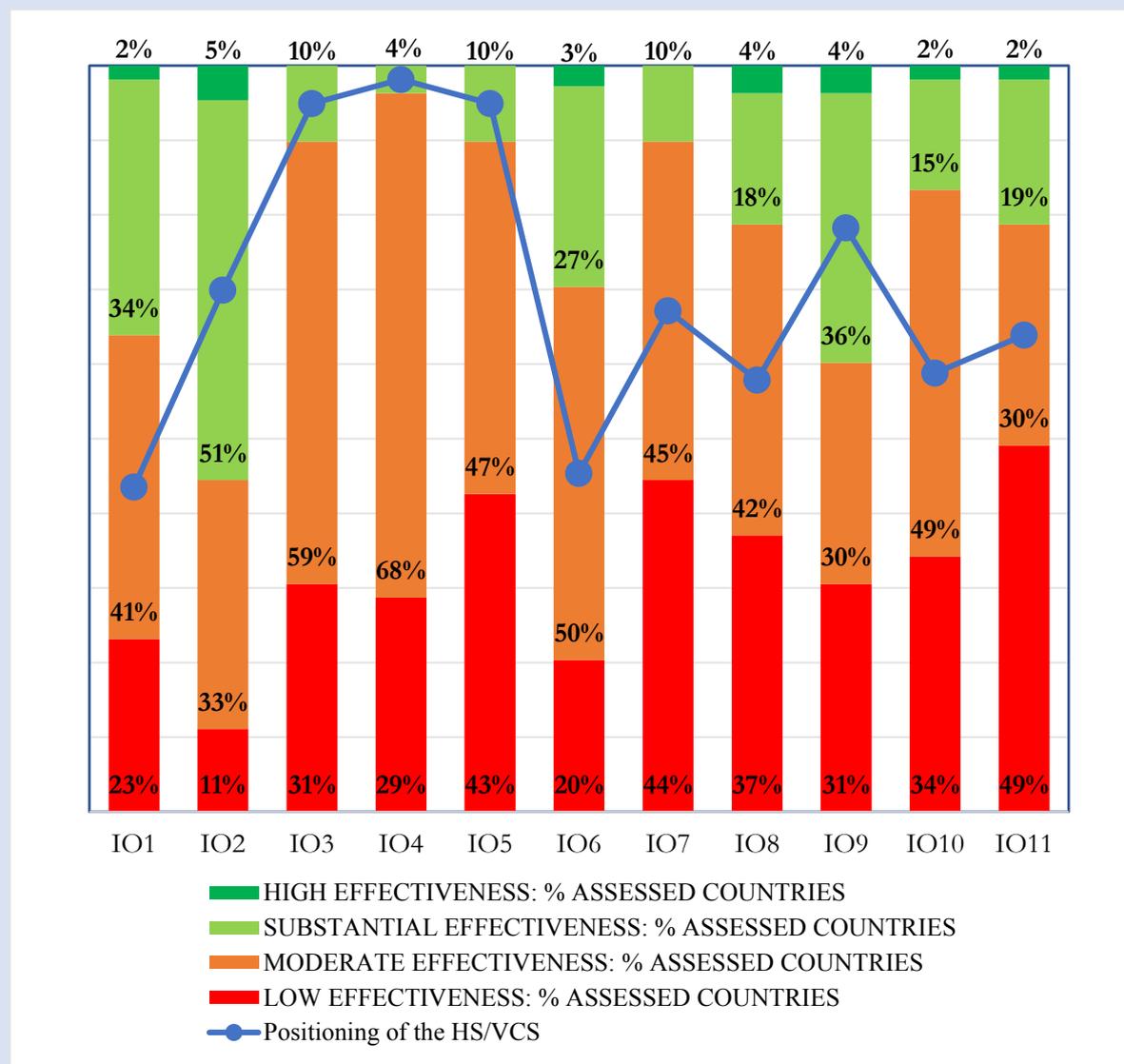
More generally, the evaluation benefited from other relevant measures launched since the end of 2019, under the coordination of Co.Si.Fi., aimed at strengthening internal collaboration and cooperation and at extending the effectiveness of the AML/CFT measures. Moreover, within a matter of months, the jurisdiction has taken crucial steps forward, such as the operational and organisational strengthening of the supervisory and judicial authorities and the inclusion of public authorities and legal persons within the perimeter of entities that must identify and assess threats and vulnerabilities.

### **Positioning of the Holy See/Vatican City State by international comparison**

The two figures below demonstrate the positioning, by international comparison, of the Holy See/Vatican City State in terms of its effectiveness in preventing and countering money laundering and terrorist financing. The first figure illustrates the jurisdiction’s position vis-à-vis

its effectiveness rating by individual immediate outcome (IO), while the second illustrates the positioning in terms of overall effectiveness. In both figures, the assessment of the Holy See/Vatican City State was compared to the most recent assessment of other countries subjected to an analogous evaluation process.

**Figure A: Positioning by Immediate Outcome**

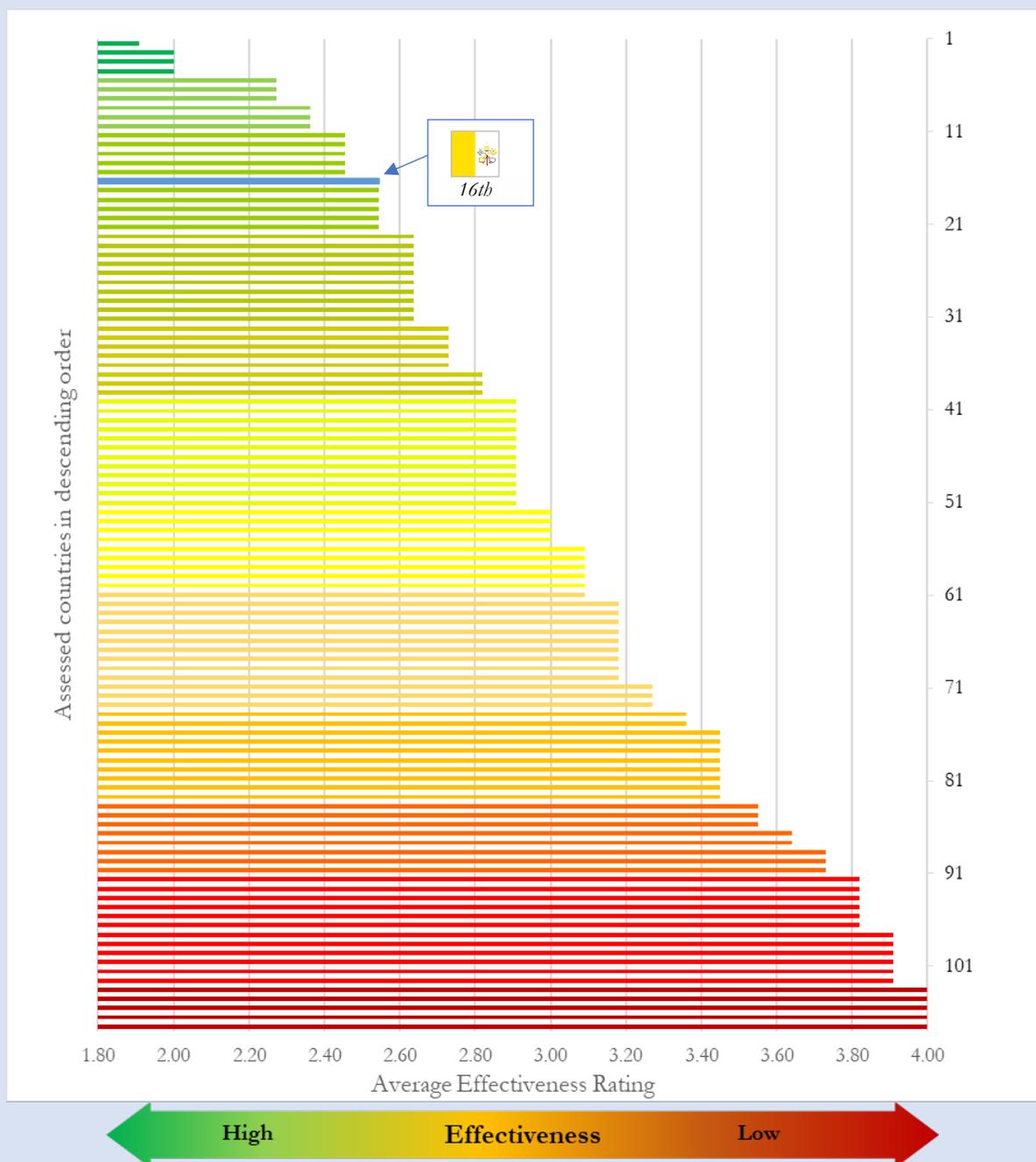


Source: ASIF calculations based on FATF data.

(1) Figure A illustrates the positioning of the Holy See/Vatican City State in terms of effectiveness for each Immediate Outcome (IO). Specifically, the Figure shows: i) the percentage of countries with the same rating for each IO, and ii) the rating given to the Holy See/Vatican City State for each IO.

(2) The IOs correspond to the following topics: IO1 – Risk, Policy and Coordination; IO2 – International Cooperation; IO3 – Supervision; IO4 – Preventive Measures, IO5 – Legal Persons and Arrangements; IO6 – Financial Intelligence; IO7 – ML Investigation and Prosecution; IO8 – Confiscation; IO9 – FT Investigation and Prosecution; IO10 – FT Preventive Measures and Financial Sanctions; IO11 – PF Financial Sanctions.

**Figure B – Overall Positioning**



Source: ASIF calculations based on FATF data.

(1) Figure B illustrates the positioning of the Holy See/Vatican City State in terms of overall effectiveness. Each row corresponds to a different country. The positioning of the various countries was calculated as follows: i) the levels of effectiveness were given a numerical value that decreased as effectiveness increased (low=4, moderate=3, substantial=2, high=1); ii) the simple mathematical average of the IOs was calculated for each country (x-axis); iii) these averages were then placed in order of decreasing effectiveness (y-axis). As illustrated in the Figure, the HS/VCS ranks 16<sup>th</sup>, together with five other countries.

## 2.4 TRAINING PROGRAMMES FOR REPORTING ENTITIES

In accordance with Article 8(4)(e) of Law No. XVIII, ASIF participated in the organisation of periodic training courses on the AML/CFT system. To this end, ASIF offered, in collaboration with other domestic authorities, three courses in 2020: one for NPOs, one for public authorities and one for legal persons. ASIF covered the following subjects:

- the main obligations undertaken by the Holy See/Vatican City State at European level, the applicable regulatory framework and the competent authorities in the AML/CFT field;
- the structure of the GRA and the main findings;
- the internal AML/CFT safeguards and mechanisms and a description of the self-assessment questionnaire as a risk assessment tool;
- the reporting of suspicious activities to the FIU, the means of reporting, the elements that must be included in the reports and the prevailing typologies that are encountered by each type of entity.

In addition, with a view to providing ongoing assistance to the entities, ASIF has organised training sessions for some NPOs upon request.

# 3 OPERATIONS

## 3.1 REGULATION AND LEGAL AFFAIRS

During 2020, the activity focused on the intensive process of amending Law No. XVIII, the framework regulation on AML/CFT matters. This process addressed three issues: the European Commission's comments on the transposition of Directive (EU) 2015/849 of 20 May 2015; the transposition of Directive (EU) 2018/843 of 30 May 2018, in line with the requirements of the Annex to the Monetary Convention of 2019; and improving the effectiveness of the AML/CFT system.

### 3.1.1 Transposition of Directive (EU) 2015/849 of 20 May 2015

#### The obligations of legal persons and the power of the FIU are extended

On the basis of the European Commission's observations, provision has been made for, *inter alia*: (a) the introduction of the definitions of credit institution and financial institution;<sup>10</sup> (b) the specification of the obligations of legal persons and other similar legal institutions relating to beneficial owners (registration, updating, preservation of documents, data and information);<sup>11</sup> (c) the determination of the content of sanctions published on ASIF's website,<sup>12</sup> which will remain on the website for ten years from publication; d) the possibility for the FIU to suspend the execution of transactions and operations and/or to adopt the preventive freezing of current accounts and funds also upon request of similar authorities of other countries;<sup>13</sup> e) the extension of the verification, by ASIF, of the requirements of competence and honourableness also to those who hold or shall hold internal control functions or organizational and managerial responsibilities within the supervised entities,<sup>14</sup> whereas previously it was only carried out for the management and the members of the Board of Superintendence.

### 3.1.2 Transposition of Directive (EU) 2018/843 of 30 May 2018

#### The transposition extends the functions and competences of Co.Si.Fi. and the activities of ASIF

With regard to the transposition of Directive (EU) 2018/843 of 30 May 2018, the amendments covered the following aspects:

a) the scope of application, i.e. the persons who are subject to the obligations laid down in Article 2(a), (d), (g) and (h). In this case, in addition to the persons already listed, the following have been

<sup>10</sup> See Article 1, nos. 8b and 12b.

<sup>11</sup> See Article 5a.

<sup>12</sup> See Article 47(6) and (6a); Art. 66(6) and (6a).

<sup>13</sup> See Article 48(j) and (k).

<sup>14</sup> See Article 61(1).

included: those who provide assistance or advice in tax matters as their main professional activity; act as intermediaries in the purchase, sale or rental of real estate for transactions where the value of the property or of the monthly fee is equal to or greater than 10 thousand euros, and those who trade or intermediate in the trade of works of art, again when the value is equal to or greater than 10 thousand euros;

- b) the introduction of a ban on keeping anonymous safety deposit boxes;<sup>15</sup>
- c) the allocation of additional functions and competences to both Co.Si.Fi. and ASIF regarding the GRA.<sup>16</sup> As regards Co.Si.Fi., in addition to being tasked with assessing the adequacy of objectives and priorities and with identifying the measures needed by the competent authorities for risk management and containment (including the allocation of available human and material resources), Co.Si.Fi. shall now also assess the effectiveness of the AML/CFT system. In addition, these activities may include the production of statistics, relying on ASIF for this purpose (statistics on activities relevant to the effectiveness of the system, on the size and importance of relevant sectors, on the number of SARs, on investigations and prosecutions, on the number of persons convicted or prosecuted for money laundering and terrorist financing offences, on international cooperation in the area of supervision and on the FIU).<sup>17</sup> A report on the institutional structure and the main AML/CFT procedures, as well as on the human and financial resources allocated to AML/CFT matters, has also been planned. With regard to ASIF, it must publish and update a list of positions that are considered public offices for the purposes of applying Article 1(16) regarding politically exposed persons and it must produce a sanitized summary of the GRA and its updates to be published on ASIF's website;
- d) the extension of ASIF's responsibility to collect statistical information on the AML/CFT system;<sup>18</sup>
- e) the strengthening of the counterparty due diligence system.<sup>19</sup> With this provision, ASIF is given the power to regulate, recognise, approve or accept remote or secure electronic identification procedures (after consulting with Co.Si.Fi.). In addition, obliged entities shall take such reasonable steps as may be necessary to verify the identity of the natural person and shall keep records of the steps taken and of any difficulties encountered during the verification process;
- f) the extension of enhanced due diligence measures in the case of relationships and transactions involving high-risk countries,<sup>20</sup> including the requirement that the first transfer of funds must be carried out through an account held with a financial intermediary subject to regulations that are no less stringent than those of the Vatican;
- g) the extension of the FIU's powers to request documents, data and information, even where no SAR has been submitted;<sup>21</sup>

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<sup>15</sup> See Article 5(a).

<sup>16</sup> See Article 9.

<sup>17</sup> See Article 14.

<sup>18</sup> See *ibid.*

<sup>19</sup> See Articles 16 and 19.

<sup>20</sup> See Article 30a.

<sup>21</sup> See Article 48(b *bis*); Article 50(1)(a *bis*).

- h) the extension of international cooperation by the FIU<sup>22</sup> so as to enable the FIU to exchange any useful information, spontaneously or upon request, regardless of the type of predicate offences, even where the type of predicate offences is not identified;
- i) the establishment of a central register at ASIF for the identification of any natural or legal person holding or controlling relationships, payment accounts, IBAN-identified accounts and safe deposit boxes with supervised entities;<sup>23</sup>
- j) the establishment of a more effective system of domestic and international cooperation, where the competent authorities, entities and institutions of the Holy See and Vatican City State can actively cooperate both internally and internationally with fewer constraints, albeit in the manner and within the limits established by law.<sup>24</sup>

### ***3.1.3 Improvement to the AML/CFT system***

**The AML/CFT system is enhanced** The improvement to the AML/CFT system in the context of the applicable legislation is due to the following two elements: (i) the change in the definition of reporting entity,<sup>25</sup> in line with the new regime introduced by the addition of Article 13*bis* (“Specific provisions for reporting entities”); and (ii) the inclusion of the OPJ among the competent authorities.<sup>26</sup> As regards the reporting entities, the perimeter has been extended beyond obliged entities to include public authorities and legal persons, including NPOs.

With regard to the new regime introduced by Article 13*bis*, the rationale was to introduce safeguards for both public authorities and legal persons (not included among the obliged entities) through enhanced AML/CFT mechanisms based on the proportionality principle and a risk-based approach (see the box: *Article 13bis of Law No. XVIII – Self-assessment and risk assessment activities*). This approach is consistent with the MoUs signed during the year (see box: *Memoranda of Understanding signed in 2020*), which served as the first application of this new regime.

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<sup>22</sup> See Article 48 (1 *bis*) and (1 *ter*).

<sup>23</sup> See Article 51 *bis*.

<sup>24</sup> See Articles 69 and 69 *bis*.

<sup>25</sup> See Article 1(23).

<sup>26</sup> See Article 8(6).

Article 13bis of Law No. XVIII - Self-assessment and risk assessment activities	
Public authorities, NPOs and legal persons are required to identify, assess, manage and contain the risk of their activities being used for money laundering and terrorist financing purposes and to report any suspicious activities that may arise in the performance of their institutional duties.	
<i>Public Authorities</i>	<i>NPOs and legal persons</i>
Carry out self-assessment activities in order to elaborate and periodically update their own particular risk assessment, in line with the indications provided and based on the tools developed by the SfE and ASIF.	Carry out self-assessment activities aimed at the elaboration and periodic updating of their own particular risk assessment, in line with the indications provided and based on the tools developed by ASIF and the competent supervisory authority in agreement with each other.
On the basis of the results of the particular risk assessment of each authority, the SfE shall, within the limits and in the manner provided for by its own statute and by the legislation in force and after consulting with the authorities concerned (ASIF and URG), adopt and/or recommend the adoption of the measures provided for in Articles 11, 12 and 13, <sup>27</sup> taking into account the principle of proportionality and according to a risk-based approach.	They shall assess, on the basis of the results of the self-assessment activities, the applicability of the provisions of Articles 11, 12 and 13, <sup>28</sup> taking particular account of the principle of proportionality and following a risk-based approach.

<sup>27</sup> Articles 11, 12 and 13 of Law No. XVIII identify organisational measures aimed at mitigating the risk of money laundering and terrorism financing. Specifically, Article 11 identifies the forms of internal control, while Articles 12 and 13 respectively refer to the procedures and measures applicable to foreign branches/subsidiaries and simplified risk management and assessment. These articles apply to obliged entities but, as mentioned, may also be applied to reporting entities depending on their risk level.

<sup>28</sup> *Ibid.*

Memoranda of Understanding signed in 2020	
13 February 2020	Memorandum of Understanding between the SoS (authority for the supervision of NPOs), AIF and the SfE (authority for the supervision of the Holy See's entities) on the subject of supervision of NPOs. The MoU better regulates supervision, strengthens the mechanisms and ensures that these entities fulfil their legal obligations.
20 February 2020	Memorandum of Understanding between AIF and SfE on the supervision of public authorities.
28 April 2020	Memorandum of Understanding between AIF, OPJ and CdG on cooperation and exchange of information for intelligence purposes.
16 June 2020	Memorandum of Understanding between AIF and URG on the cooperation and exchange of information for intelligence purposes.
7 September 2020	Memorandum of Understanding between the Governorate of the Vatican City State, the OPJ, the CdG and AIF, for the purpose of cooperation in matters concerning subjects threatening international peace and security, which identifies the methodologies and procedures in order to enforce the measures referred to in Title VI of Law No. XVIII.

## 3.2 SUPERVISION

### 3.2.1 Prudential supervision of the IOR

#### **Adoption of the Guide for Prudential Supervision ensures the effectiveness and efficiency of supervisory activities**

In order to ensure the effectiveness and efficiency of supervisory activities, in accordance with the principle of transparency, the ‘Guide for Prudential Supervision’ was drafted in 2020. This guide describes the set of activities that make it possible to assess the current and projected conditions of the supervised entity and to determine the adoption of corrective measures in case of significant deficiencies.

The guide contains the procedures for carrying out the Supervisory Review and Evaluation Process (SREP) on the basis of a unified framework for offsite and onsite supervision. The purpose of the SREP process is to verify that the IOR has adequate capital and organisational safeguards in place for the risks assumed, ensuring an overall balanced management.

The main objective of the assessment and control activity is to verify the conditions of sound and prudent management of the supervised entity as well as compliance with the regulations. The procedures described in the guide follow a three-pronged approach: consolidated, aimed at capturing the overall risks and safeguards of the intermediary; risk-based, aimed at assessing all the relevant risks and the corresponding organisational safeguards; and proportional, aimed at graduating controls in relation to the specific operational situation of the intermediary.

The formalization of the key phases and checks that make up the supervisory process does not imply that further analyses cannot be carried out when needed to have a full understanding of the intermediary.

#### **The full-scope inspection of the IOR examines key operational areas and risk profiles**

The Supervisory Unit carried out the verification activities for the profiles relevant to the prudent, sound and sustainable management of the IOR through offsite analyses and a full-scope general inspection.

From March to July 2020, a full-scope general inspection was carried out at the IOR. The inspection covered the main operational areas of the Institute, focusing on governance, risk management and control, and cross-cutting areas such as profitability and the business model. The inspection was aimed at verifying the intermediary’s exposure to various risk profiles and the related organisational safeguards.

In the course of the inspection, the Unit analysed, *inter alia*, the methods of developing strategic guidelines, the process for investing proprietary portfolios and asset management and transparency towards clients. Particular focus was given to the structure and functionality of the information system (IT risk).

The inspection resulted in positive findings regarding the capital and liquidity situation and revealed a low level of market and credit risks. In addition, it found that the functions of the top management bodies had been more clearly defined thanks to the adoption in July 2020 of the General Regulations, after the amendments to the Statute in 2019. Moreover, the management structure and control functions have been strengthened in recent years.

With regard to the areas of improvement that emerged, the Institute has prepared a detailed Remediation Plan. The Unit monitors the state of progress of the plan and the IOR's compliance with the set deadlines through periodic meetings and the exchange of documents with the IOR.

**Compliance with prudential rules is ensured by systematic offsite controls**

In accordance with the principle of proportionality and with a view towards integration with onsite activities, the offsite analysis was intended to ensure compliance with prudential rules and operational limits and to monitor, on a preventive basis, the evolution of the Institution's technical situation.

The controls are systematic and based on the analysis of the data and information that the intermediary is required to transmit on a periodic basis by virtue of Regulation No. 1 on the Prudential Supervision of Financial Institutions or following specific requests by the Authority.

In particular, the following are being analysed by the Supervisory Unit:

- a) monthly prudential reports on the Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and leverage;
- b) quarterly reporting of regulatory capital and verification of adequacy against minimum requirements for all relevant risks;
- c) communications, on an annual basis, relating to the activity plan of the control functions, the Risk Appetite Framework (RAF) and the Internal Capital Adequacy Assessment Process (ICAAP).

**Transmission of monetary and financial statistics to the ECB continues on a regular basis**

Based on the commitments undertaken by the Holy See at 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 aforementioned Convention, in 2016 two circulars were promulgated: the 'Circular on interest rates applied by entities carrying out financial activities on a professional basis' and the 'Circular on monetary and financial statistics of entities carrying out financial activities on a professional basis'. These documents provide indications for the periodic and synthetic representation of interest rates on deposits and exposures to third parties, as well as on the relevant assets and liabilities of institutions professionally engaged in financial activities. The statistics are produced periodically by the Unit and transmitted to the ECB.

### ***3.2.2 AML/CFT supervision of the IOR***

**The supervisory activities verify the adequate identification of money laundering and terrorist financing risks**

With a view towards protecting the financial system from the infiltration of illegal funds for the purposes of money laundering and terrorist financing, the Supervisory activities aim to ensure that the IOR is equipped both with a process for identifying the main risks and with safeguards and mechanisms for mitigating them, in accordance with the proportionality principle.

The Unit applies risk-based supervision in accordance with international standards. During the year, it cooperated in activities related to the MONEYVAL evaluation which, as previously stated, assessed the effectiveness of the jurisdiction's AML/CFT supervision.

In 2020, the AML/CFT inspection guide was updated in order to better align the supervisory processes with international best practices. The following elements were addressed:

- a) ensuring a supervisory strategy that effectively directs attention to the highest or emerging money laundering and terrorist financing risks;
- b) developing and maintaining a good understanding of the Institute's money laundering and terrorist financing risks, based on a thorough assessment of the threats and the quality of the mitigation measures, taking into account the FATF guidelines;
- c) raising awareness of the Institute's behaviour, verifying that it has put in place effective AML/CFT policies and processes, and providing targeted guidance and feedback where appropriate;
- d) cooperating and sharing information with the Unit's foreign counterparts and with the Financial Intelligence Unit.

The main activities carried out during the year included monitoring the progress of the improvement actions required as part of the 2019 onsite AML/CFT inspection of the IOR, conducted to verify technical compliance with the legislative and regulatory framework and the effectiveness of the measures and controls adopted.

The inspection activity, while recording overall technical compliance and an adequate level of effectiveness, found some areas for improvement, for which a Remediation Plan was prepared and is underway.

The periodic requirements have been ensured in relation to the updating of (i) the List of Politically Exposed Persons, pursuant to Instruction No. 5 of 29 May 2019, and (ii) the Annex to Instruction No. 1 of 23 October 2017, containing the list of high-risk States with strategic weaknesses in AML/CFT systems.

# Inspections of the IOR

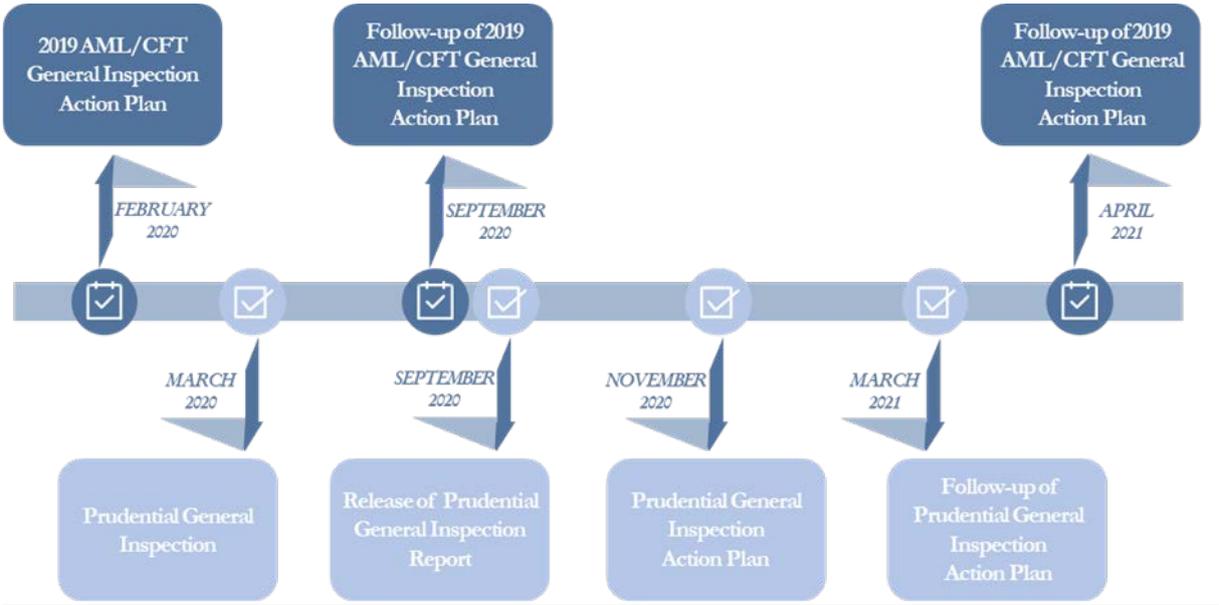
*Onsite inspection activities conducted in the period 2018 - 2020*

During the three-year period, the Supervisory Unit conducted five inspections of the IOR, two of which were general AML/CFT and prudential inspections.



## *Activities related to General Inspections*

The inspections involve a number of related activities, which engage the Unit on an ongoing basis. In particular, during 2020 and in the first few months of 2021, the Unit carried out the following detailed activities related to the recent general inspections.



### 3.2.3 AML/CFT activities for other entities of the Holy See and Vatican City State

#### **The Unit works intensively in support of the AML/CFT self-evaluation process**

As explained in § 3.1.3, the scope of ASIF's AML/CFT expertise was expanded in 2020 to support the relevant supervisory authorities in obtaining a comprehensive picture of the potential threats and vulnerabilities to which the jurisdiction may be exposed. An adequate understanding of the risk of money laundering and terrorist financing forms the basis for the definition of prevention and mitigation measures commensurate with the identified threats and the establishment of appropriate internal controls and safeguards. In this regard, the obligation to carry out self-assessment activities, aimed at drawing up and periodically updating particular risk assessments, has been extended to other entities of the Holy See/Vatican City State (public authorities; NPOs registered with the Register of the Governorate of the Vatican City State; and legal persons registered with the Register of the aforementioned Governorate).

The Unit has been called upon to work with entities to support them in understanding their ML/TF risks, and to identify and suggest appropriate measures to prevent them from becoming unwitting victims of illicit phenomena. Such measures are conceived in accordance with the principle of proportionality and applying a risk-based approach.

#### **The self-assessment questionnaire aims at understanding the risk of money laundering and terrorist financing**

There is no 'one size fits all' approach to defining the system of internal controls, i.e. a system whose adequacy is universally recognised and which fits all types of organisations, as also highlighted by the FATF guidelines. In this regard, the Supervisory Unit has developed the 'Questionnaire for Self-Assessment of the Risks of Money Laundering and Terrorist Financing' (Questionnaire), a tool for entities to help them understand the threats and vulnerabilities in their individual internal control systems, highlighting their specific characteristics and operational activities.

The Questionnaire, appropriately calibrated for each category of entity, collects quantitative data and qualitative information, which are analysed, processed and evaluated by the Unit through internally developed tools based on specific risk and vulnerability indicators.

This analysis leads to the measurement of the synthetic residual risk for each entity (divided into 5 levels) through the definition of (i) the level of inherent risk and (ii) the level of vulnerability.

Specifically:

- i) inherent risk identifies the actual and potential risks to which an entity is exposed according to its specific characteristics and operations, taking into consideration elements provided by external information sources, independently from the application of internal mitigation measures;
- ii) vulnerability takes into account the adequacy of the entity's organisational set-up and internal controls in order to identify any vulnerabilities, i.e. weaknesses, that could be used to circumvent the internal control mechanism.

The assessment activities serve to indicate improvements and/or mitigation actions which,

according to a risk-based approach and the principle of proportionality, lead to the definition of a coherent organisational and control system for the individual entities.

The **NPO** sector is represented by the foundations registered with the Register of the Governorate of the Vatican City State (about 20) whose main activity is the collection and/or distribution of funds or other economic resources for charitable, religious, cultural, educational, social or humanitarian purposes.

**Raising awareness is crucial to ensure effective risk mitigation**

By virtue of their operations, these entities are potentially exposed to illicit phenomena or exploitation for the purposes of money laundering and terrorist financing. The functions entrusted to ASIF, on the basis of a Memorandum of Understanding signed with the competent supervisory authorities, serve to protect the interests of these entities and the people they support, and help to ensure transparency and accountability towards the donor community. The amendments to Law No. XVIII, described in § 3.1.3, also address this issue.

The initiatives put in place have been carried out taking into account the requirements of FATF Recommendation 8 and Immediate Outcome 10, which call for specific measures to prevent, counter and assess the risk of terrorist financing in the NPO sector. The assessment of money laundering risk was also included in order to obtain a comprehensive view of the potential risks in the sector, also with a view to the GRA of the jurisdiction.

**Risk assessment is the cornerstone for defining an effective system of internal safeguards**

The evaluations carried out on the basis of the data and information provided by the Questionnaire were summarised in a general report, which provided an overview of the main risks and vulnerabilities, i.e. the strengths and weaknesses of the whole sector. Detailed reports were also prepared which focused on the characteristics of the individual entities.

The analyses found that the risk of money laundering and terrorist financing in the NPO sector is very contained, partly thanks to the existing mitigation tools within the organisational structure of the entities and the professionalism of the personnel working for them.

The detailed reports were shared with the entity concerned, accompanied, if necessary, by the indication of improvement measures to be carried out within an agreed deadline. In this regard, the Unit sent an explanatory note for the correct implementation of the suggested measures in order to further support and facilitate the entities in achieving the best supervisory practices.

As a result, onsite inspections were planned according to the risk level of each entity. In this regard, the inspection plan was initiated with two onsite inspections.

**Public authorities** (approximately 60 entities) are subject to the supervision of the SfE, with which ASIF has signed a Memorandum of Understanding to facilitate the performance of the AML/CFT risk assessment activities, as defined with the abovementioned amendments to Law No. XVIII (see § 3.1.3).

The questionnaire for public authorities was designed to meet the Unit's needs for detailed information, as envisioned in the Memorandum of Understanding and for the purposes of:

- i) *identifying potential threats in the area of money laundering and terrorist financing*; in this regard, questions were structured on all potential elements of risk inherent to the specific activity of each authority, including, *inter alia*, data and information relating to activities, geographical areas of prevalent activity, volumes and amounts of assets, activities and transactions, and persons involved;
- ii) *identifying vulnerabilities in the risk mitigation system and in internal control mechanisms*; this included general questions and questions on policies, internal procedures and/or practices, controls, reporting of suspicious activities, and training.

The completed questionnaires were collected by the Supervisory Unit for the purposes of carrying out the evaluations within its area of competence, after which point the Unit will consolidate the analyses in consultation with the SpE.

Approximately 30 **legal persons** are listed in the Registries of the Governorate of the Vatican City State. These legal persons were not established and do not operate for profit-seeking purposes. Instead, they are dedicated to serving the charitable activities of the Holy See and Vatican City State.

In 2020, the Supervisory Unit collected the completed questionnaires and started evaluation activities, in line with the provisions of Article 13*bis* of Law No. XVIII (see § 3.1.3).

In this context, it should be noted that these activities were launched to meet the requirements of FATF Recommendations 24 and 25 and Immediate Outcome 5 which call for specific measures to prevent, counter and assess the risk of money laundering and terrorist financing in the area of legal persons.

#### ***3.2.4 International cooperation and information exchange***

ASIF exchanged information with foreign supervisory authorities in 8 cases (7 requests to foreign authorities and 1 request from a foreign authority). The request for cooperation from foreign authorities concerned fit and proper checks.

International cooperation produced concrete results and, in some cases, allowed for the analysis of complex financial schemes with connections to different jurisdictions, leading to reports of potential violations and misconduct. In some cases, cooperation and information exchange were in the context of prudential supervision.



**3.2.5 Cooperation in tax matters**

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 fulfilment of fiscal requirements by foreign citizens and legal entities having relations with the IOR.

**Audits show that the IOR’s procedures are consistent with the FATCA requirements**

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 these matters, to monitor the adoption of the procedures implemented by the IOR for the purposes of fulfilling the FATCA requirements.

The Unit’s sample-based audits for 2020 showed that the procedures implemented by the IOR are effective overall; monitoring activities did not reveal any significant anomalies or risk indicators.

## 3.3 FINANCIAL INFORMATION

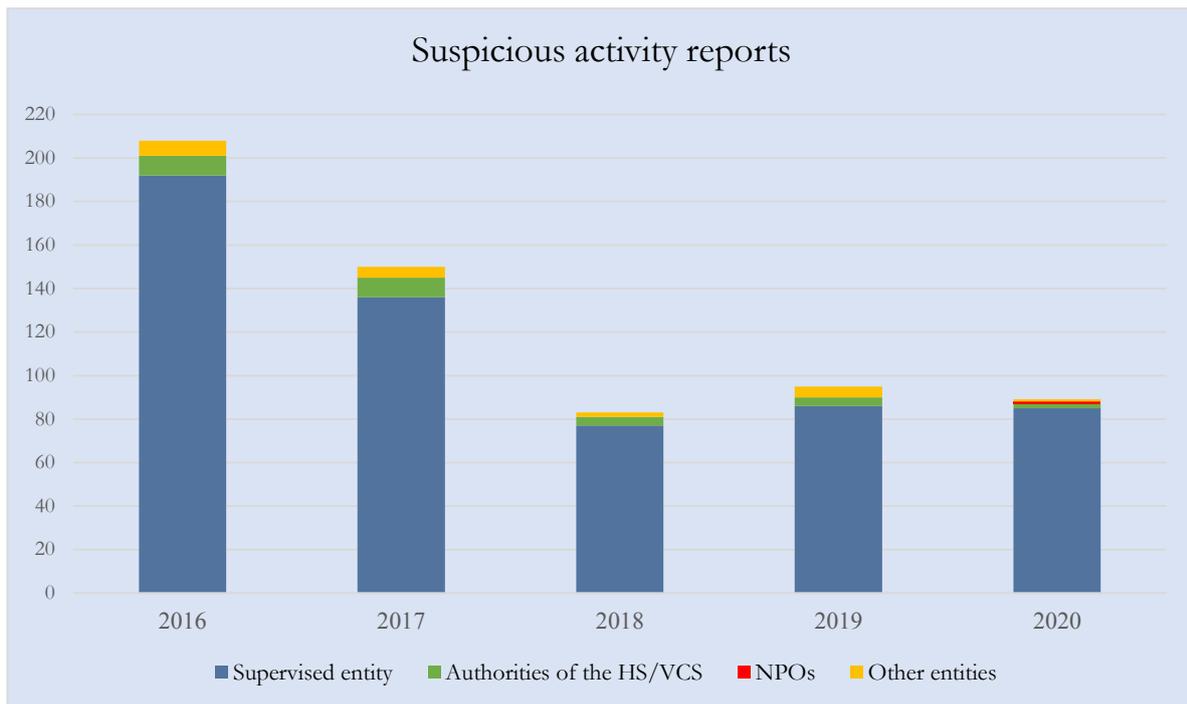
ASIF is the central authority for financial intelligence through its Financial Intelligence Unit. The Unit is an important source of information for initiating investigations into money laundering, terrorist financing and predicate offences. The Unit performs several key functions:

- receives SARs from obliged entities, public authorities, NPOs and legal persons registered in the Holy See/Vatican City State;
- 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 combating money laundering and terrorist financing;
- 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;
- submits reports and information to the OPJ if there are reasonable grounds to suspect money laundering, terrorist financing or a predicate offense;
- exchanges 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;
- receives and analyses cross-border cash transport declarations;
- 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

#### **The trend towards better quality reports continues**

In 2020, ASIF received 89 suspicious activity reports, 85 of which from the supervised entity, i.e. the IOR, 2 from authorities of the Holy See/Vatican City State, 1 from an NPO, and 1 from other entities. The reports submitted confirmed the trend underway since 2017 towards higher quality reports, owed in part to the more detailed anomaly indicators and to a more conscious implementation of a risk-based approach. The trend also reflects the stabilisation and normalisation of the reporting system and the intensification of preventive measures undertaken by the IOR.



### 3.3.2 Operational analysis

Through operational analysis, the information received by the FIU is developed into operational intelligence, which can be passed on to the OPJ for further investigation. In order to verify that the tactical and operational analysis is relevant, and that the use of financial intelligence by law enforcement authorities is effective, the FIU monitors the extent to which operational analysis contributes over time to the success of investigative and prosecutorial actions. Important tools to this end are the operational coordination meetings between the OPJ, CdG and ASIF, and the feedback provided by the OPJ to the reports submitted by ASIF.

As regards terrorist financing, this area continues to be a priority (see the box: *The risk of terrorist financing in the jurisdiction*). In 2020, the FIU received only two follow-up SARs potentially related, directly or indirectly, to terrorist financing. The FIU also received two communications related to terrorist financing from its foreign counterparts. In all four cases, the operational analysis found no subjective or objective evidence that would suggest a link between the terrorist financing activities and the jurisdiction.

## The risk of terrorist financing in the jurisdiction

As previously mentioned, the 2019 Update to the GRA confirmed a low level of terrorist financing risk. ASIF has maintained a preventive and proactive approach, providing ongoing support to the Financial Intelligence Units of the jurisdictions most exposed to the risk of terrorist attacks.

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 2020, the President of the Governorate issued 13 such orders. In forwarding the lists to the IOR, ASIF requires the adoption of preventive measures, including the freezing of: i) potential funds and other assets owned, held or controlled, solely or jointly, directly or indirectly, by persons included on 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 persons, individuals or entities, in the name of, on behalf of or for the benefit of persons included on the lists. Thus far, the analyses and subsequent monitoring activities have not revealed any links between the designated subjects and the Vatican jurisdiction.

In order to promote maximum awareness of potential risks among all authorities and entities in the HS/VCS, this List is published on the ASIF website.

### 3.3.3 Preventive measures

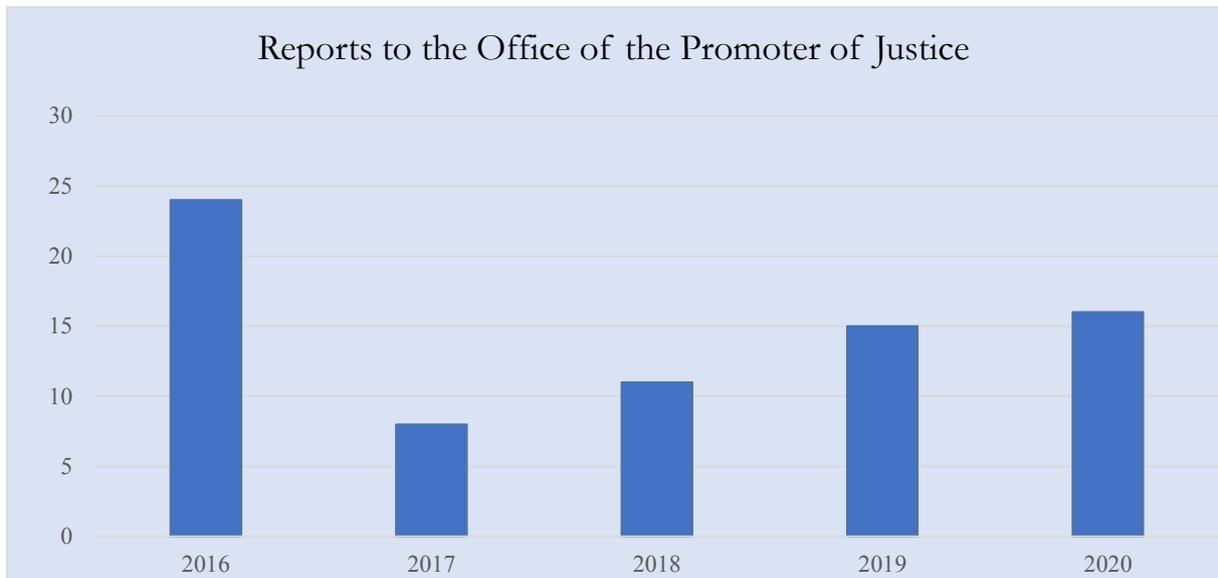
#### The use of preventive measures declines

In 2020, there was a marked decrease in the number of cases requiring the use of preventive measures pursuant to Article 48(j) and (k) of Law No. XVIII. Indeed, the reports received by ASIF in 2020 did not give rise to any suspension or freezing measures. This is likely on account of the increased deterrent capacity of the jurisdiction's AML/CFT system.

### 3.3.4 Reports to the Office of the Promoter of Justice

#### The ratio of reports sent to SARs received continues to grow

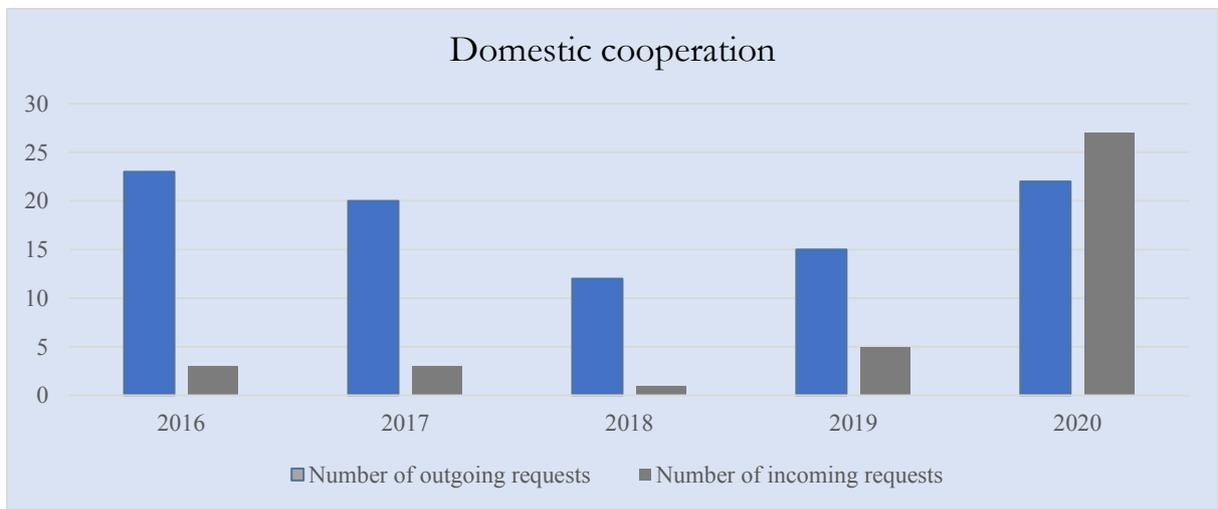
In 2020, ASIF submitted 16 reports to the OPJ, including 10 first reports and 6 supplementary reports. This confirms an upward trend both in the number of reports submitted, and in the ratio of reports submitted to SARs received, demonstrating a steady increase in the quality of SARs submitted by reporting entities. Most potential financial crimes involve foreign entities or conduct undertaken in, or in connection with, foreign jurisdictions. The main potential predicate offences are international fraud and embezzlement.



### 3.3.5 Domestic and international cooperation

#### Domestic cooperation strengthens

Domestic cooperation with the competent authorities of the Holy See/ Vatican City State is intense and productive. In 2020, the FIU sent 22 requests for information concerning 55 subjects, and received 27 requests concerning 69 subjects, which demonstrates the commitment of the Vatican authorities to combat money laundering and terrorist financing.



In particular, the interaction between the FIU, the OPJ and the Eco-Fin Section of the CdG was extensive, thanks also to the small size of the jurisdiction. To further strengthen the level of cooperation between these three authorities, a Memorandum of Understanding was signed in April 2020 that provides for regular meetings to discuss (a) cases and their progress; (b) the use of

information; and (c) the results of investigations. The meetings also serve to identify possible areas for improvement.

In addition to the above Memorandum of Understanding, in June 2020 ASIF signed a Memorandum of Understanding with the Office of the Auditor General on cooperation and exchange of information to combat money laundering, terrorist financing and corruption.

These Memoranda played a part in the increase in the number of requests for domestic cooperation registered in 2020.

**International cooperation remains intense**

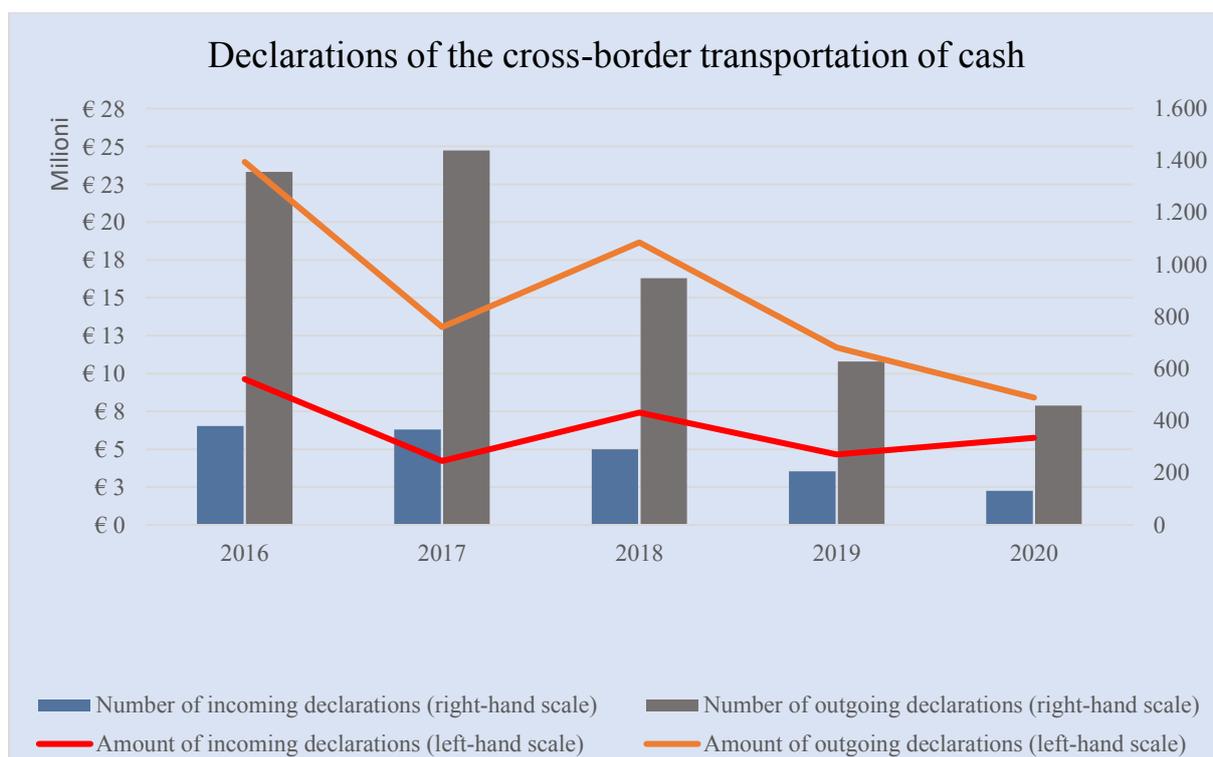
As regards international cooperation, ASIF exchanged 58 requests for information with foreign FIUs concerning 196 subjects and 19 spontaneous communications concerning 104 subjects. International cooperation resulted in the transmission of financial information to the OPJ and to foreign counterparts. In 2020, ASIF signed Memoranda of Understanding with the FIUs of the Dominican Republic and Bermuda, for a total of 62 MoUs signed since 2012.



**3.3.6 Declarations of cross-border cash transportation**

**The use of cash continues to decline**

Article 81 of Law No. XVIII establishes the obligation to declare the cross-border transport of money (cash and bearer negotiable instruments) for amounts of 10,000 euro or more. The declaration must be submitted to the CdG, i.e. the competent customs authority, or to the offices authorised by ASIF. In 2020, there were 131 incoming declarations, for a total of €5,756,556.67, and 458 outgoing declarations, for a total of €8,406,477.32. The number and amount of cross-border declarations confirm the progressive decrease in the use of cash, a trend already observed in previous years. The trend is also due to the availability of other fund transfer options offered by the IOR (including transfers on the SEPA circuit, which became available in 2019), thus ensuring a better standard of security and traceability. The FIU’s analysis of these declarations did not reveal any significant anomalies or risk indicators.



### 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 supervised 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, strategic analyses can be used within the GRA process, possibly suggesting the need to adopt measures to strengthen the effectiveness or 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.

Finally, strategic analyses may lead to the publishing of targeted analyses and studies on specific sectors, categories of entities, or types of services, products, activities, transactions or distribution channels, or advanced studies on the jurisdiction as a whole, including cross-border activities.

In August 2020, the FIU carried out a structured strategic analysis aimed at providing a picture of two types of financial movements considered to be of greatest interest for the purposes of monitoring potential money laundering or terrorist financing activities: the cross-border transportation of cash and wire transfers with the IOR.

The analysis showed that, between 2015 and 2019, there was a general downward trend in the total flow of money into the jurisdiction (cash and wire transfers), with some notable changes in the geographical distribution of the total documented inflows. However, throughout the reference period, entries from tax havens and high-risk countries accounted for only a negligible share. As regards total outflows, the ratio of wire transfers to cross-border cash transportation declarations remained stable. Some slight fluctuations were recorded in relation to the geographical distribution of outflows, though flows to tax havens and high-risk countries were very low during the reporting period and showed an overall stable trend. Considering only the declarations of cross-border cash transportation, there was a significant downward trend in inflows and a similar downward trend for outflows.



# 4 STATISTICAL TABLES

## 4.1 Suspicious activity reports

	2016	2017	2018	2019	2020
<b>Total</b>	<b>208</b>	<b>150</b>	<b>83</b>	<b>95</b>	<b>89</b>
<i>Supervised entity</i>	192	136	77	86	85
<i>Authorities of the Holy See/Vatican City State</i>	9	9	4	4	2
<i>Non-profit organisations</i>	0	0	0	0	1
<i>Other entities</i>	7	5	2	5	1

## 4.2 Preventive measures

	2016	2017	2018	2019	2020
<i>Number of suspended transactions and operations</i>	4	0	3	3	0
<i>Amount of suspended transactions and operations</i>	€ 2,113,838.00	€ 0.00	€ 422,077.00	€ 240,000.00	€ 0.00
<i>Number of frozen accounts, funds and other economic resources</i>	1	1	2	1	0
<i>Amount of frozen of accounts, funds and other economic resources</i>	€ 1,550,199.00	€ 1,757.00	€ 2,362,725.53	€ 178,970.00	€ 0.00

## 4.3 Reports to the Office of the Promoter of Justice

	2016	2017	2018	2019	2020
<b>Total</b>	<b>24</b>	<b>8</b>	<b>11</b>	<b>15</b>	<b>16</b>

## 4.4 Internal collaboration

	2016	2017	2018	2019	2020
<b>Total subjects</b>	<b>72</b>	<b>91</b>	<b>234</b>	<b>532</b>	<b>124</b>
<i>Number of outgoing requests</i>	23	20	12	15	22
<i>Subjects involved in outgoing requests</i>	67	86	230	522	55
<i>Number of incoming requests</i>	3	3	1	5	27
<i>Subjects involved in incoming requests</i>	5	5	4	10	69

#### 4.5 International cooperation

	2016	2017	2018	2019	2020
<b>Total</b>	<b>49</b>	<b>50</b>	<b>50</b>	<b>66</b>	<b>58</b>
<i>Requests sent to foreign FIUs</i>	36	41	43	55	47
<b><i>Requests received from foreign FIUs</i></b>	<b>13</b>	<b>9</b>	<b>7</b>	<b>11</b>	<b>11</b>

#### 4.6 Memoranda of Understanding with Foreign Financial Intelligence Units

	2016	2017	2018	2019	2020
<b>Total</b>	<b>5</b>	<b>18</b>	<b>6</b>	<b>4</b>	<b>2</b>

#### 4.7 Number and amount of cross-border cash transportation declarations

	2016	2017	2018	2019	2020
<i>Number</i>	1737	1806	1239	834	589
<b><i>Total amount</i></b>	<b>€ 33,598,779.00</b>	<b>€ 17,295,376.00</b>	<b>€ 26,085,386.00</b>	<b>€ 16,385,499.00</b>	<b>€ 14,163,034.00</b>
<i>Number of incoming declarations</i>	380	367	291	206	131
<b><i>Number of outgoing declarations</i></b>	<b>1357</b>	<b>1439</b>	<b>948</b>	<b>628</b>	<b>458</b>
<i>Amount declared as incoming</i>	€ 9,626,657.00	€ 4,223,154.00	€ 7,416,789.00	€ 4,659,479.00	€ 5,756,557.00
<b><i>Amount declared as outgoing</i></b>	<b>€ 23,972,122.00</b>	<b>€ 13,072,222.00</b>	<b>€ 18,668,597.00</b>	<b>€ 11,726,020.00</b>	<b>€ 8,406,477.00</b>

## **GLOSSARY/ACRONYMS**

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

**ASIF**, *Financial Supervisory and 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*

**FIU**, *Financial Intelligence Unit*

**GRA**, *General Risk Assessment*

**IBAN**, *International Bank Account Number*

**IOR**, *Istituto per le Opere di Religione*

**ML/FT**, *Money Laundering and the Financing of Terrorism*

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

**OAG**, *Office of the Auditor General*

**OPJ**, *Office of the Promoter of Justice*

**SAR**, *Suspicious Activity Report*

**SEPA**, *Single Euro Payments Area*

**SfE**, *Secretariat for the Economy*

**SoS**, *Secretariat of State*

**WMD**, *Weapons of Mass Destruction*









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