



SUPERVISORY AND FINANCIAL
INFORMATION AUTHORITY

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Supervisory and Financial Information Authority

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LETTER FROM THE PRESIDENT



After the significant changes that took place in 2020, 2021 was a year of consolidation for ASIF. A year during which the first fruits of what had previously been sown were also reaped, as evidenced by the favorable outcome, for the entire jurisdiction, of the evaluation of the Committee of Experts of the Council of Europe for the fight against money laundering and the financing of terrorism (MONEYVAL). The recommendations resulting from the MONEYVAL report are a useful encouragement along the road to enhancing the prevention and countering of these phenomena. The whole jurisdiction is committed, under the coordination of ASIF, to implement what is recommended, convinced that this is the best way to effectively tackle, among other things, the predicate offenses of money laundering and to maintain, in this way, the excellent reputation obtained so far.

In 2021, the three units tasked with the institutional activities of ASIF solidified, both in terms of organizational matters and personnel. This made it possible to further refine the collaboration with other Authorities and Dicasteries. Likewise, international relations, which are a significant part of the Authority's work, continued to be a priority. In this context, the strategic orientation remains to continue to improve the network of relationships, also with a view towards making the work of financial intelligence as fluid as possible.

The regulatory activity, which in the financial sector sees ASIF as a primary point of reference, continued to be carried out with intensity, in collaboration with the other entities of the jurisdiction that are involved in various capacities in defining the legislation. This activity took place in the direction indicated by the Holy Father of refining the requisites of financial transparency and of perfecting the control capacities of the Vatican institutions.

The IOR, which is the only financial intermediary supervised under the 'prudential' profile by ASIF, has performed well, both in the context of the MONEYVAL evaluation and the in-depth supervisory assessments to which it is subjected. The margins for improvement detected constitute an encouragement for the Institute and, at the same time, a challenge for the Authority, which renders its experience and professionalism available so that the IOR may reach a level of ever higher stability and efficiency as well as of full compliance with the rules.

We are living through difficult years and we are all subject to new and harsh tests every day. The best answer that each of us can give, in this context, is to continue working with the utmost sense of duty. This is what ASIF, for its part, has done and continues to do, at the service of the Holy Father's mission.

CARMELO BARBAGALLO

President

INTRODUCTION

In 2021, ASIF's activities continued on a regular basis, despite the persistence of uncertainties caused by the pandemic. The use of telework, for limited periods of time, was implemented effectively while maintaining a high level of productivity. The new organizational structure, divided into three operating units, made it possible to achieve greater efficiency and effectiveness. An intensive training program was launched for all staff.

During the year, the Authority was heavily involved in the final stages of the assessment of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism of the Council of Europe (MONEYVAL), which between September and October 2020 had carried out an on-site inspection, eight years after the first. This assessment was completed at the Plenary meeting held in Strasbourg at the end of April 2021. The particularly favorable outcome for the jurisdiction, which was placed under ordinary monitoring, was amply accounted for in the last Annual Report (pp. 10-15).

The Authority provided intense support to the Financial Security Committee (Co.Si.Fi.), a body with strategic and coordination functions in relation to the various Authorities that are part of it. During 2021, the Committee met 4 times. It also entrusted its Secretariat – a leaner body with advisory functions – with the preparatory work needed to incorporate the MONEYVAL recommendations into a new General Risk Assessment, which will be prepared by the end of 2022.

The Authority also actively participated, for its own areas of competence, in the work of the 'Joint Committee' for the implementation of the Monetary Convention with the European Union, a body that met in October 2021 in remote mode. In this context, it is noteworthy that, as agreed in the meeting, in November 2021 the European Commission recognized the legal equality of the Institute for the Works of Religion (IOR) with the other financial operators of the SEPA circuit.

The actions performed and the results achieved by the operating units were also significant.

The Regulatory and Legal Affairs Unit provided numerous legal analyses and constant support to the President, the Directorate and the other operating units of ASIF, and actively collaborated with other Authorities of the Holy See/VCS. In the latter context, it carried out an in-depth analysis with the Governorate on the cross-border movement of cash, aimed at facilitating the drafting of the new Regulation on that subject matter and the related updated version of the Declaration Form, promulgated on 23 December 2021 by means of a specific decree.

With regard to prudential supervision, the Supervisory Unit regularly verified the profiles related to the prudent, healthy and sustainable management of the IOR, currently the only entity authorized to carry out financial activities on a professional basis in the jurisdiction. In particular, following the full-scope inspection carried out at the IOR in 2020, the Institute prepared a detailed Remediation Plan, the implementation of which was constantly monitored by the Supervisory Unit during 2021. In the ML/TF area, a follow-up inspection was launched to verify the adequacy of the remedial actions implemented by the IOR following the inspection in 2019.

With regard to financial intelligence activities, in 2021 ASIF's Financial Intelligence Unit (FIU) received 104 reports of suspicious activity, 98 of which from the obliged entity, 5 from Vatican authorities, and 1 from a non-profit organization. No reports were received that were directly or indirectly linked to the financing of terrorism. ASIF submitted 21 reports to the Office of the Promoter of Justice, the highest number recorded in the last five years; of these, 3 were first reports and 18 were supplemental reports.

In addition, domestic cooperation remained intense and productive for the FIU. It sent 62 requests for cooperation and received 30 such requests. The number of outgoing requests showed a substantial increase compared to 2020, while incoming requests were slightly lower. Moreover, the interaction between the FIU, the UPG and the Eco-Fin Section of the Corps of the Gendarmerie continued to be extensive and fruitful.

With regard to international cooperation, the FIU sent 34 requests for information or spontaneous communications to foreign FIUs and received 19 such communications from its counterparts. International cooperation has led to the transmission of financial information to the UPG and to foreign counterparts. In 2021, ASIF signed memoranda of understanding with the FIUs of Ukraine, El Salvador and Guatemala, for a total of 65 memoranda signed since 2012.

In 2021, ASIF recorded 168 incoming declarations, for a total amount of 11,470,000 euros, and 277 outgoing declarations, for a total amount of 4,870,000 euros. The number of incoming cross-border declarations was higher than that recorded in 2020 (by 37 declarations), and the amount declared was almost double, indicating a greater tendency to bring currency into the jurisdiction, possibly for reasons related to the COVID 19 pandemic. Conversely, both the number and amount of outgoing cross-border declarations decreased considerably, indicating greater use of traceable forms of funds transfer and/or less willingness to move funds out of the jurisdiction.

Finally, in 2021, ASIF participated in the plenary meetings of the MONEYVAL Group held, in hybrid mode, from 26 to 30 April at the Council of Europe. It also took part in the FIU Forum hosted by the Principality of Monaco from 3 to 5 November, the first in-person event the UIF participated in since the start of the pandemic.

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.

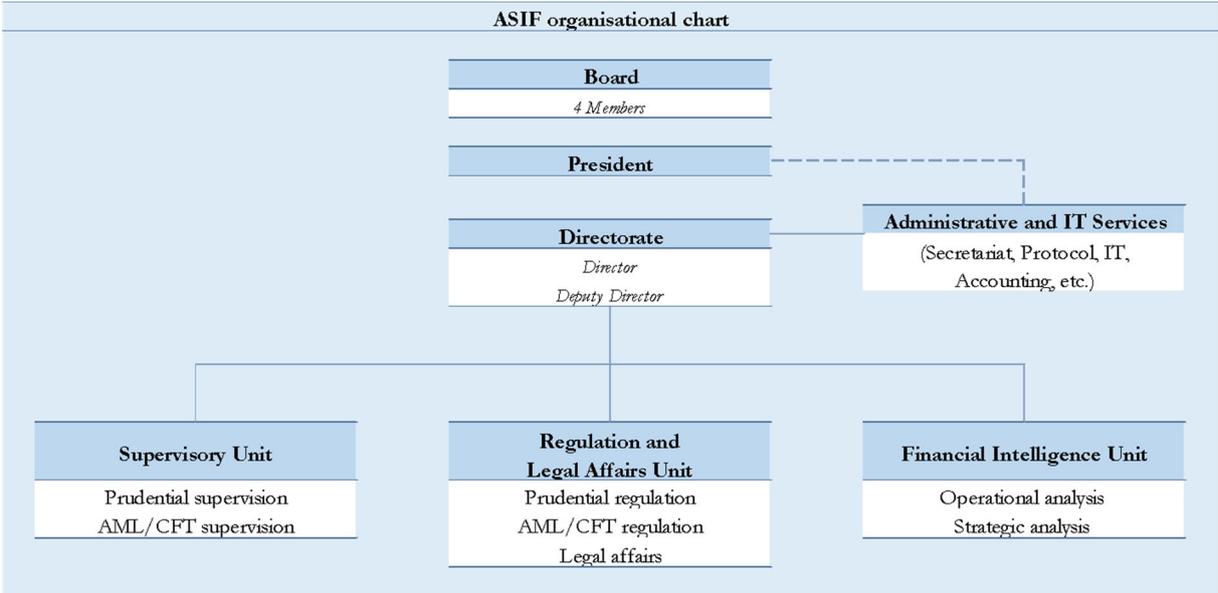
The Board is assigned the following functions: (a) defining the Authority's strategies and objectives as well as its security and confidentiality policies; (b) preparing the Authority's internal regulations; (c) adopting regulations, instructions and guidelines in the cases envisioned by law; (d) approving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

In 2021, the Council was composed of Mr. Joseph Yuvaraj Pillay, Ms. Maria Bianca Farina, Ms. Antonella Sciarrone Alibrandi and the President, Mr. Carmelo Barbagallo. On 5 May 2022, the Holy Father appointed Mr. Roberto Sanchez Mariano as a Board member.

In 2021, the Board discussed several issues concerning the governance and composition of ASIF, as well as strategic matters relating to its activities, and it continued to perform the tasks assigned to it by the Statute.

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 did not change in 2021, consolidating the structure already outlined following the adoption of the new Statute. ASIF consists of three units: Supervisory Unit, the Regulatory and Legal Affairs Unit, and the Financial Intelligence 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 remained at 13 staff members, and the Units were able to benefit from the support of a few volunteer interns.

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 Regulatory and Legal Affairs Unit carries out regulatory activities in accordance with the provisions of Law No. XVIII. Among other things, the Office drafts and updates regulations, instructions and guidelines relevant to the activities and other forms of guidance for specific sectors, categories of entities, and types of activities.

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

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

The Supervisory Unit has the task of supervising and verifying the implementation of the obligations established by Title II of Law No. XVIII.

In this regard, in the context of the AML/CFT system of the jurisdiction, the Unit performs a key preventive function, with a focus on assessing and understanding the potential risks to which the financial system is exposed, using an approach that allows for the identification, measurement, control and monitoring of those risks, as well as for the assessment of the level of safeguards and their adequacy.

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,¹ 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.² 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 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, 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.).

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

² 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 Economic, Commercial and Professional Sectors of 7 June 1929, the Vatican City State has a regime of a public nature 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 existing regulatory framework for prudential supervision, the professional conduct of one or more activities of a financial nature 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 Commission³. In November 2019, after all the regulatory and technical requirements were verified, the Vatican's International Bank Account Number (IBAN) became active and useable for the identification of payment accounts opened with financial institutions in the jurisdiction⁴. In November 2021, the European Commission, following discussions in October at the Joint Committee for the implementation of the Monetary Agreement between the Vatican City State and the European Union, recognised the legal equality of the IOR with the other financial operators in the SEPA circuit.

In May 2021, the Holy See/Vatican City State obtained approval of the jurisdiction's know-your-customer rules from the US Internal Revenue Service, which was the basis for the IOR's subsequent recognition of qualified intermediary status on 4 June.

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

³ 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>.

⁴ See IBAN Registry, Release 81 - December 2018, p. 80.

community to protect the integrity and transparency of the economic and financial sectors and to prevent and counter the aforementioned phenomena⁵.

The Committee performs strategic guidance and coordination functions⁶. 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 State⁷ – 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 terrorism 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 the risk in the area of money laundering and the low-level risk in the area of terrorism financing. Both updates did not identify significant domestic threats, linking the highest risk for the jurisdiction to international and/or cross-border activities. However, they did indicate that some aspects could be further 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 GRA 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

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 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 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 (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.

active in the relevant sectors and for entities carrying out financial activities on a professional basis. With regard to ASIF, particular mention should be made of the general on-site inspection of the IOR in the AML/CFIT area, as well as the adoption of Instructions No. 5 and 6⁸.

At the impetus of Co.Si.Fi., numerous other measures were carried out during 2020, as summarised 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 the risks of money laundering and terrorism financing (ML/TF), 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/TF threats and vulnerabilities in this area to which the jurisdiction could be subjected, 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.

At the same time, finally, the strategic plans of Co.Si.Fi. and the action plans of the relevant authorities were adopted.

During 2021, partly as a result of the outcomes of the on-site visit by the team of evaluators from the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) in the context of the 5th round of mutual evaluations (*5th Evaluation Round*) on the ML/TF system, the Co.Si.Fi. Secretariat initiated study and analysis activities aimed at incorporating the recommendations of the MONEYVAL Committee into a new General Risk Assessment, which will be prepared during 2022

2.3 INTERNATIONAL ACTIVITY

In 2021, the President of ASIF served as head of the delegation of the Holy See/Vatican City State for the fifth round of the mutual evaluations carried out by MONEYVAL. The evaluation was concluded in April with the adoption of the mutual evaluation report during the Plenary Meeting held in 'hybrid' format from Strasbourg, France.

In addition, in 2021, ASIF's Financial Intelligence Unit actively participated in the Egmont Group's working group meetings via remote connection.

⁸ The purpose of Instruction No. 5 is to provide entities carrying out financial activities on a professional basis 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 obliged entity also benefits from a special list of names, periodically updated by ASIF. Instruction No. 6 requires the obliged 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.

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 two targeted courses for two non-profit organizations in 2021, covering 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.

3 OPERATIONS

3.1 REGULATION AND LEGAL AFFAIRS

During 2021, the Regulation and Legal Affairs Unit carried out, among other things, regulatory and updating activities of the current legal framework, numerous legal analyses and collaborated internally with other Authorities of the Holy See/Vatican City State.

In particular, the activity focused on the in-depth study with the Governorate of the Vatican City State of Regulation (EU) 2018/1672 of 23 October 2018, regarding controls on incoming or outgoing cash, with the aim of drafting a new Cross-Border Transport Declaration Form, already provided for by Article 81 of Law No. XVIII.

Furthermore, discussions with the IOR have pointed out the need to issue Decree No. 1 on 17 December 2021, regarding the frequency and depth of monitoring activities in the ongoing customer due diligence phase set forth in Article 24 (2) (c) (i) of ASIF Regulation No. 4, on due diligence of the customers of the entities carrying out financial activities on a professional basis.

3.1.1 Transposition of Regulation (EU) 2018/1672 of 23 October 2018

Regulation concerning controls on cash entering or leaving the VCS and new Cross-Border Transport Form

In order to comply with the commitments undertaken in the Joint Committee, work was carried out on the preparation of the Regulation regarding controls on cash entering or leaving Vatican City State and the new Cross-Border Transport Declaration Form promulgated by the President of the Governorate with Decree No. CDLXVI of 23 December 2021.

The aforementioned Regulation defines the system of controls on cash entering or leaving Vatican City State.

In particular, Article 3 contains a list of the information that the bearer is required to provide to the competent authorities – in writing or electronically – in the event of the transport of cash with a value equal to or greater than 10,000.00 euros into or out of the State, with the specific indication that the material availability of the aforementioned sum must be guaranteed to the competent Authorities for control purposes. Article 4, on the other hand, imposes an obligation to provide information on unaccompanied cash.

The Regulation also makes distinct provisions regarding: a) the power of the competent Authorities to carry out controls on individuals, their baggage and means of transport and on any consignment, container or means of transport that may contain unaccompanied cash; b) the obligations of the

competent Authorities when transporting cash or unaccompanied cash, below a threshold of 10,000.00 euros, where there are indications that such cash is related to criminal activities; c) the power of the competent Authorities to temporarily detain cash under specific conditions and d) the obligation of the competent Authorities to properly inform persons entering or leaving the State or persons sending or receiving unaccompanied cash in the State of their respective rights and obligations.

Finally, the methods of internal and international collaboration have been strengthened, as have the guarantees of protection and security of the data obtained in accordance with the Regulation in question.

With regard to the preparation of the new Cross-Border Transport Declaration Form, the new requests concern: a) the contact information of the bearer⁹; b) the indication of the nature of the owner of the cash (whether natural or legal person)¹⁰ and c) the indication of whether the recipient of the cash coincides with the declarant or owner.

In addition, the Form aims to make more precise elements about the nature of the cash (until now, the following were required: gender, amount and origin); the intended use of the cash (the purpose) and the means of transport used¹¹ (air, road, sea, rail).

3.1.2 Decree No. 1 regarding the frequency and depth of monitoring activities in the ongoing customer due diligence phase set forth in Article 24 (2) (c) (i)

The frequency of ongoing customer due diligence is 'ordinarily annual'

With Decree No. 1 of 17 December 2021, it was established, in Article 24, paragraph 2, letter c), *sub*-paragraph i), an annual frequency instead of a six-month frequency to carry out the fulfilments of ongoing customer due diligence.

In this sense, and in line with Law No. XVIII, it was ascertained that the conditions suitable for the amendment of the secondary source were in place, accepting the IOR's request to confirm the exception to the six-monthly frequency.

3.1.3 Additional regulatory activities and updating activities

Work has begun on the establishment of the Central Register at the Authority, as established by Article 51 *bis* of Law No. XVIII.

Additional activities

The aforementioned article provides for the establishment at the Authority of a Central Register for the timely identification of natural or legal persons who hold or control relationships, payment accounts, accounts identified by IBAN and safety deposit boxes held at entities carrying out financial activities on a professional basis. The

⁹ The 'contact information' include the place and date of issue of the identification document and the address.

¹⁰ More specifically, in the case of a natural person, elements such as: contact information (*status*, diocese of affiliation, address), document number with attached request for place and date of issue have been added. In the case of a legal person, the 'registration number' and the 'country registration' are required.

¹¹ Until now, only the route followed was required.

procedures for establishing, updating, maintaining, managing and securing the Registry will be governed by ASIF Regulations.

Therefore, in implementation of the current regulatory framework, work on the aforementioned establishment was initiated.

In addition, work has begun to update Regulation No. 1 on prudential supervision of the entities carrying out financial activities on a professional basis of 25 September 2014, and Regulation No. 4 on due diligence of customers of entities carrying out financial activities on a professional basis of 19 September 2018.

Finally, the Unit ensured the periodic updating and publication of the list of high-risk States.

3.2 SUPERVISION

3.2.1 Prudential supervision of the IOR

Compliance with prudential rules is ensured by systematic offsite controls

During the year 2021, the Supervisory Unit carried out the activities of verifying the relevant profiles to the prudent, sound and sustainable management of the IOR, both through off-site analyses and findings, and through periodic meetings with the Institute. 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 technical situation of the Institute.

The controls are systematic in nature and are 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).

Monitoring of the 2020 Prudential Inspection Remediation Plan continued

Following the Authority's full-scope general inspection in 2020 conducted on the IOR, with regard to the areas of improvement that emerged, the Institute prepared a detailed Remediation Plan.

During the year 2021, the Supervisory Authority constantly monitored the state of progress of the remedial actions mentioned above and compliance with the planned timelines, using the documentary references sent by the Institute.

The information framework available to the Supervisory Unit, strengthened by the regular meetings held on-site with the Institute, formed the basis for the inspection planning, which includes follow-up inspections aimed at verifying the completeness and effectiveness of the interventions carried out.

Over the course of 2021, technical analyses were carried out as part of the initiatives underway to update Regulation No. 1 on the prudential supervision of institutions professionally carrying out activities of a financial nature (e.g. with regard to operating areas, integrity and professionalism requirements, outsourcing) in relation to the evolution of European legislation with particular regard to the European Banking Authority Guidelines, following a logic of proportionality in transposition projects. The Office also provided technical support within the framework of the

preparatory work of the Joint Committee with reference, *inter alia*, to the problem of the failure to recognise, also by some leading Italian banks, the ‘SEPA treatment’ of cross-border payments in euro concerning the IOR. As a result, the European Commission issued a decision stating that the Vatican City State had taken all necessary measures to comply with the obligations arising from the

Constant technical contribution to regulatory updates and preparatory work of the Joint Committee

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.

Monetary Agreement, including the transposition of the legal acts underlying the participation in SEPA, and that the fact that the Vatican City State is not a member of the European Union does not justify such non-recognition.

Based on the commitments undertaken by the Holy See at international level, with

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

3.2.2 AML/CFT supervision of the IOR

AML/CFT supervisory activity is based on risk and sectorial best practices

accordance with the proportionality principle.

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

The Supervisory Unit applies risk-based supervision in accordance with international standards. During the year, it cooperated in activities related to the MONEYVAL evaluation.

In this regard, the Unit, also in order to correspond to the indications provided by MONEYVAL, has started the technical analysis on the interventions, inspired by the best practices in the sector and rigorous risk assessment methodologies, aimed at updating the regulatory framework in force and rationalize the obligations borne by obliged entity in the context of different profiles (customer due diligence, geographical risk, central register, etc.).

The Unit in October 2021, based on the inspection schedule shared with the Authority's Board of Directors, initiated an on-site follow-up inspection designed to verify the adequacy and effectiveness of the remedial actions implemented by the IOR as it relates to the areas of improvement identified with the 2019 AML/CFT general inspection.

The inspection project – containing, among other things, the scope of the inspection, the checks to be carried out on a documental basis, the analyses to be performed on a sample basis for the various operational cases – was planned on the basis of evidence regarding the progress of the Remediation Plan prepared by the IOR. In particular, the first step of the assessment, without prejudice to the risk-based approach, focused on the most advanced areas in terms of the state of implementation of corrective measures. A second step has already been scheduled to complete the follow-up checks on the other areas as well.

The Unit also participated in functional analyses aimed at increasingly integrated and computerized management of periodic information flows and related controls (cash, domestic PEP list, etc.), in order to identifying any areas of risk

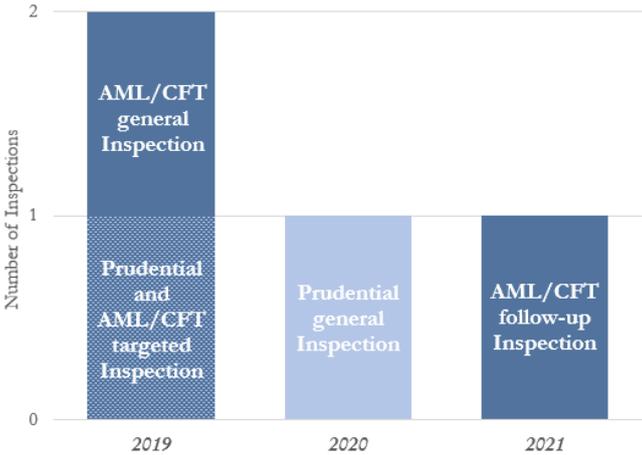
Data and information acquired through on-site inspections, as well as those collected through periodic flows, are considered by the Unit with a view to developing and maintaining a good understanding of the Institute's money laundering and terrorist financing risks, as well as ensuring a supervisory strategy focused on highest or emerging risks. Ongoing information exchanges with the Financial Intelligence Unit have also made a useful contribution to supervisory efforts.

Periodic obligations relating to the updating of the Politically Exposed Persons domestic list, pursuant to Instruction No. 5 of May 29, 2019, were also ensured.

Inspections of the IOR

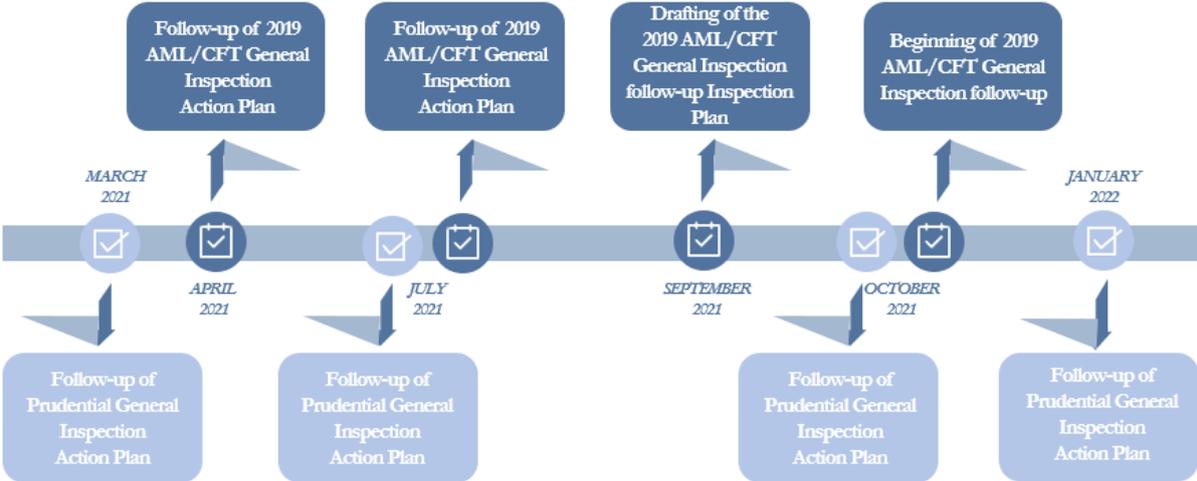
Onsite inspection activities conducted in the period 2019 – 2021

During the three-year period, the Supervisory Unit conducted four inspections of the IOR, two of which were general AML/CFT and prudential inspections, one was an AML/CFT follow-up inspection and one on SEPA matters which covered both areas. On an annual basis, FATCA checks are also carried out on behalf of SfE (Cfr. 3.2.4).



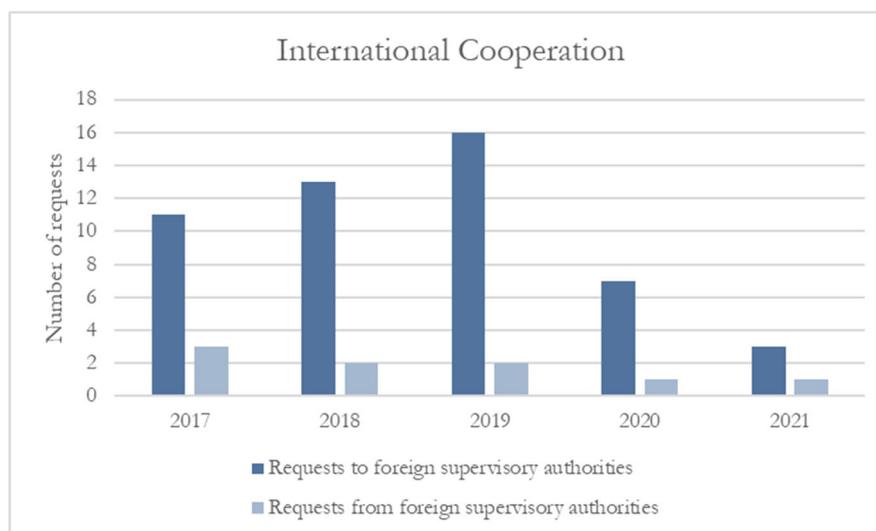
Activities related to General Inspections

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 International cooperation and information exchange

ASIF exchanged information with foreign supervisory authorities in several areas, resulting in fruitful cooperation on complex financial transactions involving several jurisdictions. The request for cooperation with foreign authorities concerned, among other things, the verification of the fulfillment of the competence and integrity requirements for three persons (so-called ‘fit and proper’). Furthermore, as part of the collaboration with foreign Supervisory Authorities, a Memorandum of Understanding was signed with the Banco de España in 2021.



3.2.4 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 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 these matters, to monitor the adoption of the procedures implemented by the IOR for the purposes of fulfilling the FATCA requirements. 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. This enabled the IOR to apply for Qualified Intermediary (QI) status, which was granted by the IRS on 4 June. This recognition has a strategic value for the Institute and allows it to align itself with the best international standards with regard to the management of financial assets.

Obtaining Qualified Intermediary status for the IOR

3.3 FINANCIAL INTELLIGENCE

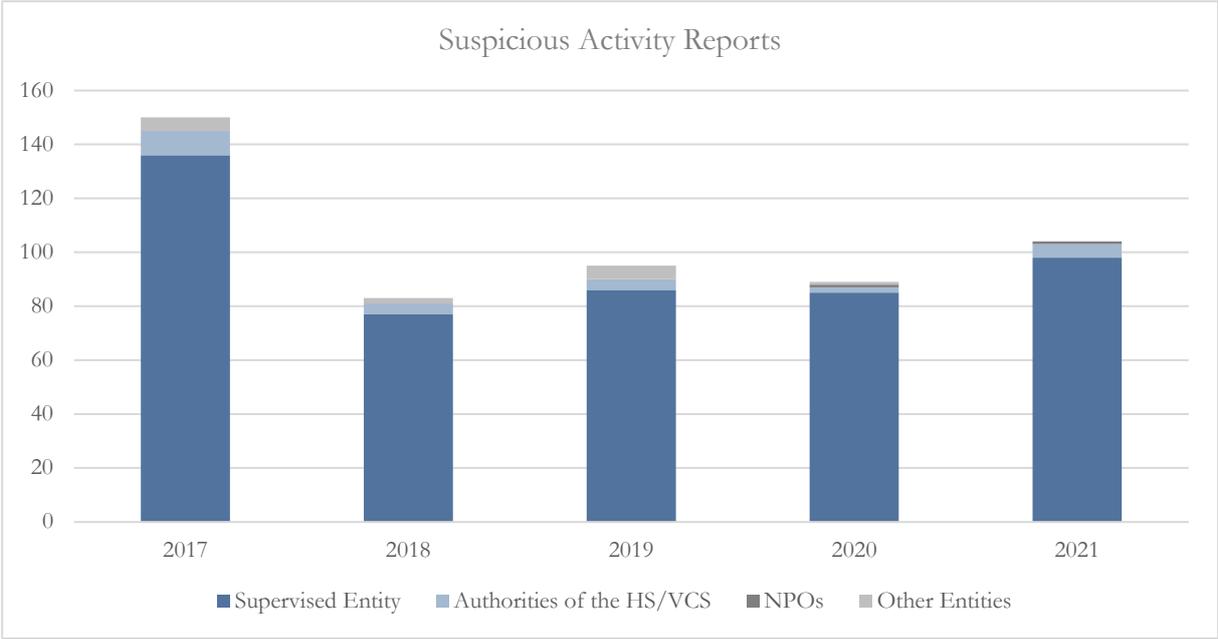
ASIF is the central authority for financial intelligence through its Financial Intelligence Unit. The Unit is an important source of information for initiating investigations into money laundering, terrorist financing and predicate offences. The Unit performs several key functions:

- 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 2021, ASIF received 104 suspicious activity reports, 98 of which from the obliged entity, i.e. the IOR, 5 from authorities of the Holy See/Vatican City State, and 1 from an NPO. The suspicious activity reports received in 2021 confirm 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 of possible cases of money laundering, terrorist financing and predicate offenses. In order to verify that the 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.

In 2021, the FIU did not receive any SARs potentially related, directly or indirectly, to terrorist financing. Consequently, the operational analyses carried out during the year related to possible cases of money laundering and predicate offenses. Nonetheless, countering the risk of terrorist financing continues to be a priority for the HS/VCS (see the box: *The risk of terrorist financing in the jurisdiction*).

The risk of terrorist financing in the jurisdiction

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 2021, the President of the Governorate issued 17 such orders. In forwarding the orders 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, the orders are published on the ASIF website.

3.3.3 Preventive measures

Preventive measures increase in 2021

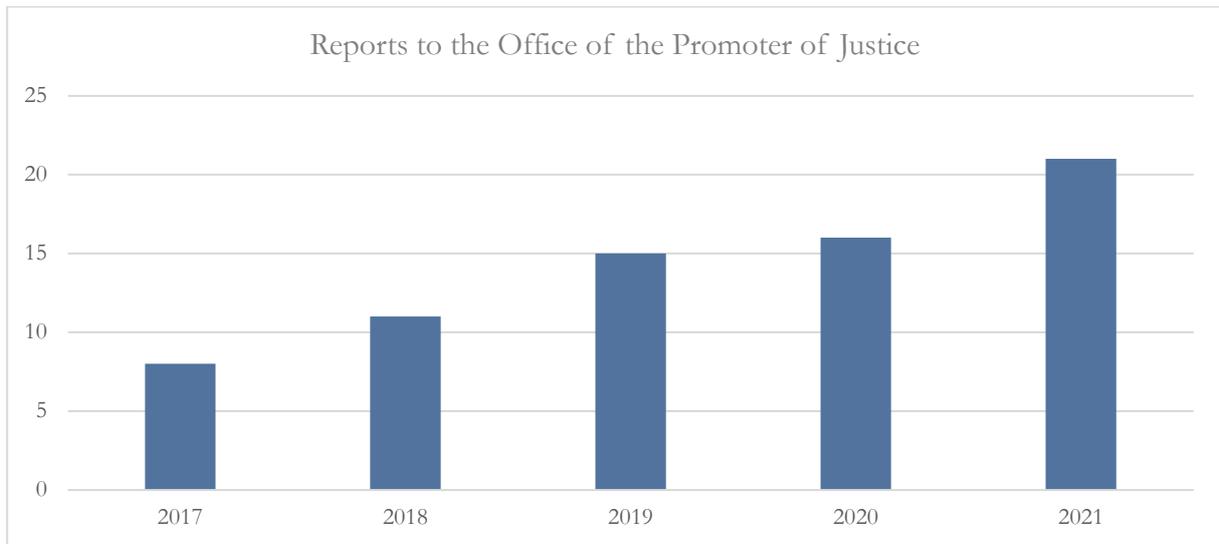
In 2021, there was an increase in the number of cases requiring the use of preventive measures pursuant to Article 48 of Law No. XVIII, which provides that ASIF may suspend the execution of a transaction or freeze accounts, funds or other assets for up to 5 working days in the case of suspicion of money laundering or terrorism financing. Indeed, unlike the previous year, where no preventive measures were ordered, the suspicious activity reports received by ASIF in 2021 gave rise to 4 suspensions, for an amount totaling €379,770, and 1 freezing measure, for a total amount of €246,418.

3.3.4 Reports to the Office of the Promoter of Justice

The number of reports submitted to the OPJ increases

In 2021, ASIF submitted 21 reports to the OPJ, of which 3 first reports and 18 supplementary reports, marking the highest number of reports submitted to the OPJ in the last 5 years.

Many of the reports involved foreign entities or conduct undertaken in, or in connection with, foreign jurisdictions. The main potential predicate offences were fraud, tax evasion and embezzlement.

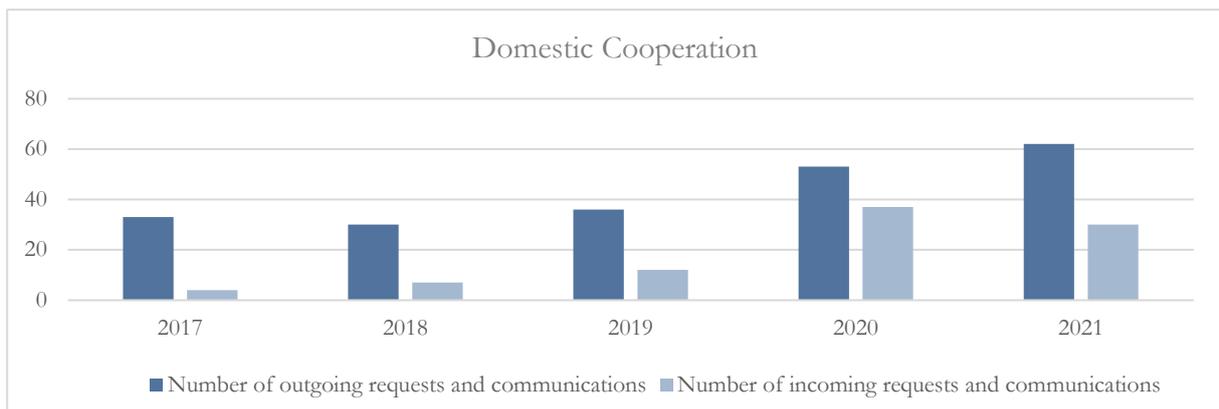


3.3.5 Domestic and international cooperation

Domestic cooperation continues to be very active

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 shall actively cooperate and exchange information for AML/CFT purposes.

In 2021, domestic cooperation remained intense and productive: the FIU sent 62 requests for cooperation, mostly in the form of information requests but also in the form of spontaneous communications, and received 30 requests for cooperation.



The number of outgoing requests showed a substantial increase over 2020, with ASIF actively requesting information from and exchanging information with domestic entities. With regard to the number of incoming requests, that figure declined slightly in 2021, though it remained high by

historical standards. Considered together, these figures demonstrate the commitment of ASIF, and of the Vatican authorities as a whole, in combatting money laundering and terrorist financing.

In particular, the interaction between the FIU, the OPJ and the Eco-Fin Section of the CdG continued to be extensive, thanks to the small size of the jurisdiction and the Memorandum of Understanding signed in April 2020.

The trend in international cooperation remains dynamic to be

As regards international cooperation, ASIF sent 34 requests for information or spontaneous communications to foreign FIUs and received 19 such communications from its counterparts. International cooperation resulted in the transmission of financial information to the OPJ and to foreign counterparts.

In 2021, ASIF signed Memoranda of Understanding with the FIUs of Ukraine, El Salvador and Guatemala, for a total of 65 Memoranda signed since 2012.

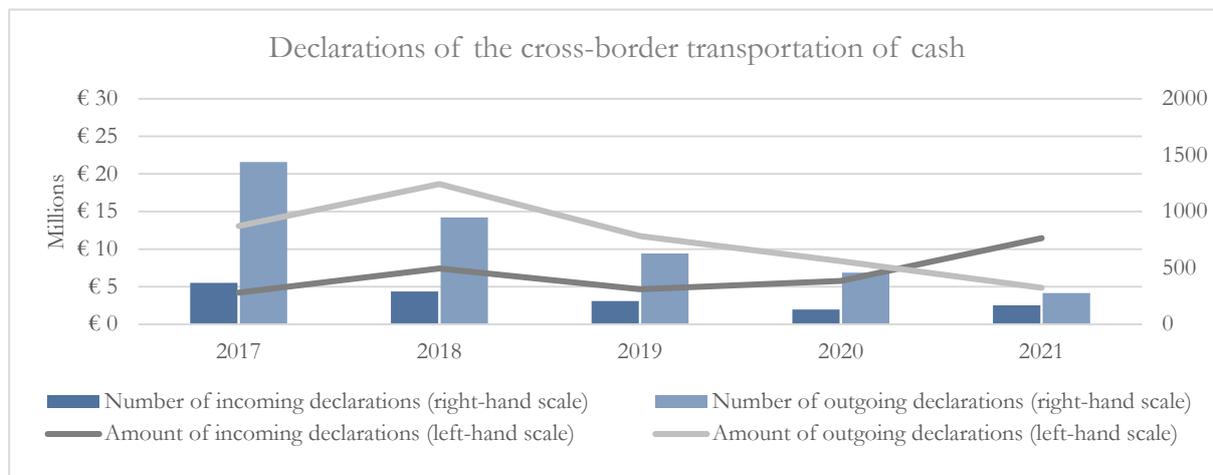


3.3.6 Declarations of cross-border cash transportation

The inflow of cash increases while outflows continue 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 or to the offices authorised by ASIF.

In 2021, ASIF recorded 168 incoming declarations, for a total amount of €11,470,000, and 277 outgoing declarations, for a total amount of €4,870,000. The number of incoming cross-border declarations was higher than the amount recorded in 2020 (by 37 declarations), and the amount declared was nearly twice as much, indicating a higher tendency to bring currency into the jurisdiction. In contrast, both the number and amount of outgoing cross-border declarations decreased considerably, indicating higher recourse to traceable forms of transferring funds and/or a lower willingness to move funds outside the jurisdiction.



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, 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 2021, the FIU carried out a structured strategic analysis on the financial flows between the Holy See/Vatican City State and Venezuela, a country with a difficult economic climate, but one with which the jurisdiction must maintain functioning financial channels in order to support the needs of the local Catholic Churches and entities there. The analysis found that, to send money to Venezuela, funds were being sent via wire transfer to accounts held in third countries before ultimately reaching their destination. This practice was used because, at the time, Venezuelan banks did not offer current accounts denominated in foreign currencies and applied a high exchange rate to convert foreign currency into local bolivars. However, given recent developments in Venezuela, it is expected that this practice will decline considerably and/or cease altogether, and that wire transfers will be made directly to Venezuelan accounts.

4 STATISTICAL TABLES

4.1 Suspicious activity reports

	2017	2018	2019	2020	2021
Total	150	83	95	89	104
<i>Obligated entity</i>	136	77	86	85	98
Authorities of the Holy See/Vatican City State	9	4	4	2	5
<i>Non-profit organisations</i>	0	0	0	1	1
Other entities	5	2	5	1	0

4.2 Preventive measures

	2017	2018	2019	2020	2021
<i>Number of suspended transactions and operations</i>	0	3	3	0	4
Amount of suspended transactions and operations	€ 0	€ 422,077	€ 240,000	€ 0	€ 379,770
<i>Number of frozen accounts, funds and other economic resources</i>	1	2	1	0	1
Amount of frozen of accounts, funds and other economic resources	€ 1,757	€ 2,362,726	€ 178,970	€ 0	€ 246,418

4.3 Reports to the Office of the Promoter of Justice

	2017	2018	2019	2020	2021
Total	8	11	15	16	21

4.4 Domestic Cooperation

	2017	2018	2019	2020	2021
<i>Number of outgoing requests and communications</i>	33	30	36	53	62
<i>Number of incoming requests and communications</i>	4	7	12	37	30

4.5 International Cooperation

	2017	2018	2019	2020	2021
Total	64	59	85	119	53
<i>Requests and communications sent to foreign FIUs</i>	50	48	68	80	34
<i>Requests and communications received from foreign FIUs</i>	14	11	17	39	19

4.6 Memoranda of Understanding with Foreign Financial Intelligence Units

	2017	2018	2019	2020	2021
Total	18	6	4	2	3

4.7 Number and amount of cross-border cash transportation declarations

	2017	2018	2019	2020	2021
<i>Number</i>	1,806	1,239	834	589	445
Total amount	€ 17,295,376	€ 26,085,386	€ 16,385,499	€ 14,163,034	€ 16,343,571
<i>Number of incoming declarations</i>	367	291	206	131	168
Number of outgoing declarations	1,439	948	628	458	277
<i>Amount declared as incoming</i>	€ 4,223,154	€ 7,416,789	€ 4,659,479	€ 5,756,557	€ 11,474,142
Amount declared as outgoing	€ 13,072,222	€ 18,668,597	€ 11,726,020	€ 8,406,477	€ 4,869,428

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*