

Holy See (including Vatican City State)

Fifth Round Mutual Evaluation Report (MER) – April 2021

Executive Summary

1. This report provides a summary of the anti-money laundering and combating financing of terrorism (AML/CFT) measures in place in the Holy See/Vatican City State (HS/VCS) as at the date of the on-site visit (30 September to 12 October 2020). It analyses the level of compliance with the Financial Action Task Force (FATF) 40 Recommendations and the level of effectiveness of HS/VCS's AML/CFT system and provides recommendations on how the system could be strengthened.

Key Findings

1) The authorities have a generally good high-level understanding of money laundering (ML)/terrorist financing (TF) threats and vulnerabilities. In a range of areas, there is a detailed understanding of risk. The authorities originally concluded that the main risk of ML arose from tax evasion by non-residents. It later became clear that tax evasion is no longer considered by the authorities to be the main source of ML. Cases which have received wide coverage in the media have raised a red flag for potential abuse of the HS/VCS system by mid-level and senior figures (insiders). The activities leading to these cases were uncovered by the authorities and have led to positive actions since 2014. However, these domestic cases are not addressed within the General Risk Assessment (GRA), which raises some concerns as to the degree to which these matters are formally recognised and acknowledged by all authorities and can be fully addressed by, and calibrated with, jurisdictional AML/CFT policies. The authorities have advised that they consider the risk of abuse of office for personal or other benefits presented by insiders and related ML to be low. However, the assessment team (AT) disagrees with this conclusion and is of the view that risks presented by insiders are important.

2) The FIU plays a central role within the HS/VCS's AML/CFT framework. Its analytical reports are the main source used by the Office of the Promoter of Justice (OPJ) to initiate ML investigations. The OPJ considers these analytical reports to be of a good quality and helpful in ML and predicate offence investigations and in tracing the proceeds of crime. In developing ML/TF investigations, sources of information other than suspicious activity reports (SARs) have been used, whereas insufficient attention seems to be given to information provided in incoming mutual legal assistance (MLA) requests. The quality of SARs received by the FIU has varied during the period under review. The authorities met onsite commented positively on the FIU's responsiveness, proactiveness and overall engagement and assistance in ML and predicate offence investigations. The central role exercised by the FIU, however, place strains on its already limited resources and, at times, detracts

from it carrying out its core functions. Whilst no ML/TF typology studies tailored for the HS/VCS had been produced, one strategic analysis had been carried out by the time of the on-site visit.

3) Most ML investigations conducted by the OPJ and the Corps of the Gendarmerie (CdG) arise from FIU reports or other alerts from the Auditor General or the sole authorised institution. Few, if any, ML cases have been generated by parallel financial investigations in domestic proceeds-generating offences. ML investigations have been protracted, partly because of late responses to HS/VCS MLA requests by foreign counterparts and partly because of under-resourcing on both prosecutorial and law enforcement sides, and insufficient specialisation of financial investigators until comparatively recently. Equally, a priority has been given to tracing and seizing the proceeds of crime vis-à-vis their laundering. The results in court are modest: two convictions for self-laundering – one in 2018 and one in 2019¹. ML activities investigated and prosecuted so far are, in general, consistent with risks identified by the jurisdiction. Actual sanctions imposed in ML cases where there have been convictions are below the statutory thresholds for the ML offence and appear rather minimal. Arguably, they are not proportionate and dissuasive.

4) Confiscation is mandatory upon conviction for ML and other proceeds-generating predicate offences. The importance given to confiscation as a policy objective is further illustrated by the legislative reform undertaken in 2018 - the adoption of a robust framework for non-conviction based confiscation which has since been used in a high-profile case - and results achieved in seizing/freezing of assets/funds, either domestically or abroad. Two confiscation orders, amounting to EUR 1.3 million were made during the period under review², both as a result of convictions for ML. Although the competent authorities (OPJ and GdG) are tracing and seizing proceeds effectively, there is a considerable gap between the amounts seized and those confiscated. The HS/VCS has effective controls in place to detect and confiscate cross-border currency/bearer negotiable instruments (BNIs) that are suspected to relate to ML/TF/predicate offences or that are falsely or not declared. Seizures and confiscations largely relate to the offences which constitute the main ML risks.

5) No incidents of TF have been identified so far. Thus, there have been no prosecutions or convictions for TF. The TF risk is considered to be low. These risks have been considered proactively and the absence of TF prosecution is in line with the risk profile of the jurisdiction. The Economic and Financial Crime Unit of the CdG (ECO-FIN Unit) is responsible for TF identification and investigation. Whilst there have been no recent terrorist incidents in the HS/VCS, ECO-FIN Unit officers understand that there should be a parallel financial investigation alongside an investigation into any future terrorist attack. This notwithstanding, the HS/VCS strategy documents, security plans and force instructions for terrorism do not set out a clear requirement for the conduct of parallel financial investigations. In the absence of prosecutions/convictions for TF, no conclusion could be made on proportionality and dissuasiveness of sanctions. On the other hand, sanctions for natural persons as foreseen by the Criminal Code (CC) are proportionate and dissuasive.

¹ Another conviction was achieved in the L, C and S case on 21 January 2021 (discussed under 10.7).

² In addition to these confiscations, on 21 January 2021, the court pronounced conviction (at first instance) and confiscation in the L, C and S case.

6) The HS/VCS has a domestic mechanism that allows it to give effect to United Nations (UN) sanctions for TF and financing the proliferation of weapons of mass destruction (PF) without undue delay. However, the AT found that one designation and an update related to UN Security Council Resolution (UNSCR) 1267 had not been transposed to the national list by the time of the on-site visit and there had been a delay in transposing an update related to UNSCR 1718. This raises some concerns over the effective implementation of TF and PF-related targeted financial sanctions (TFS). No funds or other assets have been frozen in relation to designated persons or entities as there have been no matches. A detailed ML/TF risk assessment for non-profit organisations (NPOs) was conducted in 2020 but did not identify the subset vulnerable to TF abuse.

7) Overall, the Supervisory and Financial Information Authority (ASIF) authorised institution has a sound understanding of its ML/TF risks which it assesses as medium-low. In general, customer due diligence (CDD) and record-keeping obligations have been applied diligently and there is a rigorous risk-based transaction monitoring programme that requires the collection of CDD information and documentation as necessary throughout the course of a business relationship. Customer risk assessments are automatically reviewed on a monthly basis. Effective measures are applied to address higher risk customers. The AT considers the number of SARs to be reasonable and the quality in recent years is good. Internal control measures and procedures have significantly improved in recent years and the measures put in place are generally effective.

8) The AML/CFT supervisory team at the ASIF has relevant experience. Controls implemented by the authorities prevent criminals and their associates from sitting on the board of the ASIF authorised institution or in the Commission of Cardinals, which represent the Holy Father - as shareholder. Adequate controls are in place over senior management. The ASIF has a good to very good understanding of the risk profile of the ASIF authorised institution and its most recent inspection took place in 2019 (and before that 2014). Coverage and quality look to be very good, including consideration of risks presented by insiders. Overall, supervision has some very good elements of a risk-based approach (RBA) but the AT is not persuaded that full scope AML/CFT on-site inspections every five years, supplemented by targeted inspections between assessments, is enough. Four sanctions have been imposed by the ASIF during the period under review (in 2015) which is in line with the risk profile and application of preventive measures.

9) There are only a small number of legal persons that serve the mission of the HS/VCS and the Catholic Church. None have shareholders or complex control or ownership structures. Registration is conditional upon prior authorisation, which includes the application of fit and proper checks to controllers. In addition, there is significant ongoing oversight of activities, including changes to controllers. The authorities have a good understanding of the ML/TF risk presented by legal persons that are NPOs and risk assessments are underway for other legal persons. Basic information is held centrally. Given the nature of legal persons established in the HS/VCS, the beneficial owner (BO) will be the person or persons controlling the legal person through the role held (i.e. members of the administrative body) and so this information is also held centrally and is up to date.

10) The HS/VCS exchanges information and cooperates with its foreign counterparts (principally with Italy and Switzerland) in relation to ML, associated predicate offences and TF. Incoming MLA requests are executed on a timely basis and the AT noted no particular obstacles in this area. In the context of providing constructive international cooperation, the authorities will not only include the information requested by a foreign counterpart, but also other relevant information

gathered during the process of executing the request. An overall increase in the number of incoming and outgoing MLA requests has been observed since 2018.

Risks and General Situation

2. A limited financial sector is present in the HS/VCS which supports the mission of the HS/VCS and provides basic services to entities of the Catholic Church. There is only one authorised financial institution (FI) and no designated non-financial businesses and professions (DNFBPs) or virtual asset service providers (VASPs). Given the global reach of the Catholic Church, most customers of the ASIF authorised institution are non-resident. Legal persons are not established to pursue private industrial or commercial purposes and they do not have shareholders or complex ownership structures.
3. Significant donations pass through the HS/VCS each year – through public authorities, NPOs and customers of the ASIF authorised institution. Donations typically come from the most developed regions of the world and are directed to developing regions, some of which are in, or close to, conflict zones and which do not have a fully developed financial system or do not permit (or make it very difficult) for institutions of the Catholic Church to open a bank account.
4. ML threats are mainly linked to foreign predicates and the authorities have concluded that the main risk of ML in the HS/VCS arises from laundering the proceeds of crimes committed abroad by non-residents. Cases which have received wide coverage in the media have also raised a red flag for potential abuse of the HS/VCS system by mid-level and senior figures within the jurisdiction (insiders) for personal or other benefits. A number of changes to the jurisdiction's governance framework have been made to promote greater transparency and others are planned. These are explained in Chapter 1 of the MER.
5. According to the GRA, the risk of ML is medium-low, and risk of TF is low.

Overall Level of Compliance and Effectiveness

6. Since the last evaluation, the HS/VCS has taken steps to improve its AML/CFT framework. New legislation has been introduced to strengthen the overall AML/CFT framework, which includes amendments to the AML/CFT law (most recently in October 2020), the *Motu proprio* of the Supreme Pontiff and the laws on Criminal Matters (11 July 2013) and the *Motu Proprio* of the Supreme Pontiff (8 August 2013) subjecting NPOs to the AML/CFT law. Other actions were taken, which include the admission of the ASIF to the Egmont Group of Financial Intelligence Units, closure of accounts at the ASIF authorised institution not having a direct relationship with the HS/VCS or Catholic Church, and the establishment of two Pontifical Commissions to study the economic and administrative structures of the VCS and the various offices which serve the universal mission of the Catholic Church. However, some deficiencies remain in the HS/VCS's technical compliance framework.
7. A substantial level of effectiveness has been achieved in international cooperation, supervision of the financial sector, applying AML/CFT preventive measures by FIs, transparency of legal persons and investigating and prosecuting TF. A moderate level of effectiveness has been achieved in understanding and assessing ML/TF risks, using financial intelligence, investigating and prosecuting ML, confiscating proceeds and instrumentalities, and implementation of TF and PF-related TFS.

Assessment of risk, coordination, and policy setting (Chapter 2 of MER; 10.1, R.1, 2, 33 & 34)

8. The authorities have a generally good high-level understanding of ML/TF threats and vulnerabilities, aided by the limited financial activity that takes place in the jurisdiction and action taken in recent years to improve transparency of HS/VCS institutions. In a range of areas, there is a detailed understanding of risk. However, the GRA does not generally describe who is presenting a ML threat, where they are, or how they are doing it, and there has been some uncertainty as to the main ML risk.
9. The authorities originally concluded that the main risk of ML arose from tax evasion by non-residents. It later became clear that tax evasion is no longer considered to be the main source of ML. The dominant typologies suggested by cases and SARs include predicate offences of fraud, misappropriation, giving and receiving bribes, and abuse of office. Overall, ML risk is assessed as medium-low.
10. Cases which have received wide coverage in the media have raised a red flag for potential abuse of the HS/VCS system by mid-level and senior figures for fraud (insiders) for personal and other benefits (embezzlement, fraud and abuse of office as per the CC). The activities leading to these cases were uncovered by the authorities and have led to positive actions since 2014. However, these domestic threats are not addressed within the GRA, which raises some concerns as to the degree to which resulting risks are formally recognised and acknowledged by all authorities and can be fully addressed by, and calibrated with, jurisdictional AML/CFT policies.
11. The authorities have advised the AT that they consider the risk of abuse of office for personal or other benefits presented by insiders and related ML to be low. However, the AT disagrees with this conclusion and is of the view that risks presented by insiders are important. The AT has concluded that the GRA process cannot be fully complete without a comprehensive assessment and articulation of the risks presented by insiders and the risks in relation to public authorities.
12. The limited resources available to prosecute cases during the period under review had not been identified as a vulnerability, except to the extent that conflicts may arise from parts of the prosecution team practicing law in a foreign jurisdiction.
13. TF risks have been considered proactively and rated as low risk, which is consistent with the AT's view. The AT commends the authorities for proactively finding ways to substantially address their understanding of the risk profile of NPOs.
14. Jurisdictional policies and activities have addressed ML/TF risks in the GRA and those presented by insiders.
15. It is not clear that all high-risk scenarios are subject to enhanced due diligence measures. Simplified measures that are permitted for lower risk scenarios may not be in line with the risk profile of the HS/VCS.
16. Activities are consistent with action plans and with AML/CFT risks identified in the GRA. AML/CFT policies set for competent authorities are not sufficiently comprehensive or rounded.
17. There are effective coordination and cooperation mechanisms in place for the development and implementation of AML/CFT policies and activities at national level. There are also mechanisms in place in relation to PF. Cooperation is strong with respect to operational activities.

Financial intelligence, ML investigations, prosecutions and confiscation (Chapter 3 of MER; IO.6, 7, 8; R.1, 3, 4, 29–32)

18. The FIU plays a central role within the HS/VCS's AML/CFT framework. Its analytical reports are the main source used by the OPJ to initiate ML investigations. The OPJ considers these reports to be of a good quality and helpful in ML and predicate offence investigations, and in tracing the proceeds of crime. In developing ML/TF investigations, sources of information other than SARs have been used, whereas insufficient attention seems to be given to information provided in incoming MLA requests.

19. SARs are the main source used by the FIU in preparing its analytical reports. Their quality varied during the period under review. A number of cases have been opened on the FIU's own motion, some of which were based on media articles and other types of open-source information. Intelligence from other sources, particularly incoming MLA requests and cross-border cash declarations, has not triggered any ML investigations in the HS/VCS, as these sources of information are not sufficiently considered.

20. The authorities met onsite commented positively on the FIU's responsiveness, proactiveness and overall engagement and assistance in ML and predicate offence investigations. The central role exercised by the FIU in the AML/CFT framework, however, places strains on its already limited resources and, at times, detracts from it carrying out its core functions. Whilst no ML/TF typology studies tailored for the HS/VCS had been produced, one strategic analysis had been carried out by the time of the on-site visit.

21. The OPJ and the CdG are responsible for investigation and prosecution of all crimes committed in the HS/VCS, including economic crime and ML. The CdG works under the direction of the OPJ, and its ECO-FIN Unit is responsible for conducting parallel financial investigations in the cases assigned to it by the OPJ or on its own initiative.

22. Most ML investigations arise from FIU reports to the OPJ, whereas other public authorities may and did submit crime-related alerts to the OPJ. It is noted that some of the most complex cases were triggered by alerts from authorities other than the FIU, in particular a high-profile investigation which received significant media coverage in 2020. At the time of the on-site visit, five cases had been brought to judicial or administrative proceedings, some of which have been completed or are still in the trial stages.

23. No domestic investigation into any report submitted to the OPJ generated a ML case before the Tribunal until 2018. The most complex ML case investigated and brought before the Tribunal so far was initiated in 2013. It was not concluded in the Tribunal at the time of the onsite visit³. The AT remains concerned that the OPJ is still insufficiently resourced to handle simultaneously several complex economic and financial cases in a timely way⁴.

³ Guilty verdicts were returned on 21 January 2021.

⁴ A fourth prosecutor joined the OPJ shortly after the on-site visit and a fifth prosecutor was also recruited soon after.

24. Overall, the results in the court are modest: two convictions for self-laundering – one in 2018 and one in 2019⁵ - had been achieved by the time of the on-site visit. This notwithstanding, ML investigations/prosecutions/convictions are generally in line with the jurisdiction's risk profile.
25. Actual sanctions imposed in ML cases where there have been convictions are below the statutory thresholds for the ML offence. Extenuating and aggravating features can be considered in sentencing to reduce or increase statutory penalties. Sanctions imposed so far appear rather minimal. Arguably, they are not proportionate and dissuasive.
26. The lack of a formal statement on the policy objective to pursue confiscation has been compensated, at least to a certain extent, by an important legislative development. The introduction of robust non conviction-based confiscation in 2018, providing a preventive confiscation tool in relation to goods in the possession of a person who cannot justify their legal origin, considered along with the results achieved so far in seizing/freezing of assets (in the jurisdiction and abroad) indicate that confiscation is pursued as a policy objective.
27. During the period under review, two confiscation orders were executed. The first ever confiscation order in the HS/VCS was imposed in December 2018. The overall amount of assets confiscated so far is approximately EUR 1.3 million. Considerable amounts have been frozen (either domestically or abroad at the request of the HS/VCS) pending completion of the criminal proceedings. Whilst this confirms a pro-active approach and effectiveness in identifying and tracing the proceeds, the fact remains that the value of confiscation orders executed during the period under review is far below the amounts frozen. This appears to be a consequence of lengthy investigations and the fact that final convictions have yet to be achieved in numerous cases with significant confiscation requests.
28. While no false declaration on cross border movements of currency/BNI has been detected, one investigation was triggered by a SAR submitted by the ASIF authorised institution. This involved a non-declaration of cross border transportation of cash withdrawn from a safety deposit box. This case was not investigated by the ECO-FIN Unit at the time and was passed to the Governorate which issued an administrative sanction, subsequently reduced on appeal to EUR 114 000.
29. Two confiscations orders executed so far reflect, in part, the assessment of jurisdictional risks.

Terrorist and proliferation financing (Chapter 4 of MER; IO.9, 10, 11; R. 1, 4, 5–8, 30, 31 & 39.)

30. In the period under review, there have been no prosecutions or convictions for TF offences. The AT considers this to be broadly in line with the jurisdiction's risk profile.
31. The ECO-FIN Unit (which would investigate any case of TF), the CdG as a whole, and all the HS/VCS authorities are acutely aware of the exposure of the HS/VCS as a potential target of terrorist and extremist activities, given the highly visible nature of the Supreme Pontiff in his pastoral role.
32. TF investigations would be identified by SARs, by police intelligence or instituted in the context of a terrorism investigation. Any SAR containing TF elements is given priority by the ASIF. Each ML or predicate offence-related SAR is analysed by the ASIF also from a TF perspective. One TF-related SAR has been submitted so far, but no TF elements were found. On the other hand, there has been one

⁵ Another conviction was achieved in the L, C and S case on 21 January 2021.

situation where a preliminary investigation/inquiry into TF suspicion was carried out by the CdG. The analysis confirmed that there were no TF elements and the case was then archived. Being fully aware that TF can involve small sums, it is commendable that ECO-FIN Unit is also developing preventive strategies, such as spot checks of persons carrying cash below the EUR 10 000 threshold. The application of this measure allows the CdG to identify movements of funds which, together with other information, may either indicate that ML or TF might be taking place, or, may exclude such possibility

33. The CdG has a comprehensive anti-terrorism strategy for protecting the HS/VCS. This strategy forms a part of the overall security plan of the jurisdiction. However, the evaluators have not noted in the strategy documents, security plans and force instructions shown to them a clear requirement for the conduct of parallel financial investigations in any terrorist enquiry.

34. In the event of any TF investigation failing to produce sufficient evidence to prosecute for TF, then other terrorism offences may be considered, especially if the financier was part of the group involved. Since no concrete indication of TF has ever emerged, there has been no need to apply disruptive measures.

35. Despite not being a member of the UN, the HS/VCS has committed itself to implementing the UN Security Council TF and PF-related TFS. To this end, it has adopted a domestic mechanism that allows it to give effect to such sanctions without undue delay. However, the AT found that, on three occasions, updates related to UNSCR 1267 and UNSCR 1718 were either not transposed or transposed with a significant delay into the HS/VCS national list. This raises some concerns over the effective implementation of TF and PF-related TFS by the competent authorities.

36. The transposition of designations under UNSCRs 1267, 1373 and 1718 to the national list takes place in accordance with a practice that is not fully documented. This may affect the overall effectiveness of the practice.

37. A detailed NPO risk assessment for ML/TF was conducted in 2020 which, inter alia, collected information through a self-assessment questionnaire. The residual risk derived from the risk assessment is presented in the sectorial report as an aggregate of both ML and TF risk. As a result, the subset of NPOs vulnerable to TF abuse was not identified by the authorities. At the same time, based on information provided by the HS/VCS competent authorities, there are indications that some other charitable legal entities might fall within the scope of the FATF definition of NPOs.

38. Representatives of the NPO sector met onsite were aware of the results of this sectorial risk assessment. They confirmed that the self-assessment questionnaire completed at the request of the authorities had helped them advance their understanding of potential ML/TF risk and expressed appreciation for the supervisory authorities' work in this area. However, the sector's understanding of TF risk is considered by the AT to be at an embryonic stage. The ASIF adequately monitors and ensures compliance by the ASIF authorised institution with its obligations regarding PF-related TFS.

39. No funds or other assets have been frozen in relation to designated persons or entities under the TF and PF-related TFS regime and there have been no international requests (formal or informal) for assistance.

Preventive measures (Chapter 5 of MER; IO.4; R.9–23)

40. Overall, the ASIF authorised institution has a sound understanding of its ML/TF risks which it assesses as medium-low. This is considered to be a reasonable assessment, though it is not split between ML and TF. Nonetheless, the methodology followed to assess risk needs some further refinement. The institution has a very thorough understanding of its AML/CFT obligations.

41. In general, risk-based mitigating measures are applied that are commensurate with risk. All of the necessary elements are in place, including a framework to measure ML/TF risk and a comprehensive customer risk-rating mechanism that enables the institution to identify when and what mitigating measures are to be applied. The mechanism, however, may benefit from some refinement in one particular area.

42. In general terms, CDD and record-keeping obligations have been diligently applied. CDD information and documentation is collected at the time of onboarding and customer risk assessments are automatically reviewed on a monthly basis. In addition, relationships are reviewed periodically based on risk. There is a rigorous risk-based transaction monitoring programme that requires the collection of CDD information and documentation as necessary throughout the course of a business relationship.

43. Effective measures are applied to address higher risk customers. Use is made of screening tools to ensure that the institution complies with obligations related to politically exposed persons (PEPs), wire transfers, TFS and higher risk countries.

44. The AT considers the number of SARs to be reasonable, and that the reporting obligations have been met throughout the assessment period by the ASIF authorised institution. However, until 2019, there had been some delays in the reviews of transaction alerts, and it seems that there was a degree of over-reporting in earlier years. The quality of SARs in recent years is considered to be good, though it is not clear whether reports are in line with risks identified in the GRA, since this is not monitored.

45. Internal control measures and procedures to facilitate and ensure compliance with AML/CFT obligations have significantly improved in recent years and the measures put in place are generally effective.

Supervision (Chapter 6 of MER; IO.3; R.14, R.26–28, 34, 35)

46. The AML/CFT supervisory team in place in the ASIF has relevant private sector experience. Officers are supported by senior management with substantial supervisory experience in the jurisdiction. The AT considers that the right skillset is in place to apply the ASIF's AML/CFT Supervisory Methodology, recognising that it has authorised just one financial institution (with a simple business model) and that skilled external resources are brought in as necessary on occasion (to support full scope on-site inspections every few years).

47. Controls implemented by the ASIF authorised institution and supervisor prevent criminals and their associates from sitting on the institution's Board. Adequate controls are in place over senior management. The Commission of Cardinals – who represent the Holy Father (as shareholder) – and the Prelate do not directly fall within the ASIF's licensing responsibilities but instead are subject to ex-ante canonical checks by the Secretariat of State and ex-post checks by the ASIF. These sufficiently address fitness and propriety.

48. The supervisor has a good to very good understanding of the risk profile of the ASIF authorised institution. It has received, and receives, a substantial level of information from the institution and meets routinely with the FIU.

49. Based on its current assessment of AML/CFT risk, the ASIF's AML/CFT methodology provides for a full scope onsite inspection of the ASIF authorised institution every four/five years, supplemented by targeted inspections in between. The most recent full scope inspection took place in 2019 and, before that, in 2014. Coverage of the inspection and its quality look to be very good, including consideration of domestic threats identified in Chapter 1 of the MER. Overall, supervision has some very good elements of a RBA. However, the AT is not persuaded that full scope AML/CFT onsite inspections every four/five years is enough. There is scope for the approach to be enhanced to allow for a more demonstrably sophisticated and systematic approach and to better address potential abuse of the HS/VCS system by insiders for personal or other benefits.

50. To date, four sanctions have been imposed by the ASIF (2015) – all orders to remediate. This is on the basis that the severity of other breaches during the review period has not justified the imposition of sanctions. This is in line with the risk profile and application of preventive measures of the ASIF authorised institution. There is no lack of commitment or will by the ASIF to seek imposition of sanctions when appropriate, but the absence of formal policies/procedures is not helpful in demonstrating this further. Under the AML/CFT law, the ASIF would present a case to the Governorate for the imposition of a more serious sanction; this body has no experience in applying sanctions for breaches of supervisory standards and policies/procedures have not been established. Hence, the AT is left with a concern about the robustness of this part of the framework.

51. Supervisory actions are having an effect on compliance with the AML/CFT law. The quality of the interaction with the ASIF has developed to a level which is not only informative and reliable but also has elements of comprehensiveness. The ASIF has promoted a clear understanding of AML/CFT obligations and ML/TF risks by the ASIF authorised institution.

Transparency and beneficial ownership (Chapter 7 of MER; IO.5; R.24, 25)

52. There are only a small number of legal persons. None are established to pursue private industrial or commercial purposes – rather they exclusively serve the mission of the HS/VCS and the Catholic Church which makes the sector of legal persons very homogeneous overall. No legal person has shareholders or complex control or ownership structures.

53. The different types, forms and basic features of legal persons of the HS/VCS are described to some extent in the Code of Canon Law, the Law on Civil Legal Persons, the Law on the Registration and Supervision of NPOs and the Law on Regulation of Voluntary Activities, all of which are publicly available. However, there is no guidance or overarching law that comprehensively addresses registration, administration and winding up of legal persons.

54. A comprehensive and in-depth assessment of the ML/TF risk presented by legal persons that are NPOs has been conducted for the first time in 2020 and the authorities have a good understanding of ML/TF risks. A ML/TF risk assessment of other legal persons is underway. The ML/TF risks of these legal persons are readily comparable to those of NPOs as they pursue the same activities (i.e. support of the mission of the HS/VCS and the Catholic Church).

55. Legal persons register with the Governorate and this is conditional upon prior authorisation. This authorisation vets the natural persons that will be involved in the management and oversight of such legal persons and prevents criminals or their associates from sitting on either the administrative or control bodies (corporate bodies). There is also significant on-going oversight of activities of legal persons at different levels, which further prevents their misuse. This includes ongoing reviews of minutes of meetings, budgets, and financial statements, together with ex-ante fit and proper checks where there are subsequent changes in composition of the administrative or control bodies. In their totality, these checks form a robust and effective supervision of legal persons.

56. Basic information is held centrally. Given the nature of legal persons established in the HS/VCS, the BO will be the person or persons controlling the legal person through the role held (i.e. members of the administrative body) and so this information is also held centrally.

57. The adequacy, accuracy and currency of basic and BO information held is ensured by two complementary measures: (i) the Governorate conducts checks of basic and BO information every six months to ensure that information is updated regularly; and (ii) as noted, it is practice for a change to a member of the corporate bodies to be approved in advance. Competent authorities can access basic and BO information kept in the registers held by the Governorate on a timely basis.

58. No enforcement actions for infringements of the information requirements of R.24 and R.25 have been taken by the competent authorities as no opportunities have presented themselves.

59. Regarding legal arrangements, the AT has satisfied itself that the administration of foreign trusts in the HS/VCS can be virtually ruled out in practice.

International cooperation (Chapter 8 of MER; IO.2; R.36–40)

60. As explained above, ML threats are generally external. Most predicate offences are committed outside the jurisdiction and most customers of the ASIF authorised institution are non-resident. Accordingly, international cooperation is important in the context of the HS/VCS. Most ML investigations relate to alleged criminal activity that has been committed in Italy or involve Italian citizens. Under the Lateran Treaty, the HS/VCS enjoys enhanced cooperation with Italy.

61. The HS/VCS provides legal assistance to other jurisdictions based on provisions for judicial cooperation set out in international conventions ratified by the HS/VCS. An overall increase in the number of incoming and outgoing MLA requests has been observed since 2018. When it appears necessary for execution, or when it may facilitate such execution, additional information is requested from the requesting state. Incoming requests are executed on a timely basis and no obstacles noted.

Priority Actions

- In the next iteration of the GRA (2021), the authorities should: (i) focus more intensively on the articulation of threats (both foreign and domestic), including those presented through abuse of the system by insiders for personal or other benefits, and related ML; (ii) articulate residual risks (including likelihood and consequences (e.g. reputational risk)).
- The authorities should complete the assessment of ML/TF risk for public authorities and ensure that findings are fully incorporated into the next iteration of the GRA.
- The HS/VCS competent authorities should enhance the use of financial intelligence in criminal investigations with a view to proactively pursuing parallel financial investigations and ensure that evidence is gathered in a timely manner.
- Policies and procedures of the competent authorities should be reviewed in such a manner so as to ensure that intelligence and information originating from other sources, particularly incoming MLA requests and cross-border cash declarations, is appropriately assessed to determine whether an analysis or an investigation in the HS/VCS is warranted.
- The implementation of an effective FIU staff retention strategy is necessary to reduce the high rate of staff turnover, including the risk of institutional memory loss. As a matter of priority, staff should undergo specialised training on operational and strategic analysis. Also, the FIU should ensure that all new staff joining its operational and strategic analysis teams have sufficient AML/CFT experience and expertise.
- The authorities should: (i) recruit more prosecutors with practical experience of prosecuting financial crime in other jurisdictions, and ensure all new prosecutors work exclusively for the HS/VCS; (ii) strengthen the expertise of the ECO-FIN Unit's financial investigators and consider the need for additional in-house accountancy or other relevant technical expertise for complex financial analysis; (iii) introduce a protocol/operational procedures to be followed by all prosecutors to facilitate investigations and prosecutions of ML and serious financial crime by setting targets for initial review of new ML and serious financial crime cases, and targets for progressing such cases to indictments; and (iv) establish a comprehensive procedure for petitioning the Holy Father when requesting consent to pursue a criminal prosecution against cardinals and bishops.
- The authorities should ensure that money trails are followed thoroughly in all complex financial investigations in order to trace all direct and indirect proceeds and instrumentalities used.
- The authorities should establish a fully documented mechanism ensuring the effective communication of designations and transposition of all UNSCR TFS designations into the national list without delay.
- The ASIF should enhance its approach so that a more comprehensive and systematic approach to its supervision is adopted, in particular reviewing the frequency of full inspections and the selection of topics for targeted inspections so as to address all relevant risks more demonstrably.

Effectiveness & Technical Compliance Ratings

Effectiveness Ratings⁶

IO.1 - Risk, policy and coordination	IO.2 - International cooperation	IO.3 - Supervision	IO.4 - Preventive measures	IO.5 - Legal persons and arrangements	IO.6 - Financial intelligence
ME	SE	SE	SE	SE	ME
IO.7 - ML investigation & prosecution	IO.8 - Confiscation	IO.9 - TF investigation & prosecution	IO.10 - TF preventive measures & financial sanctions	IO.11 - PF financial sanctions	
ME	ME	SE	ME	ME	

Technical Compliance Ratings⁷

R.1 - assessing risk & applying risk-based approach	R.2 - national cooperation and coordination	R.3 - money laundering offence	R.4 - confiscation & provisional measures	R.5 - terrorist financing offence	R.6 - targeted financial sanctions - terrorism & terrorist financing
LC	LC	LC	LC	LC	PC
R.7- targeted financial sanctions - proliferation	R.8 -non-profit organisations	R.9 - financial institution secrecy laws	R.10 - Customer due diligence	R.11 - Record keeping	R.12 - Politically exposed persons
PC	PC	C	LC	LC	LC
R.13 Correspondent banking	R.14 - Money or value transfer services	R.15 - New technologies	R.16 - Wire transfers	R.17 - Reliance on third parties	R.18 - Internal controls and foreign branches and subsidiaries
NC	LC	LC	PC	N/A	LC
R.19 - Higher-risk countries	R.20 - Reporting of suspicious transactions	R.21 - Tipping-off and confidentiality	R.22 - DNFBPs: Customer due diligence	R.23 - DNFBPs: Other measures	R.24 - Transparency & BO of legal persons
LC	C	LC	LC	LC	PC
R.25 - Transparency & BO of legal arrangements	R.26 - Regulation and supervision of financial institutions	R.27 - Powers of supervision	R.28 - Regulation and supervision of DNFBPs	R.29 - Financial intelligence units	R.30 - Responsibilities of law enforcement and investigative authorities
LC	LC	PC	LC	LC	LC
R.31 - Powers of law enforcement and investigative authorities	R.32 - Cash couriers	R.33 - Statistics	R.34 - Guidance and feedback	R.35 - Sanctions	R.36 - International instruments
LC	LC	C	LC	LC	C
R.37 - Mutual legal assistance	R.38 - Mutual legal assistance: freezing and confiscation	R.39 - Extradition	R.40 - Other forms of international cooperation		
LC	LC	LC	LC		

⁶ Effectiveness ratings can be high (HE), substantial (SE), moderate (ME), or low (LE) levels of effectiveness.

⁷ Technical compliance ratings can be compliant (C), largely compliant (LC), partially compliant (PC), or non-compliant (NC). Recommendations can be not applicable (N/A).

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