

# The Vatican City (Holy See)

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RISK & COMPLIANCE REPORT

DATE: January 2017

<b>Executive Summary - Vatican City</b>	
<b>Sanctions:</b>	None
<b>FATF list of AML Deficient Countries</b>	No
<b>Higher Risk Areas:</b>	Not on EU White list equivalent jurisdictions
<b>Medium Risk Areas:</b>	Compliance with FATF 40 + 9 Recommendations US Dept of State Money Laundering assessment
<b>Major Investment Areas:</b>  <b>Industries:</b> printing; production of coins, medals, postage stamps; mosaics and staff uniforms; worldwide banking and financial activities	
<b>Investment Restrictions:</b>  Information unavailable	

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**Section 1 - Background**

Popes in their secular role ruled portions of the Italian peninsula for more than a thousand years until the mid 19th century, when many of the Papal States were seized by the newly united Kingdom of Italy. In 1870, the pope's holdings were further circumscribed when Rome itself was annexed. Disputes between a series of "prisoner" popes and Italy were resolved in 1929 by three Lateran Treaties, which established the independent state of Vatican City and granted Roman Catholicism special status in Italy. In 1984, a concordat between the Holy See and Italy modified certain of the earlier treaty provisions, including the primacy of Roman Catholicism as the Italian state religion. Present concerns of the Holy See include religious freedom, threats against minority Christian communities in Africa and the Middle East, sexual misconduct by clergy, international development, interreligious dialogue and reconciliation, and the application of church doctrine in an era of rapid change and globalization. About 1.2 billion people worldwide profess Catholicism - the world's largest Christian faith.



## Section 2 - Anti – Money Laundering / Terrorist Financing

### FATF status

The Vatican City is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

### Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in The Vatican City was undertaken by the Financial Action Task Force (FATF) in 20xx. According to that Evaluation, The Vatican City was deemed Compliant for x and Largely Compliant for x of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for all 6 of the Core Recommendations.

### Main Conclusions from latest Mutual Evaluation Follow-Up (2013):

It is clear from this review that much work has been done in a short time to meet most of the MONEYVAL technical recommendations. There are many welcome clarifications and improvements to the AML/CFT legal structure.

The legal structure for criminalisation of ML and TF and related confiscation is much improved, but still needs to be tested in practice. The legislation governing the freezing of terrorist assets pursuant to relevant UNSC Resolutions has been amended and a new listing was adopted on 8 November 2013.

There are important processes in train to ensure that the financial institutions within the HS/VCS know who their account holders are and that customer due diligence measures are applied to them in line with international standards. This work is ongoing. It appears to have generated a significant number of suspicious transaction reports, which are being analysed by the FIA and, where appropriate, referred to the Promoter of Justice. The first mutual legal assistance request has been made by the HS/VCS and this was in a ML case.

It is particularly welcome that the autonomy of the FIA to negotiate MoUs has been restored, that MoUs have been concluded and more are being negotiated. The new professional structure of the FIA, set out in its revised statute, will need supplementing with more trained and experienced AML/CFT staff to handle the full range of its FIU functions.

Similarly, now that a decision has been taken that the FIA should become the prudential supervisor as well as the AML/CFT supervisor, the FIA needs to recruit appropriately skilled professionals quickly to undertake these responsibilities. It was somewhat surprising that there

have not been formal AML/CFT inspections yet of the IOR and APSA, though it is noted that the remediation processes undertaken by the IOR, and to some extent the APSA, are being pursued in close conjunction with the FIA, as a supervisor. It is important that the forthcoming inspections of IOR and APSA proceed as now planned. As indicated in the MER, these inspections should include risk-focused sample testing of customer files. In this context it is noted that a credible regime is now formally in place in terms of AML/CFT supervisory powers and sanctioning, which now also needs to be tested in practice.

The regulations which are still outstanding in respect of expertise and integrity requirements for financial institutions need to be issued quickly. Until then, the FIA cannot take on the assessment of the fitness and propriety of management of financial institutions and the examination of potential conflicts of interest, which are important parts of its supervisory remit.

As a result of the discussions held in the context of the examination of this first progress report, the Plenary was satisfied with the information provided and the progress being undertaken and thus approved the progress report and the analysis of the progress on the core and key Recommendations. Pursuant to Rule 41 of the Rules of procedure, the progress report will be subject of an update every two years between evaluation visits (the next update being December 2015). The HS/VCS authorities also offered to provide updates before December 2015 on any further developments under the tour de table procedure of future plenaries.

#### US Department of State Money Laundering assessment (INCSR)

The Vatican City was deemed a Jurisdiction of Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

##### **Perceived Risks:**

The Holy See is an atypical government, being simultaneously the supreme government body of the Catholic Church and a sovereign entity under international law. It operates from Vatican City State, a 0.44 square kilometer (0.17 square mile) territory created to provide a territorial basis for the Holy See. The Institute for Works of Religion (IOR) performs functions similar to those of a bank, so the IOR is commonly referred to as the "Vatican Bank." However, unlike a normal bank, the IOR does not loan money, its accounts do not collect interest, and the IOR does not make a profit for shareholders or owners. Rather, the IOR acts as a clearinghouse for Vatican accounts, moving funds from Catholic Church sources to Catholic Church destinations. Approximately 15,000 customers have accounts in the IOR; most of the clients are religious orders, Vatican employees, and clergy, including bishops.

There is virtually no market for illicit or smuggled goods in Vatican City, and there are no indications that trade or drug-based money laundering occurs in the jurisdiction. There are no indications of any ties to terrorism financing activity. The population of Vatican City, around 800, consists almost entirely of clergy (Holy See officials), the Swiss Guard, and members of religious orders.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

**CRIMINALIZATION OF MONEY LAUNDERING:**

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes  
Are legal persons covered: criminally: YES civilly: YES

**KNOW-YOUR-CUSTOMER (KYC) RULES:**

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES KYC covered entities: All institutions, entities, or persons dependent on the Holy See, including departments of the Roman Curia and the IOR that perform financial activities on a professional basis, as well as nongovernmental organizations (NGOs), religious orders, convents, monasteries, charities, men and women religious, and diplomats assigned to the Holy See

**REPORTING REQUIREMENTS:**

Number of STRs received and time frame: 329 in 2015  
Number of CTRs received and time frame: Not available  
STR covered entities: All institutions, entities, or persons dependent on the Holy See, including departments of the Roman Curia and the IOR that perform financial activities on a professional basis, as well as NGOs, religious orders, convents, monasteries, charities, men and women religious, and diplomats assigned to the Holy See

**MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:**

Prosecutions: 0 in 2015  
Convictions: 0 in 2015

**RECORDS EXCHANGE MECHANISM:**

With U.S.: MLAT: NO Other mechanism: YES  
With other governments/jurisdictions: YES

The Holy See is a member of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FATF-style regional body.

**ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:**

The Vatican continues to make progress on improving its AML/CFT procedures. Key reforms governing three Vatican oversight bodies instituted by Pope Francis in 2014 came into effect on March 1, 2015. The system's structure consigns supreme authority to the Pope, under whose leadership is the head of the Council for the Economy, which instructs the Secretariat for the Economy, which in turn monitors activities of the dicasteries (Vatican departments) and other Vatican agencies while funding pre-approved programs. The Office for the General Auditor, an independent and autonomous office, established March 1, 2015, is now responsible for investigating signs of corruption or abnormal activity. The General Auditor

reports suspicious activity to the Financial Information Authority (AIF), the Holy See's financial intelligence unit.

The Holy See continued to modernize its financial legal framework in 2015. The 2013 laws clarifying the prudential supervisory authority of the AIF, went into effect in January 2015. AIF's 2014 report, released in 2015, highlights its increasing cooperation with foreign counterparts, noting that expansion of the AIF's cooperation with other national and international financial oversight organs has improved its ability to carry out its mandate.

The Vatican adopted international accounting standards in 2014, and those standards will be used to prepare the final statements for 2015. The Vatican released a summary of its 2014 financial statements in 2015, reporting more than €1 billion (approximately \$1.09 billion) in previously off-the-books assets and showing improved returns on investments over 2013.

The Vatican issues and periodically updates a national terrorist list, based on UNSCRs.

Even though the systems for reporting suspicious and illegal accounts and transactions are in place and are flagging cases, a continued lack of indictments for money laundering or related serious proceeds-generating offenses evidence a continued need for improvement.

The Vatican continues to make progress on its AML/CFT regime. Continued fine-tuning of implementation of its laws could help maintain the momentum of reform. The Holy See should become a party to the UNCAC.

#### **Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):**

According to the US State Department, The Vatican City does not conform with regard to the following government legislation: -

**States Party to United Nations Convention Against Corruption** - States party to the United Nations Convention against Corruption (UNCAC), or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

#### **EU White list of Equivalent Jurisdictions**

The Vatican City is not currently on the EU White list of Equivalent Jurisdictions

#### **World Governance indicators**

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

#### **Failed States Index**

[To view Failed States Index Ctrl + Click here](#)

**Offshore Financial Centre**

The Vatican City is not considered to be an Offshore Financial Centre

**International Sanctions**

None Applicable

**Bribery & Corruption**

<b>Index</b>	<b>Rating (100-Good / 0-Bad)</b>
Transparency International Corruption Index	N/A
World Governance Indicator – Control of Corruption	N/A

### Section 3 - Economy

The Holy See is supported financially by a variety of sources, including investments, real estate income, and donations from Catholic individuals, dioceses, and institutions; these help fund the Roman Curia (Vatican bureaucracy), diplomatic missions, and media outlets. Moreover, an annual collection taken up in dioceses and from direct donations go to a non-budgetary fund, known as Peter's Pence, which is used directly by the Pope for charity, disaster relief, and aid to churches in developing nations. Donations increased between 2010 and 2011. The separate Vatican City State budget includes the Vatican museums and post office and is supported financially by the sale of stamps, coins, medals, and tourist mementos; by fees for admission to museums; and by publication sales. Its revenues increased between 2010 and 2011 because of expanded opening hours and a growing number of visitors. However, the Holy See has not escaped the financial difficulties engulfing other European countries; in 2012 it started a spending review to determine where to cut costs to reverse its 2011 budget deficit of 15 million euros. Most public expenditures go to wages and other personnel costs; the incomes and living standards of lay workers are comparable to those of counterparts who work in the city of Rome.

#### **Industries:**

printing; production of coins, medals, postage stamps; mosaics and staff uniforms; worldwide banking and financial activities

### Banking

The Vatican conducts worldwide financial activities, having its own bank, Istituto per le Opere di Religione (also known as the Vatican Bank)

## Section 4 - Government

### Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

### Legal system:

Religious legal system based on canon (religious) law

### International organization participation:

CE (observer), IAEA, Interpol, IOM, ITSO, ITU, ITUC (NGOs), OAS (observer), OPCW, OSCE, Schengen Convention (de facto member), UN (observer), UNCTAD, UNHCR, Union Latina (observer), UNWTO (observer), UPU, WIPO, WTO (observer)

**Section 5 - Tax**

**Exchange control**

For further information - <http://www.vaticanstate.va/content/vaticanstate/en.html>

**Treaty and non-treaty withholding tax rates**

For further information - <http://www.vaticanstate.va/content/vaticanstate/en.html>

<b>Methodology and Sources</b>
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### Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

### Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
<a href="#">FATF List of Countries identified with strategic AML deficiencies</a>	Not Listed	AML Deficient but Committed	High Risk
<a href="#">Compliance with FATF 40 + 9 recommendations</a>	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
<a href="#">US Dept of State Money Laundering assessment (INCSR)</a>	Monitored	Concern	Primary Concern
<a href="#">INCSR - Weakness in Government Legislation</a>	<2	2-4	5-20
<a href="#">US Sec of State supporter of / Safe Haven for International Terrorism</a>	No	Safe Haven for Terrorism	State Supporter of Terrorism
<a href="#">EU White list equivalent jurisdictions</a>	Yes		No
<a href="#">International Sanctions UN Sanctions / US Sanctions / EU Sanctions</a>	None	Arab League / Other	UN , EU or US
<a href="#">Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network</a>	>69%	35 – 69%	<35%
<a href="#">World government Indicators (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Failed States Index (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Offshore Finance Centre</a>	No		Yes

### **Section 3 - Economy**

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

### **Section 4 - Foreign Investment**

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

### **Section 5 - Government**

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

### **Section 6 - Tax**

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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