

# The Vatican City (Holy See)

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RISK & COMPLIANCE REPORT

DATE: March 2018

<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.

#### Follow Up Report - December 2017

The Financial Information Authority seems on a desk based review to be working efficiently, both as an FIU and as a supervisor of the one financial entity in the HS/VCS. This is despite the fact that the AIF staff is still not entirely up to strength. Existing vacancies need to be filled.

The continuing number of SARs from the IOR following the conclusion of the remediation process appears to indicate that suspicious activity reporting is well embedded in practice in the HS/VCS.

The AIF and the Promoter/VCS Tribunal have been quite active in response to international cooperation requests. The AIF seems to be proactive in requesting international cooperation in its work both on SARs and on supervision. The Promoter has made 5 MLA requests in cases where ML is being investigated, the answers to which apparently were timely and of assistance, but have not as yet resulted in ML proceedings in the HS/VCS.

The results on the law enforcement/prosecutorial/judicial side two years after the last review remain modest. No domestic investigation into SARs has generated a case of ML before the HS/VCS court. While considerable amounts of money continue to be frozen, no criminal case has yet produced a confiscation order. As no ML case has yet been brought to court, it is difficult on a desk-based review to establish clearly how proactively ML investigations in the HS/VCS have been followed up when there are other offences capable of prosecution within HS/VCS, or where offender(s) are prosecuted/convicted of predicate offences in a foreign jurisdiction. 2 investigations into ML have been suspended for some years pending the outcome of foreign proceedings for predicate offences. There may well be sound operational reasons for these decisions. It is simply noted, however, that a conviction for a domestic or foreign predicate crime is not a condition precedent for taking forward ML

cases where other evidence can be adduced to show that the property is the proceeds of crime.

The new Economic/Financial Crimes Unit and the Office of the Promoter of Justice are encouraged to examine the progress of all outstanding investigations in financial crime cases based on SARs (particularly those where assets have remained frozen or seized for some years). It is advised that they assure themselves that the domestic ML aspects of these cases are being proactively followed up with a view to ML criminal proceedings being brought expeditiously in the HS/VCS in appropriate cases. This will be very important in the context of the next MONEYVAL onsite assessment of the HS/VCS, which focuses largely on effectiveness.

The overall effectiveness of the HS/VCS's engagement with AML/CFT issues ultimately depends on the results that are achieved in the courts in cases arising from HS/VCS SARs and ML related investigations. As at the last assessment, ML cases still need to be brought before the court and tested by the Tribunal. Where other financial crime indictments are heard before the Tribunal, the Promoter should continue to monitor the results in the cases that he has brought, and actively consider challenging decisions or sentences of the Tribunal where he has concerns about the outcomes. Such challenges would also serve to underline the HS/VCS's determination that financial crime (including ML) should be prosecuted effectively.

#### 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 \$20 million. The Holy See generated a modest surplus in 2012 before recording a \$32 million deficit in 2013, driven primarily by the decreasing value of gold. 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. In February 2014, Pope FRANCIS created the Secretariat of the Economy to oversee financial and administrative operations of the Holy See, part of a broader campaign to reform the Holy See's finances.

#### Industries:

printing; production of coins, medals, postage stamps; mosaics, 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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Gary Youinou

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