

Council of Europe report calls on the Holy See to strengthen supervisory regime

Strasbourg, 18.07.2012 – The Council of Europe's Committee of experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism ([MONEYVAL](#)) today published its [first evaluation report of the Holy See](#) (including Vatican City State) (*).

The [report](#) is an evaluation of the implementation of international and European standards to combat money laundering and terrorist financing at the time of the November 2011 on-site visit, but takes into account developments up to 25 January 2012, as is permissible under MONEYVAL and Financial Action Task Force ([FATF](#)) procedures.

The report assesses levels of compliance with the FATF 40+9 Recommendations and includes a recommended action plan to strengthen the Holy See's system of anti-money laundering (AML) and combating the financing of terrorism (CFT).

The MONEYVAL report is neither an investigation into past or present allegations of money laundering and terrorist financing, nor is it an audit of a particular financial institution. However, the evaluators have assessed intensively the effective implementation of the global standards, in particular by the Institute for Works of Religion.

The first Law to combat money laundering and the financing of terrorism came into force on 1 April 2011. Following the November 2011 on-site visit, the law was rapidly revised to take into account the evaluators' emerging findings. The revised law came into force on 25 January 2012. It introduced a significant number of necessary and welcome changes which have been taken into account for ratings purposes, where appropriate.

Of the 49 FATF Recommendations under evaluation, 4 are considered to be non-applicable in the unique circumstances of the Holy See/Vatican City State. Thus 45 Recommendations are rated: 23 (51%) as partially compliant (PC) or non-compliant (NC), and 22 (49%) as compliant (C) or largely compliant (LC).

Main findings

- The Holy See has come a long way in a very short period of time and many of the building blocks of an AML/CFT regime are now formally in place. But further important issues still need addressing in order to demonstrate that a fully effective regime has been instituted in practice.
- No AML/CFT risk assessment has been undertaken. A process has been initiated to commence a risk assessment as the evaluators identified factors present in the system which could potentially increase AML/CFT risks.
- The legislative base for supervision needs strengthening. The evaluators considered that there was a lack of clarity about the role, responsibility, authority, powers and independence of the Financial Intelligence Authority (FIA), as the AML/CFT supervisor. No on-site visits have been conducted and no sample testing of customer files has taken place. It is strongly recommended that the Institute for Works of Religion is independently supervised by a prudential supervisor in the near future, and that "fit and proper" criteria are applied to senior management in financial institutions by the AML/CFT supervisor.
- Money laundering has been fully criminalised in accordance with FATF standards although effectiveness of implementation has yet to be demonstrated. Financing of terrorism has also been criminalised although the specific criminalisation of financing in respect of certain terrorist acts in relevant UN counter-terrorism conventions is absent. While detailed legislative provisions for freezing of funds

associated with terrorism under UN Security Council Resolutions have been introduced, they had not been brought into effect within the timeframe of this evaluation.

- The FIA exercises the financial intelligence unit (FIU) functions of receiving and analysing suspicious activity reports. The number of such reports received was low, even if allowances are made for the small size of the financial sector. The FIU is adequately resourced, though its ability to collect additional information from all entities subject to reporting obligations appeared to the evaluators to be uncertain in the revised law.
- Preventive measures introduced in the revised AML/CFT law now provide a comprehensive framework including customer due diligence and record keeping requirements although there are still a number of technical shortcomings. Effectiveness of implementation however still needs to be demonstrated. The Institute for Works of Religion launched a process before implementation of AML/CFT legislation to review its client database. The report recommends that serious consideration is given to introducing a statutory provision describing those eligible to maintain accounts in the Institute for Works of Religion.
- Overall there are adequate arrangements in place to facilitate both national and international co-operation. The evaluators welcomed the Holy See's decision to become a full party to the Vienna, Palermo and Terrorist Financing Conventions of the United Nations in January 2012. Information provided showed a broadly satisfactory track record in international judicial co-operation, although one country indicated it had experienced difficulties in its mutual legal assistance relationships with the Holy See. The FIA is limited in its ability to exchange information with other FIUs by the requirement to have a Memorandum of Understanding in place with its counterparts.
- 46 non-profit organisations operate within the Holy See/Vatican City State. The FIA should have its responsibilities extended to risk-based monitoring of this sector, with necessary access to relevant books and financial records.

MONEYVAL will continue to monitor implementation of its recommendations through its follow-up procedures, which require the Holy See to submit a progress report within one year.

[Link to the report](#)

[Link to the executive summary](#)

[Link to the annexes](#)

(*) The Committee of Ministers of the Council of Europe accepted the Holy See's request in April 2011 to become subject to MONEYVAL's evaluation and follow up procedures.