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Holy See

Progress report and written analysis by the Secretariat of Core Recommendations[1]

8 December 2015

[1] 3rd round second written progress report submitted to MONEYVAL by the Holy See

Holy See is a State evaluated by MONEYVAL. This progress report was adopted at MONEYVAL's 49th plenary meeting (Strasbourg, 8-11 December 2015). For further information on the examination and adoption of this report, please refer to the Meeting Report of the 49th plenary meeting at http://www.coe.int/moneyval

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Holy See

3rd Round Second Written Progress Report

Submitted to MONEYVAL

1. Written analysis of progress made in respect of the FATF Core and Key Recommendations

1.1. Introduction

1. The purpose of this paper is to introduce the Holy See/Vatican City State's (HS/VCS) second report back to the Plenary on the progress that it has made since the consideration by the Plenary of its first progress report in December 2013 and which was published shortly thereafter. The 2013 report considered the progress made by the HC/VCS to remedy deficiencies identified in the first mutual evaluation report (MER) of the HS/VCS using the 3rd round Financial Action Task Force (FATF) 2004 Methodology for Assessing Compliance with the FATF 40 Recommendations and the FATF 9 Special Recommendations[1].

2. This paper is based on the MONEYVAL Rules of Procedure for the 3rd round, which require a Secretariat written analysis of Progress against the core Recommendations[2.] At the time of the first Progress Report, the HS/VCS had requested the Secretariat also to undertake a written analysis of the key Recommendations[3]. The Secretariat exceptionally agreed to that proposal at that time and the 2013 Secretariat analysis also included the key Recommendations.

3. For consistency with the 2013 progress review, the Secretariat has also agreed that this analysis should review the key Recommendations. Its analysis on these Recommendations is also included. The full Progress Report is subject to peer review by the Plenary, assisted by a rapporteur country and the Secretariat. The procedure requires the Plenary to be satisfied with the information provided and the progress undertaken in order to proceed with the adoption of this Progress Report, as submitted by the country, and adoption of the Secretariat written analysis, both documents being subject to subsequent publication.

4. The HS/VCS has provided the Secretariat and Plenary with a report on its further progress since 2013 according to the established progress report template. This analysis is based on a desk review of material submitted, including the important legislative development in Regulation No1 on Prudential Supervision of the Entities Carrying out Financial Activities on a Professional Basis, which entered into force on 13.1.2015. This Regulation is issued under Implementing Title III of the Law introducing Norms on Transparency, Supervision and Financial Intelligence No XVIII of 8 October 2013 (the revised AML/CFT Law). The analysis has also considered open source information including the FIU (AIF) Annual Reports of 2013 and 2014. This analysis should be read in conjunction with the December 2013 analysis, and in conjunction with the progress report and annexes submitted by the HS/VCS.

[1]It should be pointed out that the FATF Recommendations were revised in 2012 and that there have been various changes, including numbering. Therefore all references to the FATF Recommendations in the present report concern the version of these standards before their revision in 2012.

[2] The Core Recommendation as defined in the FATF procedures for evaluation under the FATF Recommendations 2003 and the Methodology of 2004 are: R1, R5, R10, R13, SRII, and SRIV.

[3] The Key Recommendation as defined in the FATF procedures for evaluation under the FATF Recommendations 2003 are R3, R4, R23, R26, R35, R36, R40, SRI, SRIII and SRV.

5. This analysis therefore covers progress on the Core and Key Recommendations evaluated in 2012[4]. The HS/VCS received the following ratings on the Core and Key Recommendations in the 2012 MER:

R.1 – Money laundering offence (LC)
R.3 – Confiscation and provisional measures (LC)
R.4 – Secrecy laws (LC)
R.5 – Customer due diligence (PC)
R.10 – Record keeping (LC)
R.13 – Suspicious transaction reporting (PC)
R.23 – Regulation, supervision and monitoring (NC)
R.26 – The FIU (LC)
R.35 – Conventions (C)
R.36 – Mutual Legal Assistance (LC)
R.40 – Other forms of co-operation (PC)
SR.I – Implementation of UN instruments (PC)
SR.II – Criminalisation of terrorist financing (LC)
SR.III – Freezing of Terrorist Assets (NC)
SR.IV – Suspicious transaction reporting related to terrorism (PC)
SR. V – International Cooperation (LC)

6. As the present analysis focuses only on the core and key Recommendations, it should be understood that only a part of the Anti-Money Laundering/Combatting the Financing of Terrorism (AML/CFT) system has been reviewed. As is customary with these progress reviews in MONEYVAL, no re-rating is ascribed as a result of the review. Recent information has been included which may potentially impact, so far as it is possible to ascertain in a desk-based review, on the current implementation of the FATF Recommendations.

1.2. Detailed review of measures taken by the Holy See in relation to the Core and Key Recommendations

A. Main changes since the adoption of the 2013 Progress Review

7. As noted above (and by the HS/VCS in their replies), the main legislative development is Regulation No1 on "Prudential Supervision of the Entities Carrying out Financial Activities on a Professional Basis", which came into effect on 13 January 2015. This provides:

- mandatory authorisation requirements for the carrying out of financial activity on a professional basis;
- organisation and management criteria in respect of the entities carrying out financial activities on a professional basis;
- requirements for the adequacy of the equity and liquidity of entities carrying out financial activities on a professional basis;

[4] R35 was rated « compliant » and has not been re-reviewed.

- criteria for risk management by entities carrying out financial activities on a professional basis;
- requirements for the competence and honorability[5] of the manager and senior management;
- procedures for provision of documents for prudential supervision;
- criteria to which the entities carrying out financial activities on a professional basis should adhere to promote the highest moral and professional standards within the entities, including a power of the supervisory authority to ask for information within the HS/VCS or a foreign State, which notably includes the evaluation of the existence of possible conflicts of interest.

8. Thus the prudential system has been put in place and the Institute for Works of Religion (IOR) is now a supervised financial institution which has been authorised by the AIF (as prudential supervisor) since July 2015. Similarly the Administration of the Patrimony of the Apostolic See (APSA), where applicable, has been authorised by the AIF since July 2015. Two new staff have been hired for the performance of regulatory and supervisory functions within the Supervision Department within AIF. This department is entirely separate from the financial intelligence department. Both departments report to the Director of the AIF.

9. The first on-site visit to the IOR took place in early 2014.

10. In parallel with the introduction of Regulation No1, the HS/VCS opened discussions with the European Commission to incorporate relevant EU financial legislation and ECB legal acts and rules within the framework of the monetary agreement between the HS/VCS and the European Union, signed on 12/12/2009. This has been achieved, taking into account the unique institutional, legal and financial architecture of the HS/VCS, through an ad-hoc arrangement annexed to the monetary agreement. The further acceptance of EU Prudential standards is intended to further strengthen the overall Vatican prudential system.

11. The overall remediation process of accounts in the IOR that was ongoing at the time of the first Progress Report was concluded by October 2015. As explained in the first Progress Report, this involved a systematic screening of all existing customer records in order to identify missing or insufficient information which would be required for the completion of the new customer identification requirements under Law N.XVIII on Transparency, Supervision and Financial Intelligence 2013. Subsequent to this "remediation" process, the HS/VCS has advised that the IOR had terminated customer relations in (approximately) 4 600 cases by the end of 2014. These terminated relationships were broadly "dormant" accounts or accounts which no longer met the restricted customer categories of the IOR. The IOR, in 2013, updated its guidelines on the categories of customer served by the Institute. These are: Institutional counterparties (Sovereign institutions of the Holy See and Vatican City State and related entities, embassies and diplomats accredited to the Holy See), Non-Institutional counterparties (employees and pensioners of the Vatican), and Institutes of consecrated Life and societies of Apostolic Life and Dioceses. This review has been assured that these guidelines are now being followed strictly. The remediation process, which the IOR management had begun after the adoption of the MER was intensified from 2013, and thereafter conducted under the supervision of the AIF.

[5] These include prohibitions on the appointment of and requirements for the dismissal of management with convictions in the HS/VCS or in a foreign State for crimes in the financial sector, corporate bankruptcy and tax crimes, crimes against the public trust, public order or against the public economy and any crimes in the VCS for which the punishment is one of not less than 1 year of imprisonment.

12. The institutional framework for the oversight of financial and economic activity has been expanded. As noted by the HS/VCS authorities, three new agencies have been created: the Council for the Economy, the Secretariat for the Economy and the Office of Auditor General. These agencies oversee the administrative and financial structures of the dicasteries (departments) of the Roman Curia and of other institutions listed by the HS/VCS. Their statutes are now issued and extend the supervisory powers of the Secretariat of the Economy over the NPOs in the Vatican. These agencies are now operational. The revised statute of AIF was approved in November 2013.

13. Work on a domestic national AML/CFT risk assessment has begun, applying the Methodology of the World Bank for national risk assessments.

B. Review of measures taken in relation to the Core Recommendations

Recommendation I – Money Laundering offence (rated LC in the MER)

14. Recommendation 1 *Further consideration should be given to clarifying the relationship between the money laundering offence (Arts. 1 (4) & (5) of the revised AML/CFT Law) and the traditional receiving offence (Art. 421 of the Criminal Code).* The analysis undertaken of the first Progress Report on the HS/VCS noted that the amendments to the Criminal Code and Code of Criminal Procedure in Law N. IX of 11 July 2013 had addressed this issue in a manner which makes clear the residual nature of the receiving offence.

15. The only factor underlying the L/C rating given to the HS/VCS in the 2012 report was the effectiveness of the ML criminalisation. The last MONEYVAL analysis of progress in 2013 noted that the FIU had disseminated three ML cases to the Promoter of Justice. This resulted at that time in four cases in total under investigation (involving five persons) and two freezing orders[6]. No indictments had been preferred at the time of the first Progress Report.

16. This review has considered the statistical information provided with the HC/VCS's replies to the current questionnaire, together with publicly available data provided in the AIF's Annual Reports for 2013 and 2014 to obtain a full picture of the status of investigations and prosecutions for money laundering, as at the end of September 2015. In the three disseminated cases reported at the time of the first progress report no indictment has yet been preferred, and thus no prosecution has been brought. It is understood that these cases are not closed by the Promoter. The action being taken in the Vatican on these disseminations is independent of any proceedings in any other jurisdictions, and it is understood, does not depend on the outcomes of any such foreign proceedings. At the time of the last progress report it was indicated that in the money laundering investigations which were opened by the Promoter between January and September 2013 1.980.000 Euros were frozen/seized by the Promoter of Justice. This case was the subject of the first Mutual Legal Assistance request by the Vatican authorities in 2013. It is understood that a reply has been received from another jurisdiction and the Promoter is now deciding on the next steps to be taken. The assets frozen in 2013 remain frozen.

17. It appears that the AIF disseminated 8 reports in all to the Promoter of Justice in 2013, 7 reports in 2014, and 13 reports so far in 2015. This means that, in total since the FIA was

[6] The Promoter of Justice can start an investigation without an STR and had done so at the time of the first Progress Report, though an STR followed.

set up, 30 disseminations have been made by the AIF to the Promoter. The HS/VCS authorities have advised that since the last review 25 new money laundering investigations have been started. Since the last Progress Report the Promoter has also initiated 2 money laundering investigations of his own motion, the remainder being initiated by FIA disseminations. From the statistics provided it appears that transactions and operations, amounting to €561.547, 89 were suspended by the FIU for periods of up to 5 days in 2014 and in 2015 amounting to EUR 490,000 and USD 1.060,000. All of these suspensions by the AIF were followed up by freezing orders.

18. Thus, overall, it seems that since the AML/CFT system was set up 29 money laundering investigations have been undertaken in HS/VCS by prosecutorial/law enforcement bodies. However, no prosecutions have, as yet, been initiated. 3 disseminations were closed by the Promoter without indictments after prosecutorial/police enquiries. It is understood that, in almost all the ML investigations opened in HS/VCS, there are other relevant investigations by authorities of another jurisdiction outside the HS/VCS, though not necessarily for the same offences. This is because the alleged underlying crimes largely involve offences committed abroad by non-Vatican citizens. In some cases these HS/VCS investigations are said to require Commissions Rogatoires to be sent abroad and full replies to be received by the HS/VCS before further action can be taken in the HS/VCS. In some cases it is also likely that ad-hoc agreements could be reached with prosecutorial authorities abroad as to the best venue for prosecution, in full respect of the sovereignty of each jurisdiction. It is also understood that there is a Statute of limitations applicable in the HS/VCS, which the Promoter has to have in mind in the conduct of ML enquiries.

19. The predicate offences underlying the laundering offences under investigation in the HS/VCS are said to include fraud, fiscal evasion, corruption, bankruptcy, insider trading, and market manipulation. As noted, it appears that almost all predicate offences in the ML investigations have been committed abroad by non-Vatican citizens/entities. There is a cumulative figure provided as proceeds seized in 2015 in the statistical table – 415.813 Euros, but no new figures have been provided in the HS/VCS replies for 2013 other than those noted above and no figures have been provided in writing for 2014. However this review has been orally advised that currently 11.2 million € cumulatively is frozen in the Vatican by the Promoter of Justice.

20. The STR system is resulting in a steadily increasing number of ML disseminations to the Promoter of Justice, suspension of transactions and (some) early freezing of assets. The number of ML disseminations compared with SARs (approximately 4%) needs to be closely followed by AIF. That said, some cases are also being initiated proactively by the Promoter. There still remains, however, a continued lack of indictments for money laundering or for related serious proceeds-generating offences in the three years since the adoption of the MER. This situation needs to be improved.

21. The 2012 mutual evaluation report noted that the Gendarmerie at that time had no specialized financial department and would be likely to rely on the assistance of the FIA in ML investigations. This review has raised questions on the current resourcing and capacities of the Promoter and the Gendarmerie to pursue financial and ML investigations effectively and in a timely manner. The authorities have advised that the competent authorities have considerable ability in this area and sufficient capacity to handle such cases, including complex ones. The authorities indicated that the Promoter of Justice has been strengthened by the appointment of two assistant prosecutors (both professors in Criminal Law and Criminal Law and the Economy, who have been admitted to appear before the Court of

Cassation and other higher courts in Italy). In addition, the authorities have advised that, due to the significant increase in internal financial investigations over the last few years, the Gendarmerie and the Promoter have now dedicated special staff to this work, 4-6 of which are in the Gendarmerie. It was also advised that prosecutors and law enforcement officers have been, and continue to be trained internally in HS/VCS, and externally by competent authorities of another jurisdiction on financial investigation issues, including training from OLAF, and at 2014 workshops on confiscation organized by INTERPOL. The AIF has also assisted the financial investigation process on some specific cases. The Gendarmerie may request access to the AIF database in their enquiries, which they have done in a few cases so far. The reported increase in resources for financial investigation is, of course, very much welcomed. However, in the absence, as yet, of concrete outputs on the law enforcement/prosecutorial side (by way of prosecutions and convictions), it is not possible (on a desk-based review) to make any meaningful assessment of the real practical effectiveness of the current ML investigatory and prosecutorial processes in the HS/VCS. These issues will need to be followed up carefully in the next onsite visit. It is considered that at least progress on ML prosecutions and indictments, and on law enforcement and prosecutorial resourcing for ML investigations should regularly be the subject of updates by the HS/VCS in the tour de table process.

Special Recommendation II - Criminalisation of terrorist financing (rated LC in the MER)

22. Recommendation 1 *The terrorist acts set out in the Annex to the UN Terrorist Financing Convention should be brought into the Criminal Code.* A major legislative drafting exercise to bring the terrorist acts set out in the Annex to the UN Terrorist Financing Convention was undertaken between the adoption of the MER in 2012 and the adoption of the first Progress Report, which satisfied this first deficiency underlying the L/C rating.

23. Recommendation 2 *The Criminal Code should be amended to criminalise the financing of terrorist organisations and individual terrorists for legitimate purposes.* This second deficiency underlying the L/C rating in the MER had been largely dealt with in legislative amendments in 2013, the interaction of which went a long way to addressing the concerns of the evaluators. The last review commented that, in the absence of judicial practice, it remains unclear whether the whole issue had been comprehensively covered, noting that the financing of an individual who is no longer actively engaged in terrorist activities was not explicitly addressed. The HS/VCS authorities consider no further measures are necessary, and that if the point arose, they would expect the revised provisions to be interpreted in such a way as to achieve the aim of the international standards. Given that the rating in 2012 was L/C and the amendments that have been made, this is considered to be a broadly tenable position. Otherwise, the legislative framework on Terrorist Financing seems fairly robust.

24. In practice the FIU has not received any STRs in relation to FT, and there have been no Terrorist Financing investigations initiated in the HS/VCS. Thus the legislative provisions on TF have not been the subject of any judicial consideration.

Recommendation 5 - Customer due diligence (rated PC in the MER)

25. Recommendation 1 *The AML/CFT Law needs to be amended to specifically require that financial institutions should verify that the transactions are consistent with the institution's knowledge of the source of funds, if necessary*. The 2013 review found that this deficiency had been addressed.

26. Recommendation 2 *Serious consideration should be given to a statutory provision describing the types of legal and natural persons eligible to maintain accounts in the IOR and APSA.* The HS/VCS authorities had indicated in 2013 that serious consideration was given to the issue of a statutory provision and that a decision on this was being taken forward in the context of the review being carried out by the Pontifical Commission for Reference on the Institute for Works of Religion and the Pontifical Commission for Reference on the Organization of the Economic-Administrative Structure of the Holy See. The authorities have advised that guidelines are in place, in line with the IOR Statute, which relate to the categories of person eligible to maintain accounts in the IOR (see paragraph 11). These guidelines have been reinforced by a binding ad hoc decision of the Board of Superintendence. The IOR has since been authorized by the AIF, as prudential supervisor, to carry out activities on a professional basis consistent with the current Statute and policies formally adopted by the Board of Superintendence of the IOR. By October 2015 the remediation process, including screening of all existing records has led to the termination of customer relationships in approximately 4800 cases. A remediation process is understood to be ongoing in the case of APSA, and this includes an onsite inspection by AIF which will be finalized in 2015.

27. Recommendation 3 *Amend the exemptions for low-risk customers, products and transactions as adopted from the Third EU AML Directive by clarifying that minimum CDD (i.e. less detailed CDD) should nevertheless be accomplished.* The 2013 review found that this deficiency had been addressed.

28. Recommendation 4 *Provide in the Law that simplified CDD measures are not permissible where higher risk scenarios apply.* The 2013 review found that this deficiency had been addressed.

29. Recommendation 5 *Stipulate in the AML/CFT Law that simplified CDD measures, with respect to credit or financial institutions located in a State that observes equivalent AML/CFT requirements, shall only be permissible where those institutions are supervised for compliance with those requirements.* At the time of the 2013 review the new AML/CFT Law gave the AIF the authority to issue regulations dealing with this issue. It also was unclear whether the necessary AIF regulation had been established. The HS/VCS has clarified that it does not see the need to issue a regulation in this situation.

30. Recommendation 6 *Simplified CDD measures should only be permissible if listed companies are subject to regulatory disclosure requirements.* At the time of the 2013 review the new AML/CFT Law gave the AIF the authority to issue regulations dealing with this issue. It is unclear whether the necessary AIF regulation has been established The HS/VCS do not see the need to issue a regulation in this situation.

31. Recommendation 7 *Amend FIA Instruction No. 2 to clarify that the verification of the identity of the customer and beneficial owner, following the establishment of the business relationship, should only be permissible where all conditions mentioned under criterion*

5.14 are met cumulatively. A 16 of the new AML/CFT Law provides that where it is impossible to carry out CDD measures, obligated persons are not permitted to establish a relationship or perform a transaction. The AIF Regulation then in force was incompatible with the new Law. Thus it was necessary for the FIA instructions to be aligned with the new law. The replies indicate no further measures are necessary. This has been clarified with the authorities. The HS/VCS authorities are firmly of the view that the Law overrides any previous guidelines or instructions.

32. Recommendation 8 *Abolish the exemptions to CDD provided under Art. 31 §3 of the revised AML/CFT Law.* The 2013 review found that this deficiency had been addressed.

33. Recommendation 9 *Where the Law allows for simplified or reduced CDD measures to customers resident in another country, the HS/VCS authorities should limit this in all cases to countries that the HS/VCS is satisfied are in compliance with and have effectively implemented the FATF Recommendations*. The 2013 review found that this deficiency had been addressed.

34. Recommendation 10 *The FIA Instructions should be amended to require that verification should occur as soon as possible in situations where verification occurs after establishment of a business relationship.* It is considered that the combination of A. 16 and A. 90 of the new AML/CFT Law meet this recommendation.

35. Recommendation 11 *The provision that only transactions executed within a period of seven days have to be considered as "linked transactions" should be abolished*. The 2013 review found that this deficiency had been addressed.

36. Recommendation 13 *FIA should raise awareness with respect to the obligations that have been introduced or clarified in the AML/CFT Law after the MONEYVAL visit to ensue effective implementation*. The 2013 review found that this deficiency had been largely addressed. Since the adoption of the first Progress Report the AIF has advised that it has continued an in-depth dialogue with obliged subjects and, in particular, the IOR at management and senior management levels, and continues to provide written guidance and training.

37. Recommendation 14 *FIA should put in place appropriate arrangements to monitor and ensure compliance with the requirements under R. 5 (including sample testing).* As noted in their replies, the AIF carried out its first onsite inspection at the IOR in early 2014. That inspection is covered more fully under R. 23 beneath. The onsite inspection included sample testing on files as well as on accounts and individual transactions.

38. It is not customary in evaluations to explain the outcomes of the supervisory inspections of an individual financial institution. However, given the centrality in this context of one institution in the HS/VCS, the Holy See has voluntarily provided the following information. It is first noted that as the remediation process had been conducted since 2013 under the supervision of the AIF, deficiencies in the handling of CDD measures identified in the remediation process naturally received close attention during the IOR supervisory visit. As with inspections in most jurisdictions, CDD shortcomings were identified in respect of the knowledge of clients, identification of beneficial owners, and record keeping. The identification of risk factors with particular HS/VCS specificities and the continuing training of IOR staff in CDD measures were also addressed. At the conclusion of the visit a

very detailed Action Plan was provided to IOR, though no sanctions, as such, were imposed.

Recommendation 10 – Record keeping (rated LC in the MER)

39. Recommendation 1 *FIA should put in place appropriate arrangements to monitor and ensure effective implementation of the record keeping requirements (including adequate sample testing).* Record keeping was included in the issues covered in the IOR onsite visit, as noted above.

40. Recommendation 2 *Adopt internal procedures clearly specifying the record keeping duties and responsibilities of APSA staff.* The 2013 review noted that Article 38 of the revised AML/CFT Law introduced comprehensive and detailed record-keeping requirements, but that no internal procedures had been introduced which clearly specify the respective duties and responsibilities of APSA staff in this regard. The replies to the present questionnaire indicate that no further measures are necessary. It is assumed that APSA staff follow the AML law requirements. It is understood that there have been some ad hoc inspections of APSA. An onsite inspection visit to the APSA is scheduled to take place in December 2015. It is understood that the AIF is generally satisfied with compliance with record keeping requirements in APSA.

Recommendation 13 and SR IV – Suspicious transaction reporting (rated PC in the MER)

41. Recommendation 1 *Amend the AML/CFT Law to broaden the reporting scope beyond the strict terrorism financing to bring it in line with international standards.* The 2013 review found that this deficiency had been addressed.

42. Recommendation 2 *Amend the reporting requirement to require that a report is submitted to the FIA when it is suspected or there are reasonable grounds to suspect that "funds" (rather than transactions) are the proceeds of criminal activity.* The 2013 review found that this deficiency had been addressed.

43. Recommendation 3 *Formally broaden the reporting duty beyond suspect operations to include suspicions on funds generally.* The 2013 review found that this deficiency had been addressed.

44. Recommendation 4 *Remove any doubt about the reporting obligation including attempted transactions.* The 2013 review found that this deficiency had been addressed.

45. Recommendation 5 *Remove any uncertainty as to the extent of the reporting obligation of the financial institutions in respect of the identification of the predicate offence.* The 2013 review found that this deficiency had been addressed.

46. Recommendation 6 *Emphasise the priority rule of the subjective assessment of the suspicious nature of the funds, where the objective indicators should only be seen as a guidance and support.* The 2013 review recommended that guidelines should be issued in an expeditious way to clarify that A 40 (1) (b) does not simply depend on the application of objective indicators but that subjective scrutiny also needs to be applied in practice by reporting entities to suspect funds or transactions. The HS/VCS authorities have not taken any further measures, as they consider that the law clearly states that both subjective and

objective consideration is required to be given. This is a tenable view, though the authorities should reconsider this 2003 recommendation if concerns on this point arise in supervisory visits.

47. The conclusion in the last progress review on these Recommendations was that SARs had risen sharply as a result of the remediation process in IOR and as a result of increased transaction monitoring generally. The authorities were anticipating approximately 150 reports by the end of 2013, after which they expected the annual figures to settle down below the then current figures. The figures for STRs between October and December 2013 (which were unavailable when the last progress report was adopted) show that 95 STRs were received from supervised institutions (the large majority being from the IOR). Thus the total of STRs in 2013 was 202. In 2014 147 STRs were received. Between January and September 2015, the SARs continued to rise to 329. This continued rise remains largely attributed to the finalization of the remediation process in 2015. Earlier this year 274 accounts still remained to be closed within the IOR's remediation process. A significant percentage of the 2015 SARs are attributed to these accounts.

48. The authorities consider that the overall increase in STRs is connected also to two factors: the overall effectiveness now of the reporting system; and the fact that some STRs were also made following requests made by customers in relation to VTC schemes in their own countries. It is assumed from this explanation that there remain non HS/VCS persons and entities with accounts in the HS/VCS, and that the supervised entities are closely monitoring these accounts, which is positive. After the inspection of the IOR in 2014 (see beneath) the AIF also provided written guidance to reporting entities to further strengthen the reporting system in line with FATF Best Practices. This presumably also encouraged more reporting, some of which may perhaps be defensive. While it is difficult on a desk-based review to make a judgment on the quality of STRs being received, as noted above, the significant increase in STRs in 2015 so far has caused the number of disseminations to the Promoter by AIF to rise from 7 in 2014 to 13. Thus the quality of some of the STRS received may not be that high. The AIF is encouraged to continue to provide feedback to reporting entities on the STRs received with a view to ensuring reports are of a uniform high quality.

49. It is noted below that, while there have been new staff appointed to the FIA for prudential and AML/CFT supervision, the staff resources for the FIA for its FIU functions have not changed since the 2013 progress review. Consideration should be given to the adequacy of FIA resources for its analytical function if the number of STRs continues to rise in the coming months.

50. No reports on FT have been received during the period under review.

C. Review of Measures taken in relation to Key Recommendations

R3 – Confiscation and Provisional Measures (rated LC in the MER)

51. Recommendation 1 *A detailed, comprehensive and modern scheme to address the range of issues described in the report should be introduced.* The 2013 review found that this deficiency had been addressed very speedily in Law No IX of 11 July 2013 on Amendments to the Criminal Code and the Code of Criminal Procedure.

52. Recommendation 2 *The Criminal Procedure Code should be amended quickly to clarify the authority to take steps to prevent or void actions, whether contractual or otherwise, where the persons would be prejudiced in their ability to recover property subject to confiscation.* The 2013 review found that this technical deficiency had also been addressed.

53. Effectiveness concerns also constituted a factor underlying the rating in the 2012 MER. It was noted in the 2013 review that Euro 1,980,000 had been seized/frozen in a 2013 money laundering investigation. That investigation has not concluded and, as noted, the money remains frozen. The reader is referred to comments under Recommendation 1 for recent information on freezing and seizing in other ML investigations. The practice seems now to be generally embedded. There remains no practice, however, in confiscation in ML cases as no prosecutions or convictions have so far been achieved in the HS/VCS for ML. Information has been provided that the modernized confiscation provisions are likely to be used shortly in a major HS/VCS prosecution for fraudulent bankruptcy. It appears that the important issue of pursuing financial investigations in general in serious proceeds-generating crime is being addressed to some extent. It is unclear whether the 2010 FATF Best Practices Paper on Confiscation (Recommendations 3 and 38) has been formally considered in the process of building up financial investigative capacity.

R4 – Secrecy Laws (rated LC in the MER)

54. Recommendation 1 *Introduce am express exemption from the obligation to observe financial secrecy with respect to the exchange of information with foreign financial institutions where this is required to implement FATF Recommendations.* In the 2013 review it was concluded that this recommendation had been satisfied at the technical level.

55. Recommendation 2 *Clarify FIA's powers to request information as recommended under R 26 and R 29 to ensure that obliged subjects cannot refuse to comply with a request for information based on the financial secrecy obligation.* In the 2013 review it was concluded that this recommendation had been satisfied at the technical level.

56. Recommendation 3 *Clarify FIA's power to exchange information with foreign supervisory authorities to make sure that official secrecy cannot inhibit such information exchange.* In the 2013 review it was concluded that this recommendation had been satisfied at the technical level.

57. Recommendation 4 *Consider adding the judicial authority to the list of all competent authorities in Chapter I bis of the revised AML/CFT Law in order to eradicate potential doubts.* In the 2013 review it was concluded that this recommendation had been satisfied at the technical level.

58. No information has been provided which indicates that there are any difficulties in the implementation of the provisions introduced to meet these recommendations.

R 23 – Regulation, Supervision and Monitoring (rated NC on the MER)

59. Recommendation 1 *The definition of supervision and inspection should be changed so that it is made clear what the powers given to the AML supervisor encompass in practice.* At the time of the first progress review a more comprehensive supervisory framework had been provided for under Title II (Chapter VII) and Title III of the revised AML/CFT Law, which formally established the FIA as the competent supervisor for both AML/CFT matters and

prudential matters. The FIA was legally provided with powers to carry out offsite and onsite inspections, and with powers to obtain extensive access to information for supervisory purposes from supervised entities, other legal entities and authorities in HS/VCS, and from foreign FIUs and other supervisory authorities.

60. Recommendation 2 *Clarify in law or regulation the exact meaning of "operational" as opposed to "full" independence of the FIA as supervisor.* At the time of the first Progress Report, this issue had been clarified in the revised AML/CFT Law, by removing the reference to "operational" in the legislation so as to be in line with the FIA Statute, which provides that the FIA shall perform its functions in full autonomy and independence.

61. Recommendations 3 and 4 *Introduce specific measures to involve the supervisor in the process of licensing and approving of senior staff at financial institutions. Directors and senior management of IOR and APSA should be specifically evaluated and 'licensed' on the basis of "fit and proper" criteria including those relating to expertise and integrity.* Regulations in respect of expertise and integrity for licensing purposes had not been issued at the time of the first Progress review. Detailed Competence and Honorability requirements for the licensing and removal of senior management of financial institutions were introduced in 2014 in respect of IOR and APSA. Prohibitions on acting as senior management include situations where a relevant person has been convicted for any offence for which legislation in the State concerned (whether HS/VCS or elsewhere) prescribes a sentence of not less than 1 year of imprisonment. Provision is made for annual verification that the relevant senior manager continues to meet the requirements. These new 'fit and proper' requirements are being used currently by the FIA as prudential supervisor in the appointment of a new Director General of the IOR.

62. Recommendation 5 *Give the FIA the power to assess 'fit and properness' on an ongoing basis.* The last Progress review recommended that the frequency and procedures for assessing the fitness and propriety of senior management should be set out in the regulations. As noted, the Regulation includes a procedure for annual self-certification on these issues, which seems to be the trigger for ongoing assessments of the application of 'fit and proper' criteria.

63. Recommendation 6 *The FIA (or another body) should take up its supervisory role on AML issues immediately, plan for (a schedule of) inspections, set up a standard manual and work procedure and provide for feedback proactively.* The FIA has now taken up its supervisory role and planned for inspections of IOR and APSA (see beneath) and adopted a standard manual for inspections. The IOR inspection took place in 2014.

64. Recommendation 7 *The FIA should start a supervisory inspection of the IOR as soon as possible.* As noted in the HS/VCS replies to the 2nd Progress Report Questionnaire, in early 2014 AIF carried out its first full onsite inspection of IOR. The scope of that inspection was the verification of compliance by the organization and management of IOR with Law No XVIII, assessing, *inter alia:* internal organization; the transaction monitoring system, evaluation and risk management procedures; CDD procedures; registration and record-keeping; procedures for the detection and reporting of suspicious activities; relations with foreign financial institutions and the international transfer payment system. The on-site inspection included, as recommended in the last progress review, sample tests on files as well as on accounts and individual transactions. The authorities have advised subsequently that this inspection took 4-6 weeks to complete. The application of the international TF sanctioning regime (in respect of persons and entities designated by the United Nations

1267 and 1988 Committees, and under domestic HS/VCS provisions implementing UNSCR 1373) was also covered. At the conclusion of the onsite visit a detailed Action Plan was provided to IOR. The Action Plan was accompanied with a schedule to be respected in order to strengthen compliance in the areas identified. Regular guidance in writing is also provided. General policies on CDD, KYC and risk-based approaches were covered in the Action Plan. The Action Plan is being followed up actively by AIF.

65. Recommendation 8 *Annual statistics on onsite inspections by the supervisor or sanctions applied should be published. Reinstate the requirement to draw up such statistics in the law.* Since 2013 the AIF has published Annual Reports. The 2014 AIF Report states that the results of the first onsite inspection of IOR showed "no fundamental shortcomings". The Annual Report noted that, as the revised AML/CFT Law had only been implemented since October 2013 and, considering that this was the first onsite inspection the IOR, the AIF had assigned an Action Plan with corrective measures, the implementation of which is monitored by a system of reports and periodic checks, including onsite inspections effectuated by AIF. The report states that this process is intended to drive a progressive and more comprehensive compliance with Vatican AML/CFT legislation.

66. Recommendation 9 *IOR should subscribe to the Basel Core Principles for Banking Supervision.* The HS/VCS authorities have reported that on 19 December 2014, in the framework of the Monetary Agreement between the European Union and the Vatican City State of 17 December 2009, the HS/VCS have agreed on an Ad Hoc Arrangement to include relevant European principles and rules applicable to entities carrying out financial activities on a professional basis to further strengthen the Vatican prudential supervisory system.

67. Recommendation 10 *IOR should be supervised by a prudential supervisor in the near future.* In 2012, when making this recommendation, MONEYVAL did not make any judgments on how or by what authority prudential supervision should be undertaken – only that it should be undertaken. As noted earlier, this issue is now settled by the comprehensive Regulation No 1 "Prudential Supervision of the Entities Carrying out Financial Activities on a Professional Basis" implementing Title III of the Law Introducing Norms on Transparency, Supervision and Financial Intelligence, No XVIII of 8 October 2013. The Regulation was signed on 23 December 2014 and came into force on 13 January 2015. This places prudential supervision of entities carrying out financial activities in HS/VCS firmly in the hands of the AIF, along with their AML/CFT supervisory responsibilities. The supervisory department of AIF has now been set up and two new members of staff have been recruited for this purpose. As noted above the 'fit and proper' requirements for the incoming DG of IOR are being applied by AIF.

68. Recommendation 11 *Clearly separate the task of supervision from the FIA as FIU and combine this with adequate prudential supervision, including: (i) licensing and structure; (ii) risk management processes to identify, measure and control material risks; (iii) ongoing supervision; and (iv) global consolidation supervision when required by the Core Principles.* The roles of the FIA as supervisor and as FIU are separately delineated in the legislation and in practice two departments have been set up, reporting to the Director of AIF.

69. In conclusion on supervision, at the time of the last progress report it was understood that there also was a remediation process in train in respect of the APSA, which *inter alia* held a (diminishing) number of accounts and managed investments. It therefore fell (and falls) to

this extent under the supervision of AIF. It was understood that in most cases, where the account was to be maintained, it was transferred to the IOR. This review has been advised that there has been a close monitoring by AIF, including through several ad-hoc supervisory visits by AIF to APSA in the last two years, and a full onsite visit by AIF will be finalized by the end of 2015. This is a welcome development.

R.26 – the FIU (rated LC in the MER)

70. Recommendation 1 *Expressly extend the power of enquiry of the FIA to the information held by all entities subjected to the reporting duty.* The 2013 review found that this deficiency had been addressed.

71. Recommendation 2 *Clarify to what additional sources the FIA has access and to include explicitly the foundations located in and/or dependent from the HS.* The 2013 review found that this deficiency had been addressed.

72. Recommendation 3 *Specify the instances triggering the authority and intervention of the FIA.* The 2003 review concluded that the FIA was able to undertake operational activity on the basis of any type of information received, besides SARs.

73. Recommendation 4 *Reinforce the autonomy of the FIA by restoring its decision power to conclude mutual co-operation agreements with its counterparts.* This was achieved by the time of the last Progress Report.

74. Recommendation 5 *As an effectiveness consideration, strengthen the freezing capacity of the FIA to include accounts and revisit the obligation of immediate handover to the Promoter of Justice.* The 2013 Progress review noted that the AIF under the revised law has the power to freeze accounts, funds or other assets as a preventive measure for up to 5 days As noted, this power has been used. The duty to disseminate to the Promoter arises after both the operational analysis and any strategic analysis has been performed or in the case of suspicion or reasonable grounds to suspect ML or TF.

75. From the governance perspective, a new Statute of AIF entered into force on 21 November 2013. As a consequence of this a new Board of Directors was appointed in summer 2014. The new membership comprises more persons with professional and international AML/CFT experience and expertise, including the first lay President. The Deputy Director of AIF was appointed in January 2015 as Director to ensure full continuity of the operational activities of the authority. This is a welcome development.

76. The strength of the AIF financial intelligence department and analytical unit in terms of staff remains as it was in 2013. So far as the analytical process is concerned, all files that are opened remain open in the AIF database even if no disseminations are made initially, in case further intelligence is received which strengthens the case for dissemination. On a desk based review, it is difficult to assess the quality of the FIA's analytical work, or to form a view on whether the number of disseminations is appropriate in the light of the increasing numbers of SARs. There are, however, indications that the Promoter of Justice is satisfied with the disseminations made so far. The quality of the FIU's work and the number of disseminations compared with SARs will need to be addressed carefully in the next onsite visit. Nevertheless, the FIU appears, within the resources at its disposal, to be working conscientiously to perform its analyses on SARs and to disseminate them where it considers there is a suspicion or reasonable suspicion of ML (or FT). The earlier recommendation to

review the resources of the intelligence department of the FIA if STRs continue to rise is reiterated.

R.36 Mutual Legal Assistance (rated LC in the MER)

77. Recommendation 1 *Consideration should be given to enacting modern and detailed legislative provisions covering the tracing, freezing, seizure and confiscation of the proceeds of money laundering offences, predicate offences, and terrorist finances or related instrumentalities.* The 2013 review considered that this recommendation had been fulfilled. Indeed the whole international cooperation legislation was revisited in the process of responding to the MONEYVAL recommendations. The assurances given at the time of the first Progress review that the language of the 2013 revised provisions on international cooperation would not permit financial secrecy to be a ground for refusing cooperation remain valid, as this review is unaware of any MLA request being declined on the grounds of financial secrecy.

78. Recommendation 2 *Develop a procedure to cover mechanisms for determining the best venue for prosecution of defendants in the interests of justice in cases that are subject to prosecution in more than one country.* It is unclear whether further consideration has been given to developing mechanisms for determining the best venue for prosecution of defendants where the prosecution may be subject to the jurisdiction of more than one country, as the 2013 review suggested. As noted under Recommendation 1 above, this may be an issue which needs to be addressed on an ad-hoc basis in some cases, given the lack of obvious progress in some of the investigations currently being taken forward.

79. The system of mutual legal assistance continues to be used in practice quite extensively. Since the last review there were 3 requests for judicial mutual legal assistance to the HS/VCS between September and December 2013, one of which related to financial offences. These requests were responded to within 3 months. In 2014 the HS/VCS received 13 requests for judicial mutual legal assistance from 5 different countries. 5 of the offences related to financial offences. One request, not relating to financial offences is still pending. From January to September 2015 the HS/VCS received 12 requests for judicial mutual legal assistance from 4 different jurisdictions. 3 of them related to financial offences. These requests were answered on average within 3 months. The information provided shows that 2 requests not related to financial offences were deferred because they were likely to impair ongoing investigations in the Vatican. One request was postponed for procedural reasons. No information is provided as to whether the HS/VCS received feedback on the utility of the mutual legal assistance that they have provided but the exchanges, involving in all 9 countries, generally indicate that the HS/VCS is cooperating with other countries and that there is a fully working system in place where the HS/VCS is the requested State. Two requests for formal judicial mutual legal assistance have been made overall by the HS/VCS in money laundering cases. While this figure may appear low, it should be borne in mind that information sharing with other jurisdictions is more developed at FIU level.

R.40 – Other forms of Co-operation (rated PC in the MER)

80. Recommendation 1 *The FIA should quickly conclude MOUs with at least FIUs from those countries with which it will most likely need to exchange information.* At the time of the first progress report the HS/VCS reported that they had signed memoranda of understanding with 7 States (Belgium, Spain, Slovenia, the Netherlands, United States of America, Germany and Italy). A further 15 memoranda were reported to be in the pipeline. The

HS/VCS currently report that the AIF has been actively entering into memoranda of understanding in the last 2 years and have signed memoranda with 17 more countries (Albania, Argentina, Australia, Cyprus, Cuba, France, Hungary, Liechtenstein, Luxembourg, Malta, Monaco, Norway, Peru, Poland, Romania, San Marino, and Switzerland). These are positive developments.

81. Recommendation 2 *The laws should be amended to specifically allow for the exchange of supervisory information.* It is also positive that the AIF as supervisor has now signed memoranda of understanding with relevant supervisors and regulators in Germany, Luxembourg and the United States of America. Contacts with other supervisors are being made.

SR.1 – Implementation of UN instruments (rated PC in the MER)

82. Recommendation 1 *Prioritise the effective implementation of Chapter IV of Act No. CXXVII of January 2012 through the completion of the listing process and other means, as necessary, to ensure full and effective implementation of UN Security Council Resolutions on the financing of terrorism.* At the time of the first progress report the President of the Governorate, by Order N XXVII adopted the national list of subjects that threaten international peace and security, thus rendering the new system operational. It is intended to enable the HS/VCS to give effect to, among others, the freezing of funds or other assets of persons designated by the 1267 Committee, individuals and entities designated by the EU or third States pursuant to UNSCR 1373 and persons designated on the motion of the VCS itself. These lists are kept up to date by the President of the Governorate. Thereafter the FIA issues an ordinance giving effect to the revised lists and transmits them to obliged subjects. So far as is understood no matches have been found.

83. Recommendation 2 *Legislative measures should be taken to address the current deficiencies in the criminalization of terrorist financing as identified in the analysis of SR II.* This recommendation was fulfilled at the time of the first Progress Report.

84. Recommendation 3 *The system for implementing UNSCR 1267 and 1373 needs to be made operational.* This recommendation was fulfilled at the time of the first Progress Report.

SR.III – Freezing of Terrorist Assets (rated NC in the MER)

85. Recommendation 1 *The legislative framework should be brought into force and effect as a matter of urgency.* This recommendation was fulfilled at the time of the first Progress Report. As noted above, the system is fully operational.

86. Recommendation 2 *Art 24 of the revised AML/CFT Law should be clarified to place beyond doubt that it is intended to give effect to "designations" made by the EU and other "international" bodies and by 3rd States.* The 2013 review considered that, given the nature of the new legislative scheme which entered into force in 2013, this recommendation could be regarded as having been met.

87. Recommendation 3*On the basis that Art. 24 is so intended, separate procedures should be put in place to cover the so called "EU internals" (which are not subject to designation as such by the European Union).* As noted above, the system is fully operational.

88. Recommendation 4 *Guidance to obligated entities on the freezing of funds for terrorist purposes should be finalized and circulated.* The spirit of this recommendation was described as being met at the time of the last Progress Report. Guidance is generally issued at the time of new designations.

89. Recommendation 5 *Steps need to be taken to create a comprehensive and effective system for delisting, exemptions and like matters. This is particularly the case in respect of the authorization of access to funds needed for basic expenses or for extraordinary expenses in accordance with UNSCR 1452 (2002).* This recommendation was broadly met at the time of the last Progress Report.

SR.V – International Cooperation (rated LC in the MER)

90. Recommendation 1 *Address the identified deficiencies in the criminalization of terrorist financing and other conduct, as required by SR II, to ensure that extradition is not inhibited.* This recommendation was met at the time of the last progress report.

1.3. Main Conclusions

91. Most of the technical issues in terms of amending legislation and Regulations have been or are being appropriately addressed. The issue for the HS/VCS now turns to the levels of its effectiveness in the implementation of the international standards.

92. From the information provided it appears that the remediation process in respect of accounts in the IOR has been an important project for the sustainability of the HS/VCS AML system. It has corrected many significant earlier shortcomings in the implementation of CDD measures. The AIF appears also to be working proactively with the IOR to leverage increasing AML/CFT compliance. One perhaps unintended consequence is the much larger numbers of SARs that are being filed than anticipated 2 years ago. The AIF is encouraged to continue to work with IOR to provide necessary feedback on the reports the IOR provides to ensure that quality SARSs are received by AIF. Any issues arising from defensive reporting should be addressed with IOR. As noted, the resource impact on the AIF of a continuing rise in SARs should also be addressed as necessary to ensure the continuing quality of AIF analyses and more disseminations to the Promoter of Justice.

93. It is welcome that the IOR is now prudentially supervised and that an AML/CFT inspection has been completed, which is being followed up. Given the FIA's close superintendence of the IOR's remediation process and the short time the revised AML/CFT Law had been in operation when the inspection took place, it is understandable that for a first onsite inspection an action plan for remediation of deficiencies was provided, rather than the application of a more deterrent sanctioning policy. In future inspections, where significant deficiencies are identified the AIF should consider whether more proportionate and dissuasive public sanctions are warranted. It is also welcome that a full supervisory inspection of APSA is due to be finalized in 2015.

94. On the law enforcement and prosecutorial side, there is a system in place. Disseminations to the Promoter are being made by the FIA and some investigations appear to have been commenced on the Promoter's own motion. While a significant amount of assets are reported to be frozen, there are no real results emerging by way of serious prosecutions or confiscations in any of the outstanding enquiries which involve allegations of money

laundering. The authorities need to satisfy themselves that the Gendarmerie and the Promoter's office have the capacity to conduct proactive financial investigations thoroughly and expeditiously, and to follow up investigations where necessary with clear requests for mutual legal assistance. There may be potential complications where the same suspects are being investigated in the HS/VCS and in other jurisdictions (albeit for different, though related offences). In these circumstances closer liaison with other foreign prosecutorial authorities on issues of best venue for prosecutions may need to be developed on an ad-hoc basis by Prosecutors in more cases. It is noted in this context positively that AIF has made a spontaneous disclosure to a foreign FIU of one case for investigation based on an SAR.

95. All in all, the basically sound legal structure that has been put in place to prevent and prosecute ML now needs to deliver some real results on the prosecutorial side in the HS/VCS.

96. The Plenary was satisfied with the information provided and the progress being undertaken. The second progress report and the analysis of the progress on the core 2003 FATF Recommendations were adopted for publication on the MONEYVAL website under paragraph 6 of Rule 12 of the Rules of Procedure for the 4th round of mutual evaluations and for follow-up as a result of the third evaluation round, revised in December 2014. This progress report will be subject to an update in two years, in December 2017, unless otherwise decided by the Plenary.

MONEYVAL Secretariat

2. Information submitted by the Holy See for the 3rd Round Second Written Progress Report

2.1. General overview of the current situation and the developments since the last evaluation relevant in the AML/CFT field

Position at date of first progress report (9 December 2013)

Introduction

Since the adoption of the Mutual Evaluation Report (MER) of the Holy See and the Vatican City State by the MONEYVAL Plenary on 4 July 2012, the Holy See and the Vatican City State have taken further steps to strengthen the system to fight ML/FT in line with the recommendations made by MONEYVAL. In particular, significant efforts as part of a long-term strategy to meet international standards have been undertaken to improve the legal and institutional framework to prove the Holy See's and the Vatican City State's strong commitment to financial transparency

A. Legislative developments

(a) Amendments of the AML/CFT Law on 14 December 2012

The Law *on the Prevention and Countering of Laundering of Proceeds of Crimes and Financing of Terrorism* of 30 December 2010, N. CXXVII (henceforth "Law N. CXXVII"), which came into force on April 1, 2011, after the first reform of 24 January 2012 (with the Decree of the President of the Governorate N. CLIX, confirmed with the Law of the Pontifical Commission for the Vatican City State, N. CLXVI of 25 April 2012), on 14 December 2012 (with the Law of the Pontifical Commission for the Vatican City State, N. CLXXXV) was further amended to abolish the *nihil obstat* (that is, the prior consent) of the Secretariat of State for the signature of MOUs by AIF, in order to ensure full autonomy of AIF in its international cooperation.

(b) *Motu proprio* of Pope Francis and the Laws on Criminal Matters of 11 July 2013

As announced in the course of the 2012 mutual evaluation process (MER, p. 58, fn. 33, and p. 61, fn. 34), the Holy See has conducted a thorough analysis of the Vatican City State's Criminal Code and Code of Criminal Procedure in light of the international standards and the ratified international conventions. On 11 July 2013, as a result of such a review, a wide-ranging reform of the criminal law system was enacted. On that date, the Pontifical Commission for the Vatican City State enacted Law N. VIII, on Supplementary Norms on Criminal Matters and Law N. IX, on *Amendments to the Criminal Code*, while His Holiness Pope Francis issued his *Motu Proprio* on *the Jurisdiction of Vatican City State on Criminal Matters*.

As recommended in the 2012 MER, the new criminal laws introduced into the Vatican legal system all the terrorist offences set forth in the Conventions annexed to the Terrorist Financing Convention as well as a new approach on the administrative liability of legal persons arising from crime. In particular, a modern scheme on confiscation, freezing and seizure has been adopted, the powers of the police to seize goods intended to be used to commit offences have been strengthened, and the rather dated provisions on extradition and mutual legal assistance have been modernized in light of the 1988 Vienna Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances and the 2000 Palermo Convention against Transnational Organized Crime. Finally, to ensure the effective exercise of criminal jurisdiction by the Vatican Tribunal

over transnational crimes, the heads of jurisdiction set forth in the Criminal Code have been revised.

On its part, the *Motu Proprio* on *the Jurisdiction of Vatican City State on Criminal Matters*, of 11 July 2013, extended the jurisdiction of the Vatican Tribunal over criminal offences - including the financing of terrorism and money laundering - committed by public officials of the Holy See in the context of the exercise of their functions, even if outside Vatican territory.

Also on 11 July 2013, the Pontifical Commission for the Vatican City State enacted Law N. X, on *General Norms on Administrative Sanctions*, which provides the legal framework for application of sanctions for administrative violations.

(c) *Motu Proprio* of Pope Francis of 8 August 2013 and the Decree *introducing norms relating to transparency, supervision and financial intelligence*, N. XI of 8 August 2013, confirmed by the Law *introducing norms relating to transparency, supervision and financial intelligence*, N. XVIII of 8 October 2013

Pope Francis, by *Motu Proprio for the Prevention and Countering of Money Laundering, the Financing of Terrorism and the Proliferation of Weapons of Mass Destruction* of 8 August 2013, strengthened the supervisory and regulatory function of the Financial Intelligence Authority and established the function of prudential supervision over entities professionally engaged in financial activities. This function is assigned to the Financial Intelligence Authority (AIF). Furthermore, the Financial Security Committee has been established for the purpose of coordinating the competent authorities of the Holy See and the Vatican City State in the area of prevention and countering of money laundering and the financing of terrorism. The same day, the President of the Governorate of the Vatican City State issued Decree of the President of the Governorate N. XI *Introducing Norms Relating to Transparency, Supervision and Financial Intelligence*, which was confirmed by Law of the Pontifical Commission for the Vatican City State, N. XVIII of 8 October 2013.

This new AML/CFT Act of the Holy See and the Vatican City State introduces a comprehensive system in accordance with the international standards to fight money-laundering and financing of terrorism and is a further step towards strengthening the system to actively combat any potential misuse of financial activities within the Vatican City State. In brief, Law N. XVIII incorporates and expands on steps taken with the reform of January 2012 and the further amendments of December 2012. In particular, it deals with financial transparency, supervision, and financial intelligence, clarifying and consolidating the functions, powers and responsibilities of AIF. In concrete terms, it gives, among others, greater supervisory and regulatory powers to AIF and empowers it with prudential supervisory functions.

(d) NPOs and terrorist list

Two specific subject matters are worth mentioning.

The Holy See authorities have undertaken a careful analysis – in light of the international standards – of the laws applicable to those NPOs that have their legal seat in the Vatican City State. As a result, Pope Francis, in his *Motu Proprio* of 8 August 2013, decided to subject all NPOs having canonical legal personality and legal seat in the territory of Vatican City State to the Vatican anti-money laundering and countering of terrorism laws. In addition, the new Law N. XVIII requires all legal persons with their legal seat in the Vatican – including NPOs – to keep adequate records on their activities, beneficiaries, beneficial owners and managers and to provide

such information, upon request, both to the competent authorities, including AIF, and to the financial institutions.

Moreover, the Holy See and the Vatican City State authorities are currently finalizing a new law to regulate the NPO sector, which is expected to be adopted in the course of the coming weeks. The new law will reaffirm the duty of all NPOs to inscribe themselves in the State registries, to keep updated the relevant information regarding their senior management and beneficial owners, possess detailed books and records, and to apply the "know your beneficiaries" rule. Adequate sanctions will be imposed for the violation of those rules.

Finally, Law N. XVIII introduced greater precision on the application of financial measures to freeze and confiscate terrorist assets, as well as regarding the imposition of precautionary measures and the administration of those assets. Moreover, a detailed mechanism for the listing and delisting of subjects, as well as a scheme for exceptions to the financial sanctions, covering both basic expenses and extraordinary needs, have been adopted.

B. International cooperation

Since the adoption of the MER, the Holy See and the Vatican City State have put a strong emphasis on international cooperation. In July 2013, AIF was admitted to the Egmont Group and over the last months has signed MOUs with Belgium, Spain, USA, Italy, Slovenia and the Netherlands. It is currently in the process of signing further MOUs with several Financial Intelligence Units of other countries and will continue to broaden its international network to fight money laundering and terrorism financing.

C. Review process within the IOR

By the end of 2012, the IOR concluded the preliminary review process of its customer database. Based on the findings of this first phase, an in-depth audit of customer records and remediation, including analysis of transactions, under the supervision of AIF was launched at the beginning of 2013. This process is still ongoing. Furthermore, the IOR redefined the categories of customers entitled to IOR services and were published in July 2013 on IOR's website.

D. Effectiveness of the AML/CFT system

Since the adoption of the MER, an ongoing trend toward increased reporting of suspicious activity from different reporting entities, with a significant growth in 2013, can be observed. Investigations based on STRs have been started and freezing orders initiated. In the area of international cooperation, AIF has entered into an active exchange of information with various Financial Intelligence Units and the Holy See and the Vatican City State requested mutual legal assistance on a domestic case.

E. Institutional framework (introduction of new Pontifical Commissions)

Since his election, His Holiness Pope Francis has been committed to addressing the financial administration and organization of the various organs of the Holy See. As a priority of his Pontificate, the Holy Father is working to establish a more organic approach to the rationalization of the economic structures of the Holy See and the Vatican City State. To this end, among other initiatives two Pontifical Commissions have been established to study the Institute for Works of Religion (IOR) and the economic and administrative structures of Vatican City State and the various offices which serve the universal mission of the Catholic Church.

By a Chirograph dated 24 June 2013, Pope Francis established the *Pontifical Commission for Reference on the Institute for Works of Religion*. This Commission, which is composed of five members expert in their various fields, is charged with gathering information on the Institute regarding its legal position and the various activities it is presently undertaking so as to ensure a better harmonization of the Institute with the universal mission of the Catholic Church.

By a Chirograph dated 18 July 2013, Pope Francis took the further step of establishing the *Pontifical Commission for Reference on the Organisation of the Economic and Administrative Structures of the Holy See*. This Commission will cooperate with the Council of Cardinals, announced on 18 April 2013 and granted permanent status by Chirograph on 28 September 2013, in order to draft reforms of the Curia that simplify and organize more rationally the various structures of the Holy See and that assist in coordinating its various economic and administrative activities.

The *Pontifical Commission for Reference on the Organisation of the Economic and Administrative Structures of the Holy See* is composed of eight members who are experts in legal, financial, economic and organisational matters, and will provide technical support as strategies are devised to insure the integrated organisation of the Holy See, the proper use of economic resources with greater transparency, elimination of duplication in administrative matters, and improved administration of the patrimony of the Holy See.

It is important to note that the mandate for the Commissions is not only to study the IOR and the economic and administrative structures of the Holy See and to provide historical data to the Holy Father. The Commissions are instructed to work closely together in order to identify how the various offices and structures of the Holy See can more directly collaborate in areas of shared competencies and to seek a reform of these structures so that their organization is effective in serving the universal mission of the Holy See. Furthermore, these Commissions will work closely with the Council of eight Cardinals in studying these matters and in making recommendations regarding any necessary reforms, as well as the Commission of fifteen Cardinals who oversee the consolidated budget of the Holy See.

The eventual goal of these united efforts is to restructure the Holy See's economic organs, especially the Administration of the Patrimony of the Apostolic See (APSA), the IOR and the Governorate of Vatican City State, in a more effective, sustainable and coherent fashion, in line with the international standards for governments. In so doing, the Holy See will realize a reform of its structures and practices which will permit it to fulfil more effectively its universal mission in the world.

New developments since the adoption of the first progress report

Introduction

Since the adoption of the first Progress Report by the MONEYVAL Plenary on 9 December 2013, the Holy See/Vatican City State has continued to strengthen its system to fight ML/FT in line with the recommendations made by MONEYVAL. In particular, substantial progress has been made in establishing a functional and sustainable system, proving its effectiveness.

A. Legislative developments

Regulation No. 1

On 25 September 2014, the Financial Intelligence Authority (AIF) approved Regulation no. 1 on "Prudential Supervision of the Entities Carrying Out Financial Activities on a Professional Basis". This regulation entered into force on 13 January 2015.

Regulation no. 1 represents a fundamental step in the path of consolidation of the transparency, stability and sustainability of the financial sector and the activity of entities carrying out financial activities on a professional basis in the Vatican City State.

In concrete, the key elements of the newly introduced regulatory framework are:

(i) mandatory authorization requirement for carrying out professionally a financial activity on a professional basis;

(ii) the organization and management criteria of the entities carrying out financial activities on a professional basis;

(iii) the adequacy of the equity and liquidity requirements of the entities carrying out financial activities on a professional basis;

(iv) the criteria for risk management by the entities carrying out financial activities on a professional basis (the risk categories involved are the following: market, credit, payment and liquidity, currency exchange interests, brokerage, non-compliance with the law, with the regulations and internal procedures, legal, operational and reputational);

(v) the competence and honorability requirements of the members of the manager and senior management, or of those who hold or shall hold similar offices within the entities carrying out financial activities on a professional basis, and examines the potential conflicts of interest;

(vi) the procedures that the entities carrying out financial activities on a professional basis shall follow when sending documents, data or information required for the purposes of prudential supervision;

(vii) the criteria to which the entities carrying out financial activities on a professional basis shall adhere in order to promote the highest moral and professional standards within the entities.

The prudential supervision regime has been made effective and enforceable in cases of breach or systematic default of obligations and, therefore, wide sanctioning power has been given to AIF as competent Authority. Furthermore, on 19 December 2014, in the framework of the Monetary Agreement between the European Union and the Vatican City State of 17 December 2009, the Holy See/Vatican City State agreed on an Ad hoc Arrangement to include relevant European principles and rules applicable to entities carrying out financial activities on a professional basis to further strengthen the Vatican prudential supervisory system.

B. International Cooperation

Since the adoption of the first Progress Report, the Holy See/Vatican City State has further strengthened international cooperation. In addition to the existing MOUs with Belgium, Spain, USA, Italy, Slovenia and the Netherlands, AIF signed in the last 24 months MOUs with the relevant Financial Intelligence Units of Albania, Argentina, Australia, Cyprus, France, Hungary, Liechtenstein, Malta, Monaco, Peru, Poland, UK, Romania, San Marino and Switzerland. Furthermore, in its capacity as Supervisor and Regulator, AIF signed Memoranda of Understanding with the *Office of the Controller of the Currency* (OCC) of the United States, the *Commission de Surveillance du Secteur Financier* (CSSF) of Luxembourg and the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin) of Germany.

C. Review Process of the IOR

At the beginning of 2015, the review process of the IOR was concluded. In particular, it included a systematic screening of all existing customer records in order to identify missing or insufficient information required for the completion of new customer identity data templates the Institute introduced in 2013. Subsequent to the screening process, the IOR has terminated customer relationships, which were either "dormant accounts" or no longer met the restricted customer categories of the IOR, in an orderly process under the supervision of AIF.

D. Effectiveness of the AML/CFT system

Since the adoption of the first Progress Report, the reporting system has become effective. In the last three years, the significant growth of reporting of suspicious activity by different reporting entities in 2013 has been consolidated and a sustainable and functional reporting system established. Investigations triggered by STRs have been increased, including freezing orders. As a consequence of the increased reporting activities, international cooperation has been intensified massively, both on a domestic and international level.

In early 2014, AIF carried out its first *on-site* inspection at the IOR. The scope of the inspection was the verification of the compliance of the organization and the management of the IOR in line with Law N. XVIII, assessing, *inter alia*: (i) the internal organization; (ii) the transaction monitoring system, evaluation procedures and risk management; (iii) the CDD procedures; (iv) registration and record keeping; (v) the procedures for the detection and reporting of suspicious activities; (vi) the relations with foreign financial institutions and the international transfer payment system. The on-site inspection included sample tests on files as well as on the accounts and individual transactions.

E. Institutional framework

On 24 February 2014, Pope Francis adopted the *Motu Proprio Fidelis Dispensator* establishing 3 new agencies – the Council for the Economy, the Secretariat for the Economy and the Office of Auditor General – to oversee the administrative and financial structures and activities of the dicasteries of the Roman Curia and of other institutions linked to the Holy See and the Vatican City State. A year later, on 22 February 2015, Pope Francis issued the Statutes of these organs providing for their specific functions. The Statutes extend the supervisory powers of the Secretariat for the Economy over the NPOs having their legal seat in the Vatican.

Furthermore, following the reform of the AML/CFT legislation as well as the introduction of prudential supervision by Law N. XVIII, Pope Francis approved on 15 November 2013 by means of "*Motu Proprio*" the new Statute of AIF in order to provide the necessary responsibilities, competencies and powers to AIF as competent authority.

F. Risk Assessment

In 2014, the COSIFI launched the process in view of the adoption of the "Domestic Risk Assessment" (DRA) in the field of prevention and countering of money laundering and financing of terrorism, including cross-border risks, in accordance with Art. 9 (1) of Law N. XVIII. Starting in October 2015, several working groups established by COSIFI began preparation for the DRA to be conducted in the coming months, in close cooperation with the World Bank and using its proprietary methodology.

2.2. Core recommendations

Please indicate improvements which have been made in respect of the FATF Core Recommendations (Recommendations 1, 5, 10, 13; Special Recommendations II and IV) and the Recommended Action Plan (Appendix 1). Please also provide information which may demonstrate effective implementation.

Recommendation 1 (Money Laundering offence)	
Rating: Largely compliant	
Recommendation of the MONEYVAL Report	*Further consideration should be given to clarifying the relationship between the money laundering offence (Arts. 1 (4) & (5) of the revised AML/CFT Law) and the traditional receiving offence (Art. 421 of the Criminal Code).*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	With a view to eliminating any potential overlap between the autonomous *Money laundering and self-laundering* offence (article 421 *bis* of the Criminal Code) and the pre-existing offence of *Receipt of stolen goods* (article 421 of the Criminal Code), article 29 of Law N. IX, on "*Amendments to the Criminal Code*", of 11 July 2013, makes explicit the residual character of the receiving offence. Article 29 of Law N. IX reads: **Article 29** **(*Receipt of stolen goods*)** In article 421 of the Criminal Code, the words "outside the case foreseen in article 225" are replaced by the following: "outside the cases foreseen in articles 225 and 421 *bis*."
(Other) changes since the last evaluation reported as of 9 December 2013	In order to ensure that the widest range of predicate offences are covered by the *Money Laundering* offence – including all those incorporated in Vatican criminal law on 11 July 2013 – article 30 of Law N. IX, on *"Amendments to the Criminal Code"*, of 11 July 2013, adopts the "threshold approach" to the definition of predicate offences. Article 30 of Law N. IX reads: **Article 30** **(*Money laundering and self-laundering*)**

	The following paragraph 1 *bis* is added to article 421 *bis*: of the Criminal Code: "1 *bis*. For the purposes of this article, "predicate offence" means any criminal acts punishable, pursuant to the criminal law, with a minimum penalty of six months or more of imprisonment or detention; or with a maximum penalty of one year or more of imprisonment or detention." In addition, with a view to ensuring the effective exercise of criminal jurisdiction by the Vatican Tribunal over transnational crimes, the heads of jurisdiction set forth in the Criminal Code have been revised in light of the requirements set forth in the various international conventions. Articles 1 to 4 of Law N. IX read: **Article 1** **(*Offences committed in the territory of the State*)** The text of article 3 of the Criminal Code is entirely replaced by the following: "Whoever commits an offence in the territory of the State is punished according to Vatican law. An offence is deemed to be committed in the territory of the State when its constituting action or omission is carried out, as a whole or in part, in the territory, or if the consequence resulting from that action or omission takes place in the territory. The offence committed on board a vessel that is flying the flag of the State or on an official aircraft, or on an aircraft that is registered under the laws of the State at the time that the offence is committed, is also deemed to be committed in the territory of the State." **Article 2** **(*Offences committed abroad*)** The text of article 4 of the Criminal Code is entirely replaced by the following: "Whoever commits abroad one of the following offences: a) offences against the security of the State; b) offences of counterfeiting the seal of the State and the use of a counterfeited seal; c) offences of counterfeiting currency, revenue stamps and Vatican public bonds; d) offences committed by public officials in the service of the State, taking advantage of their powers or violating the duties inherent to their functions; f) any other offence for which the laws or the ratified international conventions require the application of the Vatican law; is punished according to the Vatican law. Whoever has committed an offence abroad whose prosecution is required by a ratified international agreement is punished according to Vatican law if he is found in the territory of the State and is not extradited." **Article 3**

	(*Offences committed by a citizen abroad*) The text of article 5 of the Criminal Code is entirely replaced by the following: "Outside the cases set forth in the previous paragraph, the citizen who commits abroad an offence for which the Vatican law sets forth a penalty of no less than three years imprisonment, is punished according to the same law, if found in the territory of the State. For the purposes of the present article, a stateless person who has his habitual residence in the State is assimilated to the citizen. " **Article 4** **(*Offences committed abroad against the State or the citizens*)** The text of article 6 of the Criminal Code is entirely replaced by the following: "Outside the cases set forth in the preceding articles, the foreigner who commits abroad an offence against the State or a citizen for which the Vatican law sets forth a penalty of no less than three years imprisonment, is punished according to the same law, upon request of the Secretariat of State. When a citizen if the victim of the offence, a private complaint is also required to proceed. In these cases, as well as in those cases foreseen in article 4, paragraph 2, and article 5, the penalty is reduce by a third." In the same vein, the *Motu Proprio* on "*the jurisdiction of Vatican City State on Criminal Matters*", of 11 July 2013, extended the jurisdiction of the Vatican Tribunal to the crimes set forth in Law N. IX - including the offence of Money laundering -when committed by the public officials of the Holy See "in the context of the exercise of their functions" even if outside Vatican territory. The relevant provisions read: 1. The competent Judicial Authorities of Vatican City State shall exercise penal jurisdiction also over: a) the crimes committed against the security, the fundamental interests or the patrimony of the Holy See; b) the crimes referred to in: - Vatican City State Law N. VIII, of 11 July 2013, containing *Supplementary norms on Criminal Law matters*; - Vatican City State Law N. IX, of 11 July 2013, containing *Amendments to the Criminal Code and the Code of Criminal Procedure*; when committed by the persons referred to in paragraph 3 in the context of the exercise of their functions; c) any other crime whose prosecution is required by an international agreement ratified by the Holy See, if the author is found in the territory of the Vatican City State and is not extradited. 3. For the purposes of Vatican criminal law, the following persons are deemed *"public officials"*: a) the members, officials and personnel of the various organs of the Roman Curia and of the Institutions connected to it. b) the papal legates and diplomatic personnel of the Holy See.

	c) any person who serves as a representative, manager or director, as well as any person who even *de facto* manages or exercises control over the entities directly dependent on the Holy See listed in the registry of canonical legal persons kept by the Governorate of the Vatican City State; d) any other person holding an administrative or judicial office in the Holy See, permanent or temporary, paid or unpaid, irrespective of that person's seniority.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives)	

Recommendation 5 (Customer due diligence)	
Rating: Partially compliant	
Recommendation of the MONEYVAL Report	*The AML/CFT Law needs to be amended to specifically require that financial institutions should verify that the transactions are consistent with the institution's knowledge of the source of funds, if necessary.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	The new AML/CFT Act – namely Law N. XVIII of 8 October 2013 – incorporates the requirements for financial institutions that transactions are consistent with the institution's knowledge of the source of funds. In particular, the new AML/CFT Act establishes the following requirements relating to CDD including the ongoing CDD: **Article 16 – *Requirements*** 1. For the purposes of due diligence, the obliged subjects shall fulfil, *inter alia*, the following requirements: [...] e) verifying and obtaining documents, data and information relating to the purpose and nature of the relationship, and the origin of funds. **Article 19 – *Ongoing customer due diligence*** 1. Customer due diligence shall be conducted constantly including the following activities:

	a) constantly monitoring the relationship, including scrutinising operations or transactions undertaken through the course of that relationship, so as to ensure that they are consistent with the knowledge of the customer, his activity and risk profile, and the source of funds; [...]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Serious consideration should be given to a statutory provision describing the types of legal and natural persons eligible to maintain accounts in the IOR and APSA.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	With the constitution of the Pontifical Commission for Reference on the Institute for Works of Religion on 24 June 2013 and the Pontifical Commission for Reference on the Organization of the Economic-Administrative Structure of the Holy See on 18 July 2013, in-depth assessment of the institutional mandate of the IOR, as well as APSA, has been undertaken and in that regard serious consideration is being given to the categories of natural and legal persons eligible to receive services and to open and/or maintain accounts. As a consequence of this process relevant statutory provisions are currently under consideration.
Measures taken to implement the recommendations since the adoption of the first progress report	The Statute in force establishes provisions relating to the categories of natural and juridical persons eligible to maintain accounts, further clarified by a binding ad hoc policy adopted by the senior management (Board of Superintendence) of the IOR in July 2013. Following the entry into force of Regulation No. 1 on "Prudential Supervision of the Entities Carrying out Financial Activities on a Professional Basis", on the 10th of July 2015 the AIF authorized the IOR to carry out on a professional basis activities consistent with: (a) the current Statute of the IOR and (b) the policies formally adopted by the Board of Superintendence of the IOR on 21 July 2013 on types of legal and natural persons eligible to maintain accounts in the IOR. At the beginning of 2015, the review process of the IOR was concluded. In particular, it included a systematic screening of all existing customer records in order to identify missing or insufficient information required for the completion of new customer identity data templates the Institute introduced in 2013. Subsequent to the screening process, the IOR has terminated customer relationships, which were either "dormant accounts" or did not meet anymore the restricted customer categories of the IOR, in an orderly process under the supervision of AIF.
Recommendation of the MONEYVAL	*Amend the exemptions for low-risk customers, products and transactions as adopted from the Third EU AML Directive by clarifying that minimum CDD*

Report	*(i.e. less detailed CDD) should nevertheless be accomplished.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to the new AML/CFT Act, the Financial Intelligence Authority, by regulation, will introduce the cases of simplified CDD and the minimum CDD requirements. Exemptions for low risk customers, products and transactions will be included in the AIF Regulation. **Article 24 – *Simplified customer due diligence*** 1. In the case of low risk of money-laundering or financing of terrorism, connected to a category and to the country or geographical area of the customer, or the type of relationship, product or service, operation or transaction, including channels of distribution, the Financial Intelligence Authority may authorise the obliged subjects to carry out simplified due diligence. 2. The Financial Intelligence Authority, having taken into account the risk assessment referred to in articles 9 and 10, identifies cases of application of simplified customer due diligence and indicates the procedures and measures to be adopted, including the requirements to be fulfilled. [...]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Provide in the Law that simplified CDD measures are not permissible where higher risk scenarios apply.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 24 (3) (a) of the new AML/CFT Act, in any case, simplified CDD measures cannot be applied in a high-risk scenario. **Article 24 – *Simplified customer due diligence*** [...] 3. In any case, simplified customer due diligence: a) cannot be applied when there is suspicion of money-laundering or financing of terrorism and in a high-risk scenario; [...]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the	*Stipulate in the AML/CFT Law that simplified CDD measures, with respect to credit or financial institutions located in a State that observes equivalent*

MONEYVAL Report	*AML/CFT requirements, shall only be permissible where those institutions are supervised for compliance with those requirements.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to the new AML/CFT Act, the Financial Intelligence Authority, by regulation, will introduce the cases of simplified CDD and the minimum CDD requirements. In any case, AIF regulations will establish that simplified CDD measures with respect to credit or financial institutions, located in a State that observes equivalent AML/CFT requirements, will only be permissible where those institutions are supervised for compliance with those requirements. **Article 24 – *Simplified customer due diligence*** 1. In the case of low risk of money-laundering or financing of terrorism, connected to a category and to the country or geographical area of the customer, or the type of relationship, product or service, operation or transaction, including channels of distribution, the Financial Intelligence Authority may authorise the obliged subjects to carry out simplified due diligence. 2. The Financial Intelligence Authority, having taken into account the risk assessment referred to in articles 9 and 10, identifies cases of application of simplified customer due diligence and indicates the procedures and measures to be adopted, including the requirements to be fulfilled. [...]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Simplified CDD measures should only be permissible if listed companies are subject to regulatory disclosure requirements.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to the new AML/CFT Act, the Financial Intelligence Authority, by regulation, will introduce the cases of simplified CDD and the minimum CDD requirements. In any case, AIF regulations will establish that simplified CDD measures are permissible only with respect to listed companies which are subject to regulatory disclosure requirements. **Article 24 – *Simplified customer due diligence*** 1. In the case of low risk of money-laundering or financing of terrorism, connected to a category and to the country or geographical area of the customer, or the type of relationship, product or service, operation or transaction, including channels of distribution, the Financial Intelligence Authority may authorise the obliged subjects to carry out simplified customer due diligence. 2. The Financial Intelligence Authority, having taken into account the risk

	assessment referred to in articles 9 and 10, identifies cases of application of simplified customer due diligence and indicates the procedures and measures to be adopted, including the requirements to be fulfilled.[...]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Amend FIA Instruction N. 2 to clarify that the verification of the identity of the customer and beneficial owner, following the establishment of the business relationship, should only be permissible where all conditions mentioned under criterion 5.14 are met cumulatively.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 16 (3) of the new AML/CFT Act, a relationship cannot be established without having fulfilled the CDD requirements. In any case, according to article 90 (2) of the new AML/CFT Act, AIF Instruction N. 2 has been abrogated in the light of the new CDD requirements. **Article 16 – *Requirements*** **[...]** 3. In cases where it is not possible to carry out the customer due diligence in accordance with paragraphs 1 and 2, it is forbidden to establish a relationship or carry out an operation or transaction. In such cases, the obliged subjects shall send a report to the Financial Intelligence Authority. **Article 90 – *Abrogation*** […] 2. Provisions established by the regulations and instructions of the Financial Intelligence Authority are still in force, where they are not incompatible with the provisions of this Law.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Abolish the exemptions to CDD provided under Art. 31 §3 of the revised AML/CFT Law.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to the new AML/CFT Act, the exemptions to CDD provided under article 31 (3) of the old AML/CFT Act have been abolished. See articles 25 ff.
Measures taken to implement the recommendations since the adoption	No further measures are necessary.

of the first progress report	
Recommendation of the MONEYVAL Report	*Where the Law allows for simplified or reduced CDD measures to customers resident in another country, HS/VCS authorities should limit this in all cases to countries that the HS/VCS is satisfied are in compliance with and have effectively implemented the FATF Recommendations.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 9 (2) (b) (ix) AIF identifies and publishes a list of countries that are in compliance with and effectively implement the FATF Recommendations. Accordingly, AIF will introduce the cases of simplified CDD measures only to customers resident in countries meeting these requirements. **Article 9 – *General Risk Assessment*** **[...]** 2. On the basis of the general risk evaluation: […] b) The Financial Intelligence Authority: […] ix) identifies and publishes a list of States that impose obligations equivalent to those found in this Title. **Article 24 – *Simplified customer due diligence*** [...] 2. The Financial Intelligence Authority, having taken into account the risk assessment referred to in articles 9 and 10, identifies cases of application of simplified customer due diligence and indicates the procedures and measures to be adopted, including the requirements to be fulfilled. [...]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*The FIA Instructions should be amended to require that verification should occur as soon as possible in situations where verification occurs after establishment of a business relationship.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 16 (3) of the new AML/CFT Act, a relationship cannot be established without having fulfilled the CDD requirements. In any case, according to article 90 (2) of the new AML/CFT Act, AIF Instructions have been abrogated in light of the new CDD requirements. **Article 16 – *Requirements*** **[...]**

	3. In cases where it is not possible to carry out the customer due diligence in accordance with paragraphs 1 and 2, it is forbidden to establish a relationship or execute an operation or transaction. In such cases, the obliged subjects shall report to the Financial Intelligence Authority. **Article 90 – *Abrogation*** […] 2. Provisions established by the regulations and instructions of the Financial Intelligence Authority are still in force, where they are not incompatible with the provisions of this Law.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*The provision that only transactions executed within a period of seven days have to be considered as "linked transactions" should be abolished.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 1 (26) of the new AML/CFT Act, the definition of "linked transactions" is not linked anymore to the "seven days" criterion as in the old AML/CFT Law. **Article 1 – *Definitions*** For the purposes of this Law, the following definitions shall be applied: […] 26. « *Linked transaction* »: a transaction which, even if in itself autonomous, from an economic point is a joint operation with one or more operations, executed at different stages or moments.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Introduce an express requirement to verify that the transactions are consistent with the institution's knowledge of the source of funds where necessary.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	The new AML/CFT Act introduced the duty to verify that the transactions are consistent with the institution's knowledge of the source of funds. **Article 16 – *Requirements*** 1. For the purposes of due diligence, the obliged subjects shall fulfil, *inter alia*, the following requirements: [...]

	e) verifying and obtaining documents, data and information relating to the purpose and nature of the relationship, and the origin of funds. **Article 19 – *Ongoing customer due diligence*** 1. Customer due diligence shall be conducted constantly including the following activities: a) constantly monitoring the relationship, including scrutinising operations or transactions undertaken through the course of that relationship, so as to ensure that they are consistent with the knowledge of the customer, his activity and risk profile, and the source of funds; [...]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*FIA should raise awareness with respect to the obligations that have been introduced or clarified in the AML/CFT Law after the MONEYVAL on-site visits to ensure effective implementation.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Since the MONEYVAL on-site visit (November 2011), AIF has entered into an in-depth dialogue with the obliged subjects, and in particular the IOR, to strengthen the knowledge and consistent implementation of the relevant and recently introduced AML/CFT requirements. AIF had regular face-to-face meetings with the management (Direzione Generale) and the senior management (Consiglio di Sovrintendenza) of the IOR, including the providing of written guidance and training session for officers and employees.
Measures taken to implement the recommendations since the adoption of the first progress report	Following the adoption of the First Progress Report, the AIF continued the in-depth dialogue with the obliged subjects, and in particular the IOR, at all levels, especially the management (General Directorate) and the senior management (Board of Superintendence) of the IOR. Moreover, the AIF continues to provide written guidance and training sessions for officers and employees. In particular, after the entry into force of the new AML/CFT Law and of Regulation No. 1 on prudential supervision, the AIF organized various ad hoc training sessions and continues to provide written guidance on a regular basis.
Recommendation of the MONEYVAL Report	*FIA should put in place appropriate arrangements to monitor and ensure compliance with the requirements under R. 5 (including adequate sample testing).*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	By the end of 2012, the IOR concluded the preliminary review process of its customer database. Based on the findings of this first phase, an in-depth audit of customer records and remediation, including analysis of transactions, under the supervision of AIF was launched in the beginning of 2013. This process is still ongoing. Furthermore, the IOR redefined the categories of

	customers entitled to IOR services and were published in July 2013 on IOR's website
Measures taken to implement the recommendations since the adoption of the first progress report	In early 2014, AIF carried out its first *on-site* inspection at the IOR. The scope of the inspection was the verification of the compliance of the organization and the management of the IOR in line with Law N. XVIII, assessing, *inter alia*: (i) the internal organization; (ii) the transaction monitoring system, evaluation procedures and risk management; (iii) the CDD procedures; (iv) registration and record keeping; (v) the procedures for the detection and reporting of suspicious activities; (vi) the relations with foreign financial institutions and the international transfer payment system. The on-site inspection included sample tests on files as well as on the accounts and individual transactions.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	
Recommendation 10 (Record keeping)	
Rating: Largely compliant	
Recommendation of the MONEYVAL Report	*FIA should put in place appropriate arrangements to monitor and ensure effective implementation of the record-keeping requirements (including adequate sample testing).*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	By the end of 2012, the IOR concluded the preliminary review process of its customer database. Based on the findings of this first phase, an in-depth audit of customer records and remediation, including analysis of transactions, under the supervision of AIF was launched in the beginning of 2013. This process is still ongoing. Furthermore, the IOR redefined the categories of customers entitled to IOR services and were published in July 2013 on IOR's website.
Measures taken to implement the recommendations since the adoption of the first progress report	In early 2014, AIF carried out its first *on-site* inspection at the IOR. The scope of the inspection was the verification of the compliance of the organization and the management of the IOR in line with Law N. XVIII, assessing, *inter alia*: (i) the internal organization; (ii) the transaction monitoring system, evaluation procedures and risk management; (iii) the CDD procedures; (iv) registration and record keeping; (v) the procedures for the detection and reporting of suspicious activities; (vi) the relations with foreign financial institutions and the international transfer payment system. The on-site inspection included sample tests on files as well as on the accounts and individual transactions.

Recommendation of the MONEYVAL Report	*Adopt internal procedures clearly specifying the record keeping duties and responsibilities of APSA staff.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 38 of the new AML/CFT Act, strict and transparent record keeping requirements have been introduced for the obliged subjects. **Article 38 – *Requirements of registration and record-keeping*** 1. The obliged subjects shall register and keep the following documents, data and information, for a period of 10 years from the end of the relationship, from the closure of an account, from the performance, or the carrying out of an operation or transaction: a) with reference to customer due diligence: i) all the documents collected, including originals or certified copies of identity documents; ii) all data, including originals or certified copies of identification data; iii) written documents, account books and statements, with a detailed description of the movement; iv) correspondence; v) results of reviews and analyses; b) with reference to transactions, whether internal or international, in addition to the requirements of subparagraph a): i) the name, address, identification data and information of the customer, the beneficiary and the beneficial owner; ii) the nature, reason and date of the transaction; iii) the currency and amount of the transaction; iv) the number or identification code of the accounts in question; v) all documents, data and information sufficient for the reconstruction of the single transaction and, where necessary, of the collection of evidence for the purpose of investigative or judicial activities; c) with reference to suspicious activity reporting: i) certified copy of the report to the Financial Intelligence Authority; ii) all the documents, data and information connected to the report, sufficient for the analysis and understanding of the suspicious activity and, where necessary, for the collection of evidence for the purpose of investigative or judicial activities; iii) correspondence with the Financial Intelligence Authority or other competent authorities. 2. For the purposes of the fulfilment of the registration and record-keeping found in paragraph 1, the obliged subjects: a) shall register the documents, data and information mentioned in subparagraphs a), b) and c), immediately upon their acquisition or reception; b) shall adopt procedures and measures for the registration and record-keeping which allow for: i) the provision in a timely manner of documents, data and information required by the Financial Intelligence Authority and the competent authorities; ii) the registration and updating in an accurate manner of documents, data and information, in particular with reference to high-risk

	categories of customer and types of relationship, products or service, operations transactions, including high-risk channels of distribution; iii) the guarantee of the integrity, security and confidentiality of the documents, data and information.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives)	

Recommendation 13 and Special Recommendation IV (Suspicious transaction reporting)	
Rating: Partially compliant	
Recommendation of the MONEYVAL Report	*Amend the AML/CFT Law to broaden the reporting scope beyond the strict terrorism financing to bring it in line with the standards.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 40 of the new AML/CFT Act, the reporting scope relating to terrorism financing has been broadened and brought in line with the standards. **Article 40 - *Suspicious activity report*** 1. The obliged subjects shall send a report to the Financial Intelligence Authority: a) when they suspect or have reasonable grounds to suspect that funds or other assets are the proceeds of criminal activities, or are linked or related to the financing of terrorism, or to be used for terrorism, terrorist acts or by terrorist organizations or those who finance terrorism; b) in the case of activities, operations or transactions which they considered particularly apt, by their nature, of having a link with money-laundering or the financing of terrorism or with terrorist acts or terrorist organizations or those who finance terrorism.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL	*Amend the reporting requirement to require that a report is submitted to the FIA when it is suspected or there are reasonable grounds to suspect that*

Report	*"funds" (rather than "transactions") are the proceeds of a criminal activity.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to the article 40 (1) (a) of the new AML/CFT Act a report has to be submitted to the AIF when the suspicion is linked or related to funds or other assets and not only transactions as in the old AML/CFT Law. **Article 40 – *Suspicious activity report*** 1. The obliged subjects shall send a report to the Financial Intelligence Authority: a) when they suspect or have reasonable grounds to suspect that funds or other assets are the proceeds of criminal activities, or are linked or related to the financing of terrorism;.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Formally broaden the reporting duty beyond suspect operations to include suspicions on funds generally.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 40 (1) (a) of the new AML/CFT Act a report has to be submitted to the AIF when the suspicion is linked or related to funds or other assets and not only transactions as in the old AML/CFT Law. **Article 40 – *Suspicious activity report*** 1. The obliged subjects shall send a report to the Financial Intelligence Authority: a) when they suspect or have reasonable grounds to suspect that funds or other assets are the proceeds of criminal activities, or are linked or related to the financing of terrorism;
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Remove any doubt about the reporting obligation including attempted transactions.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 40 (3) of the new AML/CFT Act the reporting obligation including attempted transactions has been clarified. **Article 40 – *Suspicious activity report*** [...] 3. The suspicious activities, operations or transactions including attempted operations or transactions, shall be reported irrespective of their value, or any

	other consideration, including, *inter alia*, considerations of a fiscal nature. [...]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Remove any uncertainty as to the extent of the reporting obligation of the financial institutions in respect of the identification of the predicate offence.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 40 (1) (a) of the new AML/CFT Act, relating to the reporting obligation, clarified that the report shall be based on the suspect or reasonable grounds to suspect that funds or other assets are the proceeds of criminal activities, with no reference to a specific predicate offence. **Article 40 - *Suspicious activity report*** 1. The obliged subjects shall send a report to the Financial Intelligence Authority: a) when they suspect or have reasonable grounds to suspect that funds or other assets are the proceeds of criminal activities, or are linked or related to the financing of terrorism, or to be used for terrorism, terrorist acts or by terrorist organizations or those who finance terrorism;
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Emphasise the priority rule of the subjective assessment of the suspicious nature of the funds, where the objective indicators should only be seen as a guidance and support.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 40 (1) (a) of the new AML/CFT Act clarified the priority of the subjective assessment of the suspicious nature of the funds. The indicators given by AIF represent elements for guidance and support to the reporting subjects. **Article 40 - *Suspicious activity report*** 1. The obliged subjects shall send a report to the Financial Intelligence Authority: a) when they suspect or have reasonable grounds to suspect that funds or other assets are the proceeds of criminal activities, or are linked or related to the financing of terrorism, or to be used for terrorism, terrorist acts or by terrorist organizations or those who finance terrorism;
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.

(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Special Recommendation II (Criminalisation of terrorist financing)	
Rating: Largely compliant	
Recommendation of the MONEYVAL Report	*The terrorist acts set out in the Annex to the UN Terrorist Financing Convention should be brought into the Criminal Code.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Law N. VIII, on *"Supplementary norms on criminal law matters"*, of 11 July 2013, has introduced in Vatican criminal law all the offences set forth in the Conventions referred to in the annex of the Terrorist Financing Convention. Articles 18 and 23 of Law N. VIII, which replace the previous article 138 *sexies* of the Criminal Code, define the basic terrorist offence as follows: **Article 18** **(*Definitions*)** 1. For the purposes of the criminal law: a) "*acts performed for terrorist purposes*" means those acts intended to cause death or serious bodily injury to civilians or to persons not taking active part in hostilities in cases of armed conflict, when the act, by its nature or context, is carried out with the intent to: i. intimidate a population; ii. compel the public authorities or an international organization to do or to abstain from doing any act; b) "*acts performed for subversive purposes*" means those acts intended to cause death or serious bodily injury to civilians or to persons not taking active part in the hostilities in a situation of armed conflict, when the purpose of such acts, by its nature or context, is to destabilize the fundamental political, constitutional, economic and social structure of a State or of an international organization; c) "*explosive or other lethal weapons or devices*" means: i. any weapon or explosive or incendiary device, that is designed, or has the capability, to cause death, serious bodily injury or substantial material damage; ii. any weapon or device that is designed, or has the capability, to cause death, serious bodily injury or substantial material damage through the release, dissemination or impact of toxic chemicals, biological agents or toxins or similar substances or of radiation or radioactive material; d) "*military forces of a State*" means the armed forces that a State organizes, trains and equips under its internal law for the primary purpose of national defence or security as well as the persons acting in support of those armed

	forces who are under their formal command, control and responsibility; e) "armed forces during an armed conflict" means the military forces of a State and dissident armed forces or other organized armed groups that take part in an international or a non-international armed conflict which, under responsible command, exercise such control over a part of the territory as to enable them to carry out sustained and concerted military operations and to observe international humanitarian law. 2. The terrorist or subversive purposes exist even when the violent acts are directed against another State, against an international institution or organization, or when they are committed in the territory of another State. 3. The offence does not exist when the acts foreseen in this section are undertaken by armed forces during an armed conflict or by the military forces of a State in the exercise of their official duties, in accordance with international law. **Article 22** ***(Attack for terrorist or subversive purposes)*** 1. Whoever endangers the life or health of one or more persons by committing an act for terrorist or subversive purposes, is punished with at least ten years imprisonment. 2. When the conduct foreseen in paragraph 1 causes: a) the death of one or more persons, the guilty person is punished with no less than twenty-five years imprisonment. b) serious or grave injury one or more persons, the guilty person is punished with at least fifteen years imprisonment. Chapter VI of Law N. VIII, which replaces article 8 of the previous AML/CFT law, incorporates into Vatican law the offences set forth in the 1980 Convention on the Physical Protection of Nuclear Material and in the 1997 Convention for the Suppression of Terrorist Bombings. Chapter VI reads: **CHAPTER VI** **CRIMES WITH EXPLOSIVE DEVICES** **OR CONCERNING NUCLEAR MATERIALS** **Article 25** **(*Definitions*)** 1. For the purposes of the criminal law: a) "*place of public use*" means those parts of any building, land, street, waterway or other location that are accessible or open to members of the public, whether continuously, periodically or occasionally, for a commercial, business, cultural, historical, educational, religious, governmental, entertainment, recreational or similar use so accessible or open to the public; b) "*public or government facility*" means any permanent or temporary facility or conveyance that is used or occupied by representatives of a State, members of the government, the legislature or the judiciary or by officials or employees of a State or any other public authority or entity or by employees

	or officials of an intergovernmental organization, in connection with their official duties; c) "*public transportation system*" means all facilities, conveyances and instrumentalities, whether publicly or privately owned, that are used in publicly available services for the transport of persons or cargo; d) "*infrastructure facility*" means any publicly or privately owned facility providing services for the benefit of the public, such as water, sewage, energy, fuel or communications. e) "*nuclear material*" means plutonium, except that with isotopic concentration exceeding 80 per cent in plutonium-238; uranium enriched in the isotope 235 or 233; uranium containing the mixture of isotopes as occurring in nature other than in the form of ore or ore residue; as well as any material containing one or more of aforementioned isotopes. 2. The offence does not exist when the acts foreseen in this section are undertaken by armed forces during an armed conflict or by the military forces of a State in the exercise of their official duties, in accordance with international law. **Article 26** ***(Acts of terrorism or subversion with explosive devices)*** Unless it constitutes a more serious offence, whoever performs an act for a terrorist or subversive purpose, directed to damage public or private movable or immovable goods, using explosives or other lethal weapons or devices, is punished with two to five years imprisonment and with a fine of no less than 15,000 euro. **Article 27** **(*Use of explosive devices*)** 1. Whoever delivers, places, discharges or detonates an explosive or other lethal device in, into or against a place of public use, a government facility, a public transportation system or an infrastructure facility: a) with the intent to cause death or serious bodily injury, is punished with no less than fifteen years imprisonment; b) with the intent to cause extensive destruction of such place, facility or system, where such destruction results in or is likely to result in major economic loss, is punished with seven to twelve years imprisonment. 2. When the conduct foreseen in paragraph 1 causes: a) the death of one or more persons, the guilty person is punished with thirty to thirty-five years imprisonment. b) serious or grave injury to one or more persons, the guilty person is punished with no less than twenty years imprisonment. 3. If the offence is committed for terrorist or subversive purposes, the penalty set forth in paragraph 1 is increased, and the penalty set forth in paragraph 2, subparagraph b), is replaced by the penalty of thirty to thirty-five years imprisonment. **Article 28** **(*Handling of nuclear materials*)** Whoever, without lawful authority, receives, possesses, uses, transfers, alters, disposes or disperses nuclear material in such a manner that it causes

	or is likely to cause: a) death or serious bodily injury to any person; b) substantial damage to property; is punished, in the case foreseen in subparagraph a), with no less than fifteen years imprisonment, and, in the case foreseen in subparagraph b), with seven to twelve years imprisonment. **Article 29** **(*Misappropriation of nuclear materials*)** 1. Whoever steals, subtracts or misappropriates nuclear materials is punished with four to ten years imprisonment. 2. Whoever fraudulently obtains nuclear materials through threats, force or other forms of intimidation, is punished with five to twelve years imprisonment. **Article 30** **(*Intimidation with nuclear material*)** 1 Whoever threatens to use nuclear materials to cause death or serious injury to any person or substantial property damage, is punished with four to ten years imprisonment. 2. Whoever commits the offence set forth in paragraph 1 to compel someone to do or to abstain from doing any act, is punished with five to twelve years imprisonment. 3. If the offence is committed to compel a State or an international organization, the penalty is increased. 4. If the offence is committed in order to compel the State or the Holy See, it is punished in accordance with Vatican Law even if it is completed or attempted abroad. Chapter VII of the aforementioned Law N. VIII incorporates into Vatican law the offences set forth in: - the 1970 Hague Convention for the Suppression of Unlawful Seizure of Aircraft; - the 1971 Montreal Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation; - the 1988 Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation; - the 1988 Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation; - the 1988 Protocol for the Suppression of Unlawful Acts against the Safety of Fixed Platforms located on the Continental Shelf. Chapter VII reads:

CHAPTER VII

CRIMES AGAINST THE SAFETY OF MARITIME NAVIGATION, CIVIL AVIATION, AIRPORTS AND FIXED PLATFORMS

Article 31
(*Definitions*)

For the purposes of this article:

a) "*ship*" means a vessel of any type whatsoever not permanently attached to the sea-bed, including dynamically supported craft, submersibles, and any other floating craft, but excluding warships, ships owned or operated by a State when used as a naval auxiliary or for customs or police purposes, and ships that have been withdrawn from navigation or laid up;

b) "*aircraft in flight*" means any aircraft from the moment when all its external doors are closed following embarkation until the moment when any such door is opened for disembarkation; in case of a forced landing, the flight shall be deemed to continue until the competent authorities take over the responsibility for the aircraft and for the persons and property on board;

c) "*aircraft in service*" means any aircraft from the beginning of the preflight preparation of the aircraft by ground personnel or by the crew of a specific flight until twenty-four hours after any landing; the period of service extends, in any event, for the entire period in which the aircraft is in flight, as defined in paragraph b) of this article.

d) "*fixed platform*" means an artificial island, installation or structure permanently attached to the sea-bed for the purposes of exploration or exploitation of resources or for other economic purposes.

Article 32
(*Crimes against the safety of maritime navigation and civil aviation*)

1. Whoever seizes or exercises control, by force or threat, over a ship or an aircraft in flight, is punished with seven to fourteen years imprisonment.

2. Whoever destroys a ship or an aircraft in service, is punished with at least fifteen years imprisonment.

3. Unless it constitutes a more serious offence, whoever performs one of the following acts:

a) an act of violence against a person on board of a ship or an aircraft in flight;

b) causes damage to a ship or to an aircraft in service, or to their cargo;

c) places or causes to be placed on a ship or on an aircraft in service, by any means whatsoever, a device or substance which is likely to destroy or to cause damage to that ship or aircraft or to its cargo;

d) destroys or damages maritime or aerial navigational facilities or services or interferes with their operation;

f) communicates information he which knows to be false;

is punished, when such an act, by its nature, endangers or is likely to endanger the safety of maritime navigation or civil aviation, with five to ten years imprisonment.

4. When the conduct foreseen in this article, either completed or attempted, causes:

	a) the death of one or more persons, the guilty person is punished with thirty to thirty-five years imprisonment; b) serious bodily injury to one or more persons, the penalty for bodily injury is added to the penalty set forth in this article. 5. Without prejudice to the cases of participation in the offence, whoever instigates someone to commit or threatens to commit one of the offences set forth in this article, is punished with three to six years imprisonment. 6. The offences set forth in this article are punished pursuant to Vatican law if the aircraft on board which the offence is committed lands in the territory of the State while the alleged offender is still onboard; as well as when the offence is committed on board an aircraft leased without crew to a citizen of the State, or to a person who has his domicile in the territory of the State. **Article 33** **(*Crimes against the security of airports*)** 1. Whoever, by performing an act that endangers or is likely to endanger the safety of an airport, using any sort of device, substance or weapons: a) commits, at an airport serving international civil aviation, an act of violence against a person which causes or which is likely to cause serious injury or death, is punished with five to ten years imprisonment; b) destroys or seriously damages the facilities of an airport serving international civil aviation or aircraft not in service located in the airport, or disrupts the services of the airport, is punished with four to eight years imprisonment. 2. When the conduct foreseen in this article, either completed or attempted, causes: a) the death of one or more persons, the guilty person is punished with thirty to thirty-five years imprisonment; b) serious bodily injury to one or more persons, the penalty for bodily injury is added to the penalty set forth in this article. 3. Without prejudice to the cases of participation in the offence, whoever instigates someone to commit or threatens to commit one of the offences set forth in this article, is punished with three to six years imprisonment. **Article 34** **(*Crimes against the safety of fixed platforms*)** 1. Whoever seizes or exercises control, by force or threat, over a fixed platform, is punished with six to twelve years imprisonment. 2. Whoever destroys a fixed platform, is punished with no less than twelve years imprisonment. 3. Unless it constitutes a more serious offence, whoever performs one of the following acts: a) an act of violence against a person on board a fixed platform; b) causes damage to a fixed platform; c) places or causes to be placed on a fixed platform, by any means whatsoever, a device or substance which is likely to destroy that fixed platform or to damage it; is punished, when such an act, by its nature, endangers or is like to endanger the safety of a fixed platform, with four to eight years imprisonment. 4. When the conduct foreseen in this article, either completed or attempted,

causes:
a) the death of one or more persons, the guilty person is punished with thirty to thirty-five years imprisonment with life imprisonment;
b) serious bodily injury to one or more persons, the penalty for bodily injury is added to the penalty set forth in this article.
5. Without prejudice to the cases of participation in the offence, whoever instigates someone to commit or threatens to commit one of the offences set forth in this article, is punished with three to six years imprisonment.

Article 35
(*Common provisions*)

1. The instigation, the threat and the attempt of one of the offences set forth in articles 32, 33 and 34, even if committed abroad, in whole or in part, are punished pursuant to Vatican law insofar as the offence that was instigated, threatened or attempted has been committed or should have been committed in the territory of the State, as understood under article 3 of the Criminal Code, or against, or on board of an aircraft or a fixed platform of the State or of the Holy See.
2. If the offence is committed for terrorist or subversive purposes, the penalty is increased.

Article 36
(*Piracy*)

The kidnapping, depredation, and any other act of violence committed for private ends by the crew or the passengers of a private ship or aircraft and directed against another ship or aircraft or against the persons or cargo on board, is punished with ten to twenty years imprisonment.

Article 37
(*Criminal responsibility of the Captain*)

At the beginning of the text of article 30 of the Decree n. LXVII, of 15 September 1951, are added the following words: *"Unless it constitutes a more serious offence,"*

Chapter VIII of Law N. VIII has introduced in Vatican Law the offences set forth in the 1973 Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents:

CHAPTER VIII
CRIMES AGAINST INTERNATIONALLY PROTECTED PERSONS

Article 38
(*Definitions*)

For the purposes of this chapter, "*internationally protected person*" means:
a) a Head of State, including any member of a collegial body performing the functions of a Head of State under the constitution of his own State, whenever he is outside the territory of his own State, as well as members of

	his family who accompany him; b) a Head of Government or a Minister for Foreign Affairs, whenever he is outside the territory of his own State, as well as members of his family who accompany him; c) a representative or official of a State or of the Holy See as well as any other official or agent of an international organization of an intergovernmental character who, at the time when and in the place where an offence against him, his official premises, his private accommodation or his means of transport is committed, is entitled pursuant to international law to special protection from any attack on his person, freedom or dignity, as well as members of his family living with him. **Article 39** **(*Crimes*)** 1. Whoever causes the death of an internationally protected person, is punished with no less than twenty-one years imprisonment. 2. Whoever causes a bodily injury to an internationally protected person, is punished with three to six years imprisonment. If the injury caused is serious, the penalty shall be of four to eight years imprisonment. If the injury is of the outmost gravity, the penalty shall be of six to twelve years imprisonment. 3. Whoever kidnaps or otherwise deprives an internationally protected person of his personal freedom, is punished with five to ten years imprisonment. 4. Unless it constitutes a more serious offence, whoever endangers the person or personal freedom of an internationally protected person through a violent act upon his official premises, private accommodation or means of transport, is punished with four to eight years imprisonment. 5. Whoever threatens to commit one of the offences set forth in this article, is punished with one to four years imprisonment. **Article 40** **(*Crimes committed abroad*)** 1. The offences set forth in this chapter, committed against a person who enjoys the status of internationally protected person by virtue of functions which he exercises on behalf of the State or of the Holy See, are punished pursuant to Vatican law even if committed abroad. 2. The instigation, the threat and the attempt to commit one of the offences set forth in this chapter, even if committed abroad, in whole or in part, are also punished pursuant to Vatican law insofar as the offence that was instigated, threatened or attempted has been committed or should have been committed in the territory of the State, as understood under article 3 of the Criminal Code. Article 24 of the aforementioned law incorporates into Vatican law the offences set forth in 1979 International Convention against the Taking of Hostages:

	Article 24 **(*Kidnapping for terrorist or subversive purposes)***
	1. Whoever performs the conduct set forth in article 146 of the Criminal Code for terrorist or subversive purposes, is punished with seven to fifteen years imprisonment and with a fine of no less than 25,000 euro. 2. To this offence apply, to the extent they are compatible, the provisions of article 146, paragraphs 4 and 5, of the Criminal Code. 3. The offence that is committed in order to coerce the State or the Holy See is punished in accordance with Vatican Law even if it is completed or attempted abroad. Moreover, article 12 of Law N. IX, on *"Amendments to the Criminal Code"*, of 11 July 2013, has amended article 146 of the Criminal Code, on the criminalization of kidnapping, in light of the elements of the crime required by the 1979 International Convention against the Taking of Hostages. Article 12 of Law N. IX reads: **Article 12** **(*Kidnapping*)** The text of article 146 of the Criminal Code is entirely replaced by the following: "Whoever deprives another person of his personal freedom is punished with one to five years imprisonment and with a fine up to 10,000 euro. If the guilty person seizes or in any way detains and threatens to kill, to injure or to continue to detain another person in order to compel a third party to do or abstain from doing any act as an explicit or implicit condition for his release, is punished with four to ten years imprisonment and with a fine ranging from 5,000 to 15,000 euro. If the offence is committed against an ancestor, a descendant or the spouse; against a public official in view to his public functions; or if, as a consequence of the fact, the victim suffers serious injury to his person, health, or goods; or if the offence is committed for profit; the penalty is of five to twelve years imprisonment and with a fine of no less than 15,000 euro. If the offence is committed against two or more persons, the penalty is increased from one third to a half. The punishment is reduced between a sixth and a half if the guilty person spontaneously releases the person retained, before any act of persecution, without having obtained any benefit, and without having caused him any physical injury." It should be noted that the general provisions on participation and inchoate crimes – articles 61 to 66 of the Criminal Code – apply to all the aforementioned crimes. In addition, articles 19, 20 and 21 of Law N. VIII, which replace articles 138 *quater* and 138 *quinquies* of the Criminal Code, criminalize the association for terrorist or subversive purposes, the assistance to members of a terrorist organization and the recruitment of terrorists:

	Article 19 ***(Association for terrorist or subversive purposes)*** 1. Whoever promotes, creates, organizes, or directs a group that intends to commit acts for terrorist or subversive purposes, is punished with five to fifteen years imprisonment. 2. Whoever participates intentionally in the group, or who actively participates in its criminal activities or in other activities of the group, or who contributes to the group or to its activities in any way, directly or indirectly, even if through connected groups, in the knowledge that his participation or contribution aids the achievement of the criminal aims of the group, is punished, by the mere fact of his participation or contribution, with four to ten imprisonment. 3. The provisions of article 248, paragraphs 3, 5, 6 and 7 shall apply to the offence set forth in this article. **Article 20** **(*Assistance to the members*)** 1. Unless it constitutes a more serious offence or participation in the offence as an accomplice or as an accessory after-the-fact, whoever provides refuge, food, shelter, transportation or means of communication to a person who forms part of a group referred to in article 19, is punished with three to six years imprisonment. 2. The penalty is increased if the assistance is provided for an extended period of time. **Article 21** ***(Recruitment and training for terrorist or subversive purposes)*** 1. Whoever recruits one or more persons to commit acts for terrorist or subversive purposes, or to sabotage essential public facilities or services, is punished with the penalty set forth in article 19, paragraph 1. 2. Whoever, outside the cases foreseen in article 19, trains or otherwise provides information on the preparation or use of an explosive or other lethal weapon or device, or on any other technique or method to commit acts for terrorist or subversive purposes, or to sabotage essential public facilities or services, is punished with three to ten years imprisonment. The same penalty applies to whoever receives the training. 3. If the person recruited or trained is a minor, the penalty is increased. Instead, in relation to the minor, if punishable, the penalty is reduced. In this context, it should also be noted that Article 25 of Law N. IX, on "*Amendments to the Criminal Code*", of 11 July 2013, has introduced a new definition of criminal association. Article 25 of Law N. IX reads:

	Article 25 **(*Criminal association*)** The text of article 248 of the Criminal Code is entirely replaced by the following: "When two or more persons enter into a partnership to commit several crimes or to obtain unjust benefits by taking advantage of the intimidating potential that arises from the partnership, those who promote, constitute, organize or direct the criminal group are punished, just for that fact, with three to seven years imprisonment. Whoever participates intentionally in an organized criminal group and whoever actively participates in its criminal activities or in other activities of the group, in the knowledge that his participation contributes to the achievement of the criminal aims of the group, is punished, by the mere fact of his participation, with one to five years imprisonment. If the organized group intends to commit several offences that are punishable, in the maximum, with a penalty of no less than four years; the penalty, in the cases foreseen in paragraph 1, is of five to ten years imprisonment, while, in the cases foreseen in paragraph 2, the penalty is of three to six years imprisonment. Whoever organizes, directs, aids, abets, facilitates or counsels the commission of a crime involving an organized criminal group, is subject to the same penalties set forth in paragraph 2. The partnership to commit a single crime that is punishable, in the maximum, with no less than four years, is punished, in the case the offence is not attempted, with a penalty of six months to three years imprisonment. In case the offence is attempted or completed, the penalty for the attempted or completed crimes applies, if higher. If the group is armed, the penalty is of five to fifteen years imprisonment. A group is deemed armed if the members of the group have access to arms or explosives in order to attain the ends of the group, even if those arms or explosives are hidden or stored. If the group has ten or more members, the penalties are increased." Finally, the definition of the terrorist financing offence has been revised to ensure that the financing of all the aforementioned terrorist offences constitutes terrorist financing. The key provision in this context is the revised article 23, paragraph 1, letter a, of Law N. VIII, which criminalizes as "financing of terrorism" all the aforementioned conducts independently of their purpose. Article 23, paragraphs 1 and 2 of Law N. VIII read: **Article 23** ***(Financing of terrorism)*** 1. Whoever, directly or indirectly, collects, provides, deposits or holds currency, funds or other assets, however obtained, with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to: a) commit one of the offences set forth in articles 19, 20, 21, 22, 24, 26, 27, 28, 29, 30, 32, 33, 34 and 39 of this law;

	b) commit or abet the commission of one or more acts for terrorist purposes; is punished, regardless of whether those funds or assets are used to commit or to attempt to commit those acts, with five to fifteen years imprisonment. 2. The offence exists whether the acts are directed to finance groups or whether they are directed to finance one or more natural persons.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*The Criminal Code should be amended to criminalise the financing of terrorist organisations and individual terrorists for legitimate purposes.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	In addition to articles 19, paragraph 2, and 20 of Law N VIII, on *"Supplementary norms on criminal law matters"*, of 11 July 2013, which criminalize the assistance to members of terrorist or subversive associations with criminal intent (*see* above), article 23, paragraph 3, of Law N. VIII, criminalizes the financing of terrorist organizations and individuals for legitimate purposes: Art. 23.3. The same penalty, reduced by a third, applies to whoever finances the subjects included in the list of those who threaten international peace and security approved to this end. The offence does not exist if the provision of funds or assets occurs in the course of an emergency humanitarian or charitable operation, and insofar as the goods provided are those strictly indispensable to fulfill of the basic needs of the beneficiaries. In order to adhere to the principle of legality, this offence is linked to the national list of terrorists, compiled in accordance with Articles 64 and 65 of Decree N. XI of the President of the Governorate of the Vatican City State, on "*Norms concerning transparency, vigilance and financial information"*, of 8 August 2013, which were confirmed in Articles 71 and 72 of Law N. XVIII of 8 October 2013 (*see* answers concerning Special Recommendation I).
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Art. 42 bis of the revised AML/CFT Law on administrative responsibility of legal persons being contingent on the securing of a prior conviction of a natural person should be reconsidered in the light of the examiners' concerns and practical experience of its functioning.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Chapter X of Law N. VIII, on *"Supplementary norms on criminal law matters"*, of 11 July 2013, which replaces Article 43 *bis* of the revised law CXXVII, has introduced a new approach on the administrative liability of legal persons arising from crimes. Unlike the previous Article 43 *bis*, which was restricted to cases of money laundering and of financing of terrorism, the new provisions apply to all crimes. Thus, according to Article 46.1 of Law

	VIII, legal persons may be held liable for any criminal offence committed in its favour or on its behalf. Moreover, according to Article 46.5, the liability of legal persons is not contingent any more on securing the prior conviction of a natural person. Article 46 of Law N. VIII reads: **Article 46** **(*Liability of legal persons*)** 1. A legal person is liable for the offences committed in its favour or to its benefit by: a) persons holding positions representing, managing or directing the entity or one of its units having financial and functional autonomy, as well as by persons who manage or control, even *de facto*, the entity; b) by persons subject to the direction or supervision of one of the subjects referred to in subparagraph a). 2. The legal person is not liable if the subjects referred to in paragraph 1 have operated exclusively to their own benefit or in favour of a third party. 3. If the offence is committed by one of the subjects referred to in paragraph 1, subparagraph a), the legal person is not liable if it proves that: a) the directing organ adopted and implemented effectively, before the commission of the offence, structural and managerial models apt to prevent offences such as the one that has been committed; b) the responsibility of supervising the operation and implementation of the said models and of ensuring their continuous review has been delegated to an organism having autonomous powers of action and control; c) the subjects have committed the offence by evading fraudulently the said structural and managerial models; and, d) the organism referred to in subparagraph b) has not omitted or exercised insufficient supervision. 4. The confiscation of the goods of the legal person that were used or that were intended to be used to commit the offence, as well as its proceeds, profits, their value and other benefits, even of an equivalent value, is always ordered. 5. The liability of the legal persons subsists even if: a) the author of the offence is not identified or is not imputable; b) the offence becomes extinguished for a reason other than an amnesty. 6. The provisions of this chapter do not apply to public authorities. 7. In those instances where the tribunals have jurisdiction over offences committed outside the territory of the State, the legal persons having their corporate seat in the State, may also be liable for the offences committed abroad.
(Other) changes since the last evaluation as of 9 December 2013	On 26 September 2012, the Holy See ratified, also in the name and on behalf of the Vatican City State, the 1973 Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents. As noted above (*see* answer concerning Recommendation 1), articles 1 to 4 of the aforementioned Law N. IX of 11 July 2013, amended the heads of jurisdiction of the Vatican Tribunal in light of the requirements set forth in the various counterterrorism conventions. Moreover, the *Motu Proprio* on

	"*the jurisdiction of Vatican City State on Criminal Matters*" extended the jurisdiction of the Vatican Tribunals to the crimes set forth in Law VIII, including the various terrorist and terrorist financing offences, when committed by the public officials of the Holy See "in the context of the exercise of their functions" even if outside Vatican territory.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

2.3. Key recommendations

Please indicate improvements which have been made in respect of the FATF Core Recommendations (Recommendations 3, 4, 23, 26, 35, 36, 40; Special Recommendations I, II, III and V) and the Recommended Action Plan (Appendix 1). Please also provide information which may demonstrate effective implementation.

Recommendation 3 (Confiscation and provisional measures)	
Rating: Largely compliant	
Recommendation of the MONEYVAL Report	*A detailed, comprehensive and modern scheme to address the range of issues described in the report should be introduced.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 8 of Law N. IX, on *"Amendments to the Criminal Code and the Code of Criminal Procedure"*, of 11 July 2013, has introduced into the Code of Criminal Procedure a modern scheme regarding confiscation and provisional measures. Such scheme is based, in particular, on Article 5 of the 1988 Vienna Convention against the Illicit Traffic in Narcotic Drugs and Psychotropic Substances and on Article 12 of the 2000 Palermo Convention against Transnational Organized Crime. It should be noted that the provisions on confiscation and freezing are intentionally broad, so as to encompass the widest range of material, immaterial, movable and immovable goods. In this context, the concept of "goods" utilized in Article 36 of the Criminal Code, as amended by Article 8 of Law N. IX, should be read in light of Article 810 of the Civil Code in force in the Vatican City State, which defines "goods" as "the things that

	may be the object of rights". Furthermore, article 36, paragraph 5, of Code of Criminal Procedure, as amended by article 8 of Law N. IX, foresees in particular the confiscation of the goods owned, possessed or administered, directly or indirectly, by criminal associations, even if the origin of those goods is unknown, while paragraph 7 allows the confiscation of goods or assets of an equivalent value. Article 8 of Law N. IX reads: **Article 8** **(*Confiscation and freezing*)** The text of article 36 of the Criminal Code is entirely replaced by the following: "In case of a guilty verdict, the judge orders the confiscation of the goods used to or intended to commit the offence, as well as its proceeds, profits, their value and other benefits that arise from their use. The confiscation of the goods whose manufacture, use, transport, possession or sale constitutes an offence is always mandatory, even in absence of a guilty verdict. If the goods mentioned in paragraph 1 belong to a bona fides third party, their confiscation shall not be ordered. Regarding the goods referred to in paragraph 2, their confiscation shall not be ordered if they belong to a bona fides third party and if their manufacture, use, transport, possession or sale may be approved through an administrative authorization. The goods owned, possessed or administered, directly or indirectly, by criminal associations, beyond those goods referred to in paragraph 1, are always confiscated, without prejudice to the bona fides rights of third parties. The preceding provisions apply to the goods that result from the transformation, conversion or intermingling of the goods subject to confiscation, as well as to the profits and other benefits that arise from their use. Whenever it is not possible to confiscate the goods referred to in preceding paragraphs, the judge orders the confiscation of currency, goods or assets of an equivalent value among those owned or possessed, directly or indirectly, exclusively or jointly with others, by the convict, without prejudice to the bona fide rights of third parties. The judge adopts precautionary measures, including the seizure of the money, goods or assets likely to be confiscated, to prevent their sale, transfer or disposition, as well as other measures that permit identifying, tracing, and freezing the money, goods or assets likely to be confiscated, without prejudice to the bona fide rights of third parties. "freezing" means: a) regarding goods, the prohibition to move, transfer, convert, dispose, use, manage, or access those goods so as to modify their volume, amount, location, ownership, possession, nature, destiny, as well as of any other change that would allow their use, including the management of an

	investment portfolio; b) regarding other assets, the prohibition to move, transfer, convert, use or manage those assets, including their sale, attachment to or constitution of any other rights or warranties over them in order to obtain goods or services. Unless otherwise provided by the law, the confiscated goods are acquired by the Patrimony of the Holy See." In addition, Article 639 of the Code of Criminal Procedure, amended by as Article 41 of Law N. IX, of 11 July 2013, provides for the confiscation and seizure of goods pursuant to a request of mutual legal assistance. This provision is based on Article 5 of the 1988 Vienna Convention against the Illicit Traffic in Narcotic Drugs and Psychotropic Substances and on Article 13 of the 2000 Palermo Convention against Transnational Organized Crime. Since Article 639, paragraph 1, of the Criminal Procedure Code explicitly refers to the goods subject to confiscation pursuant to Article 36 of the Criminal Code, as amended by Article 8 of Law N. IX, all the goods that may be subject of seizure and confiscation in a domestic procedure may be subject of seizure and confiscation as a result of a mutual legal assistance request. Consequently, even the confiscation of goods of an equivalent value, as foreseen in article 36, paragraph 7, of the Criminal Code, may be ordered in the context of mutual legal assistance. Article 41 of Law N. IX reads: **Article 41** ***(Confiscation and seizure)*** The text of article 639 of the Code of Criminal Procedure is entirely replaced by the following: "A mutual legal assistance request may also be directed at: a) the confiscation or execution of a confiscation order regarding goods referred to in article 36 of the Criminal Code; b) identifying or seizing goods referred to in article 36 of the Criminal Code with the view to their eventual confiscation; c) executing an order for the exhibition or seizure of bank, financial, or commercial records. In addition to the information required by article 8, the requests for mutual legal assistance referred to in paragraph 1 shall also: a) describe the goods to be confiscated and expose the facts relied upon by the requesting State such as to enable the requesting State to dictate a confiscation order under the law; b) in the case of a request for the execution of a confiscation order, transmit an authentic copy of the order, as well as expose the facts and provide the information required for its execution; c) in the case of a request made for the purposes referred to in paragraph 1, subparagraph b), expose the facts and motives relied upon in the request and provide a detailed description of the requested actions. Where appropriate, the tribunal orders those measures, including precautionary measures, that are necessary for the execution of the request.

	The goods confiscated pursuant to this article are acquired by the Patrimony of the Holy See. However, upon request from the requesting State, the tribunal may order the restitution of the confiscated goods, in whole or in part, with the view to compensate the victims of the offence or to restitute those goods to their legitimate owners." Finally, article 46, paragraph 4, of Law N. VIII, on *"Supplementary norms on criminal law matters"*, of 11 July 2013, on the liability of legal persons arising from crimes, foresees the mandatory confiscation of "the goods of the legal person that were used or that were intended to be used to commit the offence, as well as its proceeds, profits, their value and other benefits, even of an equivalent value".
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*The Code of Criminal Procedure should be amended quickly to clarify the authority to take steps to prevent or void actions, whether contractual or otherwise, where the persons involved knew or should have known that as a result of those actions the authorities would be prejudiced in their ability to recover property subject to confiscation.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 9 of Law N. IX, on *"Amendments to the Criminal Code and the Code of Criminal Procedure"*, of 11 July 2013, empowers judicial authorities to void any deeds or contracts concerning confiscated goods when the parties involved knew or should have known that those actions could prejudice the authorities' ability to recover property subject to confiscation. The relevant provision reads: ***Article 9*** ***(Protection of bona fides third parties)*** In Book I of the Criminal Code, "On penalties," Chapter II, "On penalties in general," after article 36, the following article 36 bis is added: "When ordering the confiscation of goods, the judge declares void any deed or contract concerning the confiscated goods when it emerges that the third party knew or should have known that the goods object of the said deed or contract fall within the scope of paragraphs 1, 2, 5 and 6 of article 36. The action for annulment is brought forth by the Promoter of Justice, and trial is governed by the rules applicable to civil actions in criminal proceedings. Bona fides third parties entitled to the restitution of seized goods or of goods subject to other precautionary measures, may intervene in the proceedings and request their restitution. Bona fides third parties entitled to the restitution of confiscated goods may bring forward civil proceedings to secure their rights as well as the ensuing restitution of those goods or, if restitution is not possible, compensation for any damages."

(Other) changes since the last evaluation as of 9 December 2013	Articles 32 and 36 of Law IX, on *"Amendments to the Criminal Code and the Code of Criminal Procedure"*, of 11 July 2013, clarify the powers of the police to seize goods intended to be used to commit the offence as well as those goods which are the product of the crime and those which might be useful to ascertain the truth. Articles 32 and 36 of Law IX read: **Article 32** ***(Seizure by the judicial police)*** The text of article 166, paragraph 1, of the Code of Criminal Procedure is replaced by the following: "The officials of the judicial police shall seize the goods used to or intended to be used to commit the offence, those which are the product of the crime, their profit or value as well as all those which could be useful to ascertain the truth." **Article 36** **(*Seized goods*)** The text of article 612, paragraph 1, of the Code of Criminal Procedure is replaced by the following: "The goods referred to in article 166 remain seized as long as it is required by the process; at the end of the proceedings, if those goods are not subject to confiscation, they are returned to whomever is entitled."
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Recommendation 4 (Secrecy laws consistent with the Recommendations)	
Rating: Largely compliant	
Recommendation of the MONEYVAL Report	*Introduce an express exemption from the obligation to observe financial secrecy with respect to the exchange of information with foreign financial institutions where this is required to implement FATF Recommendations.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 6 (d) of the new AML/CFT introduced an express exemption from the obligation to observe financial secrecy with respect to the exchange of information with foreign financial institutions. **Article 6 – *Official secret and financial secrecy***

	Official secret and financial secrecy neither inhibit or limit: […] d) The exchange of information between obliged subjects, also at the international level.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Clarify FIA's powers to request information as recommended under R. 26 and R. 29 to ensure that obliged subjects cannot refuse to comply with a request for information based on the financial secrecy obligation.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 6 (b) of the new AML/CFT clarifies AIF's general powers to request information, including under Recommendations 26 and 29, also ensuring, in light of article 47, that obliged subjects cannot refuse to comply with a request for information based on the financial secrecy obligation.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Clarify FIA's power to exchange information with foreign supervisory authorities to make sure that official secrecy cannot inhibit such information exchange*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to articles 69 and 70 of the new AML/CFT Act AIF's power to exchange with foreign supervisor authorities has been clarified in particular that official secrecy cannot inhibit nor limit such exchange. **Article 69 – *Cooperation and exchange of information at the domestic and international levels*** 1. The Financial Intelligence Authority, with a view to carrying out adequately its functions of supervision and regulation and financial intelligence: a) cooperates with and exchanges information with other authorities of the Holy See and of the State, which shall give to the Financial Intelligence Authority relevant documents, data and information; b) cooperates with and exchanges information with the equivalent authorities in other States, under the condition of reciprocity and on the basis of memoranda of understanding. The Secretariat of State shall be informed of the stipulation of such memoranda.

	Article 70 – *Secrecy and exchange of information* 1. Official secret and secrecy in financial matters do not inhibit or limit the activities mentioned in the article 69. 2. The preceding provisions shall be applied without prejudice to the norms in force relating Pontifical Secret and Secret of State.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Consider adding the Judicial Authority to the list of all competent authorities in Chapter I* bis *of the revised AML/CFT Law in order to eradicate any potential doubts*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Adding the Judicial Authority to the list of competent authorities has been considered. Since it is expressly mentioned in article 3 of the *Motu Proprio* of Pope Francis of 8 August 2013, there is no need to introduce it in the AML/CFT Act.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Recommendation 23 (Regulation, supervision and monitoring)	
Rating: Non-compliant	
Recommendation of the MONEYVAL Report	*The definition of supervision and inspection should be changed so that it is made clear what the powers, given to the AML supervisor, encompass in practice.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	The new AML/CFT Act clarifies the supervisory power of AIF, in particular it introduces AIF as competent supervisor and regulator for both AML/CFT and prudential matters. See Title II (Chapter VII) and Title III.

Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Clarify in law or regulation the exact meaning of "operational" as opposed to "full" independence of the FIA as supervisor.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	The term "operational" has been removed by the new AML/CFT Act. "Full" autonomy and independence of AIF is ensured by article 2 (2) of its Statute. **Article 2 – *Functions*.** [...] § 2. The Financial Intelligence Authority, in accordance with the international law and principles relating to the fight against money laundering and financing of terrorism, carries out the functions, duties and activities mentioned in the preceding paragraph [Vatican laws] as well as in this Statute, in full autonomy and independence.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Introduce specific measures to involve the supervisor in the process of licensing and approving of senior staff at financial institutions.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	With the new AML/CFT Act an authorization procedure has been introduced. Any entity carrying out professionally a financial activity shall be authorized by AIF. **Article 54 – *Authorisation*** 1. The Financial Intelligence Authority authorises the carrying out professionally of a financial activity. 2. The Financial Intelligence Authority establishes, by regulation, the criteria and the procedures for authorisation, including suspension and withdrawal. 3. The present article and future regulations of the Financial Intelligence Authority relating to the authorisation to carry out professionally a financial activity shall respect the contents of the norms in force in the Holy See and in the State relating to the creation and dissolution of organs and entities.
Measures taken to implement the recommendations since the adoption of the first progress report	In 2014, the AIF adopted Regulation No. 1 on "Prudential Supervision of the Entities Carrying out Financial Activities on a Professional Basis", implementing Title III of the Law introducing norms on "Transparency, Supervision and Financial Intelligence", No. XVIII of 8 October 2013. Regulation No. 1 introduces in Art. 18 to 20 a formal process of authorization for financial institutions, including the assessment of "fit and proper"

	requirements for the members of the management, the senior management and the control functions. **Article 18 - *Competence requirements*.** 1. Members of the management shall be chosen on the basis of criteria of competence from among those persons who have garnered, within the State or in a foreign State considered as equivalent to the State, at least three years' experience in the exercise of: a) the administration, supervision or management of financial institutions; b) professional activities in matters pertaining to the financial or investment sectors or involving the key functions of supervised entity; c) the administration, supervision or management of entities, bodies, or public entities pertaining to the financial or investment sectors, or at entities, bodies, or public entities not involved in these sectors, but where the functions exercised involved the management of economic and financial resources. 2. Members of the senior management shall be chosen on the basis of criteria of competence from among those persons who have garnered, within the State or in a foreign State, considered as equivalent to the State, a specific competence in financial and investment matters, through, inter alia, membership in senior managements or equivalent position, or position of adequate responsibility for a period of not less than five years in entities active in the financial or investment sectors. **Article 19 - *Honorability requirements*.** 1. The following persons may not be members of management and the senior management, and if appointed, they must be dismissed pursuant to the current regulations in effect in the State: a) persons who are legally incapacitated, bankrupt, or have been convicted of a punishment entailing the prohibition, even temporary, from holding public offices or the inability to hold executive positions whether in the State or in a foreign State; b) persons who have been convicted whether in the State or in a foreign State: i) for crimes in the financial, investment, or insurance sectors, including corporate, bankruptcy, and tax crimes; ii) for a crime against a government or public administration, against the public trust, against social welfare, against public order, or against the public economy; iii) for any crime for which the legislation of the State prescribes the

	punishment of not less than one year of imprisonment. c) persons who have been subject to administrative sanctions applied by the relevant authorities of the Holy See or the State, including the administrative sanctions established by Articles 47 (3), and 66 (3), of Law No. xviii of 8 October 2013; d) persons who have been subject to administrative sanctions for breach of the laws and regulations governing in the financial or investment sectors in a foreign State; e) persons who have pleaded guilty to a crime set forth in paragraph 1, letter b) pursuant to the current regulations in effect in the State or a foreign state. 2. The senior management shall hold an emergency meeting to evaluate the circumstances of the case and to adopt the most appropriate measures, including the suspension of the functions or dismissal, if a member of the management or the senior management: a) becomes convicted of, or subject to criminal sanctions with respect to, any of the crimes, administrative sanctions or other situations referred to in paragraph 1; or b) becomes the subject of administrative sanctions applied by the relevant authorities of the Holy See or the State, including the administrative sanctions established by Articles 47 (2), and 66 (2), of Law No. xviii of 8 October 2013. **Article 20 - *Verification of the possession of competence and honorability requirements*.** 1. The supervisory body verifies the existence of the competence and honorability requirements for new members of the senior management, including the absence of potential conflict of interest. To this end, the interested parties must present the documentation proving the possession of the competence and honorability requirements and disclose any situation that could constitute a conflict of interest. 2. The senior management verifies the existence of the competence and honorability requirements for new members of the management, including the absence of any conflict of interest. To this end, the interested parties must present the documentation proving the possession of the competence and honorability requirements and disclose any situation that could constitute a conflict of interest. 3. The supervisory body and the senior management, in the cases provided, respectively, by paragraphs 1 and 2, shall sent the name(s) of the candidate(s) to the supervisory Authority at least 45 days before the potential appointment,

	for the verification of their eligibility. The supervisory Authority may ask further information and documents. 4. The supervisory body shall evaluate at least once a year whether the members of the management and the senior management continue to meet competence and honorability requirements on an ongoing basis. To this end, members of the management and the senior management must annually certify that they continue to meet the requirements prescribed by Articles 18 and 19, provide all the relative support documentation also upon request. In addition, such members, are required to disclose spontaneously and promptly any circumstance that may be relevant to assess compliance with such requirements. If any members find themselves in one of the situations indicated in Article 19, paragraph 1, they shall immediately communicate the same to the senior management, presenting their resignation to the competent bodies. The senior management shall inform the supervisory Authority. 5. A copy of the minutes of any meeting during which the existence of the requirements is verified, together with supporting documentation, is sent within 30 days of the relevant meeting to the supervisory Authority. The supervisory Authority has the power, where it considers it appropriate, to ask the supervised entity to provide documentation proving that members of the management and the senior management, meet the above-mentioned requirements, to conduct independent verifications and to ask for additional information about the relevant member, including from the relevant authorities in the State and foreign states, notably to evaluate the existence of possible conflicts of interest. When it determines that the above-mentioned requirements are not met, the supervisory Authority may (and, in the cases mentioned in Article 19, paragraph 1, shall) refuse the appointment of the new member, or request the existing member's dismissal.
Recommendation of the MONEYVAL Report	*Directors and senior management of IOR and APSA should be specifically evaluated and 'licensed' on the basis of "fit and proper" criteria including those relating to expertise and integrity.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	In light of the new AML/CFT Act, any member of the management and/or organs of control and of the senior management shall be evaluated by AIF regarding their "fit and proper" criteria, including expertise and integrity. **Article 61 - *Expertise and integrity requirements*** 1. The Financial Intelligence Authority establishes, by means of a regulation, the expertise and integrity requirements of management members, of the organs of control and of the senior management, or of those who hold or shall hold similar offices within the subject carrying out professionally a financial

	activity, and shall examine potential conflicts of interest. 2. Expertise and integrity requirements include, inter alia, the evaluation of the following elements: a) adequate expertise and integrity with regard to the activity in question; b) the absence of criminal conviction or serious administrative sanctions which would make a person unfit. 3. In carrying out professional activity of a financial nature, the subjects found in the present title shall: a) behave diligently, correctly, and transparently, in the interest of the customer and for the integrity and stability of markets; b) acquire the necessary information from customers and work in ways to ensure that they are always adequately informed.
Measures taken to implement the recommendations since the adoption of the first progress report	See above.
Recommendation of the MONEYVAL Report	*Give the FIA the power to assess 'fit and properness' on an ongoing basis.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 61 (1) of the new AML/CFT Act, AIF has the power to assess "fit and properness" on a ongoing basis.
Measures taken to implement the recommendations since the adoption of the first progress report	See above.
Recommendation of the MONEYVAL Report	*The FIA (or another body) should take up its supervisory role on AML issues immediately, plan for (a schedule of) inspections, set up a standard manual and work procedure and provide for feedback proactively.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	AIF is currently preparing a schedule of inspections and setting up an inspection manual including relevant work procedure.
Measures taken to implement the recommendations since the adoption	The AIF adopted a manual and a schedule of inspections, regularly updated according to Art. 4 (2) (e) and Art. 6 (2) (e) (f) of the Statute. **Article 4** – ***The Board of Directors and the President.***

of the first progress report	[…] 2. The Board of Directors shall: […] e) adopt the schedule of off-site and on-site inspections of the supervised subjects prepared by the Director; **Article 6** – ***The Director.*** […] 2. The Director, in line with the general policy and fundamental strategies defined by the Board of Directors, shall: […] e) propose to the Board of Directors the schedule of off-site and on-site inspections of the supervised subjects; f) within the framework of the schedule approved by the Board of Directors, prepare and conduct the off-site and on-site inspections of the supervised subjects;
Recommendation of the MONEYVAL Report	*The FIA should start a supervisory inspection with IOR as soon as possible.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	In the course of the current year AIF has carried out two *ad hoc* inspections.
Measures taken to implement the recommendations since the adoption of the first progress report	In early 2014, AIF carried out its first *on-site* inspection at the IOR. The scope of the inspection was the verification of the compliance of the organization and the management of the IOR in line with Law N. XVIII, assessing, *inter alia*: (i) the internal organization; (ii) the transaction monitoring system, evaluation procedures and risk management; (iii) the CDD procedures; (iv) registration and record keeping; (v) the procedures for the detection and reporting of suspicious activities; (vi) the relations with foreign financial institutions and the international transfer payment system. The on-site inspection included sample tests on files as well as on the accounts and individual transactions.
Recommendation of the MONEYVAL Report	*Annual statistics on on-site inspections by the supervisor or sanctions applied should be published. Reinstate the requirement to draw up such statistics in the law.*

Measures reported as of 9 December 2013 to implement the Recommendation of the report	The new AML/CFT Act established the duty of AIF to publish an annual report, including relevant statistics also in its capacity of supervisor and regulator. See articles 46 (g) and 65 (k). **Article 46 – *Supervision and regulation for the prevention and countering of money laundering and financing of terrorism*** The Financial Intelligence Authority is the central authority for supervision and regulation for the prevention and countering of money laundering and financing of terrorism, and to this end: [...] g) [it] publishes an annual report containing data, information and statistics of a non-reserved nature on the activity carried out in the exercise of its institutional functions. **Article 65 – *Prudential supervision and regulation*** The Financial Intelligence Authority is the central authority for prudential supervision and regulation, and to this end: [...] k) [it] publishes an annual report containing data, information and statistics of a non-reserved nature on the activity carried out in the exercise of its functions.
Measures taken to implement the recommendations since the adoption of the first progress report	Since 2013, the AIF is publishing in printed version and through its website (www.aif.va) the Annual Report including all the relevant activities and statistics.
Recommendation of the MONEYVAL Report	*IOR should subscribe to the Basel Core Principles for Banking Supervision.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Title III (articles 52-66) of the new AML/CFT Act introduces the prudential supervision and regulation of the entities carrying out professionally a financial activity, establishing AIF as prudential supervisor and regulator. The IOR falls under the scope of application of Title III on prudential supervision. In particular, according to article 59 of the new AML/CFT Act, AIF shall establish, by regulation, the capital and liquidity requirements of the entities carrying out professionally a financial activity. **Article 56 – *Capital and liquidity requirements***

	The Financial Intelligence Authority establishes, by means of a regulation, the capital and liquidity requirements, in a manner coherent with the risks assumed and presented by the subjects who carry out professional activity of a financial nature, within the economic and financial framework and the macroeconomic conditions in which they operate.
Measures taken to implement the recommendations since the adoption of the first progress report	On 19 December 2014, in the framework of the Monetary Agreement between the European Union and the Vatican City State of 17 December 2009, the Holy See/Vatican City State agreed on an Ad hoc Arrangement to include relevant European principles and rules applicable to entities carrying out financial activities on a professional basis to further strengthening the Vatican prudential supervisory system.
Recommendation of the MONEYVAL Report	*IOR should be supervised by a prudential supervisor in the near future.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Title III (articles 52-66) of the new AML/CFT Act introduces the prudential supervision and regulation of the entities carrying out professionally a financial activity, establishing AIF as prudential supervisor and regulator. The IOR falls the scope of application of Title III on prudential supervision.
Measures taken to implement the recommendations since the adoption of the first progress report	On 25 September 2014, the Financial Intelligence Authority (AIF) approved Regulation no. 1 on "Prudential Supervision of the Entities Carrying Out Financial Activities on a Professional Basis". This regulation entered into force on 13 January 2015. Regulation no. 1 represents a fundamental step in the path of consolidation of the transparency, stability and sustainability of the financial sector and the activity of entities carrying out financial activities on a professional basis in the Vatican City State.
Recommendation of the MONEYVAL Report	*Clearly separate the task of supervision from the FIA as FIU and combine this with adequate prudential supervision, including:* *(i) licensing and structure;* *(ii) risk management processes to identify, measure, monitor and control material risks;* *(iii) ongoing supervision; and* *(iv) global consolidated supervision when required by the Core Principles.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	The new AML/CFT Act clarifies the separation of the institutional functions of AIF as supervisor and regulator and as financial intelligence, and according to article 8 (4) AIF shall adopt internal procedures and measures to ensure the separation of its institutional functions. Moreover, in the new AML/CFT Act, the institutional functions of AIF are subject to separate sections, that is Title II (Chapter VII) on AML/CFT Supervision and regulation, Title II (Chapter VIII) on financial intelligence and Title III on prudential supervision and regulation.
Measures taken to implement the recommendations	

since the adoption of the first progress report	
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Recommendation 26 (The FIU)	
Rating: Largely compliant	
Recommendation of the MONEYVAL Report	*Expressly extend the power of enquiry of the FIA to the information held by all entities subjected to the reporting duty.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 50 (b) of the new AML/CFT Act clarifies the AIF's power to have access to all relevant information held by all reporting subjects. **Article 50 – *Access to information*** The Financial Intelligence Authority: […] b) has access, on a timely basis, to other relevant information held by all reporting subjects;
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Clarify to what additional sources the FIA has access and to include explicitly the foundations located in and/or dependent from the HS.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 50 (c) of the new AML/CFT Act clarified the AIF's power to have access to all relevant financial and administrative information held by the legal persons located and registered in the VCS. **Article 50 – *Access to information*** The Financial Intelligence Authority: […] c) has access to information of a financial and administrative nature held by the reporting subjects and by legal persons registered in the registers held by the State;
Measures taken	No further measures are necessary.

to implement the recommendations since the adoption of the first progress report	
Recommendation of the MONEYVAL Report	*Specify the instances triggering the authority and intervention of the FIA, beside the receipt of SARs.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	AIF is the competent Authority to fight ML and FT within the HS/VCS, and is acting actively within its legal framework to combat any misuse linked to financial activities. In particular, according to article 48 of the new AML/CFT Act, AIF is the central authority for the receipt, analysis and dissemination of the suspicious activity reports. At the same time, AIF can exercise its power and intervene also without the precondition of the filing of an SAR, e.g., according to article 69 of the new AML/CFT Act, within the framework of the cooperation and exchange of information at the domestic and/or international levels. In practice, AIF can also exercise its power and intervene spontaneously.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Reinforce the autonomy of the FIA by restoring its decision power to conclude mutual co-operation agreements with its counterparts.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	With Law n. CLXXXV of December 14, 2012, the requirement of the prior *nihil obstat* (that is, prior consent) of the Secretariat of State for the signature of MoU with foreign counterparts has been removed. Article 69 (b) of the new AML/CFT Act confirmed the autonomy of AIF to negotiate and stipulate MoU with foreign counterparts, also specifying that this capacity of AIF relates to its functions of supervision and regulation and financial intelligence. **Article 69 – *Cooperation and exchange of information at the domestic and international levels*** The Financial Intelligence Authority, with a view to carrying out adequately its functions of supervision and regulation and financial intelligence: [...] b) [it] cooperates with and exchanges information with the equivalent authorities in other States, under the condition of reciprocity and on the basis of agreement protocols. The Secretariat of State shall be informed of the stipulation of such protocols.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.

Recommendation of the MONEYVAL Report	*As an effectiveness consideration, strengthen the freezing capacity of the FIA to include accounts and revisit the obligation of immediate handover to the Promoter of Justice.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 48 (k) establishes the AIF's power to freeze accounts, funds or other assets, for up to 5 working days, as a preventive measure in case of suspicion of ML/FT. Moreover, article 48 (d) (e) clarifies that AIF has the duty to disseminate to the Promoter of Justice after the analysis of the suspicious activity report at both operational and strategic levels, and in case of suspicion or reasonable ground to suspect ML or FT. **Article 48 – *Receipt, analysis and dissemination of suspicious activity reports*** The Financial Intelligence Authority: [...] d) carries out the analysis of the suspicious activity reports, documents, data and information received: i) at the operational level: using the documents, data and information available and obtainable in order to identify specific objectives, to follow the course of operations and transactions, to establish links between the above-mentioned objectives and the eventual evidence of crimes; ii) at the strategic level: using the documents, data and information available and obtainable; e) disseminates reports, documents, data and information to the Promoter of Justice if there is a reasonable motive to suspect an activity of money-laundering for the financing of terrorism, adopting adequate measures to guarantee the integrity, security and confidentiality of the transmission; [...] k) freezes accounts, funds or other assets, for up to 5 working days in case of suspicion of money-laundering or the financing of terrorism, if this does not obstruct investigative or judicial activity;
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	
Recommendation 36 (Mutual legal assistance)	
Rating: Largely compliant	

Recommendation of the MONEYVAL Report	*Consideration should be given to enacting modern and detailed legislative provisions covering tracing, freezing and seizure and confiscation of the proceeds of money laundering, predicate offences, and terrorist finances or related instrumentalities.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	As noted above (*see* answers concerning Recommendation 3), Law N. IX, on *"Amendments to the Criminal Code and the Code of Criminal Procedure"*, of 11 July 2013, has introduced in Vatican Law a modern scheme regarding confiscation and provisional measures. In particular, Article 8 of the aforementioned law has introduced into the Code of Criminal Procedure detailed provisions on the freezing, seizure and confiscation of the proceeds of crimes, including money laundering and the financing of terrorism. Moreover, Article 41 of the same law establishes the conditions for freezing, seizure and confiscation in the context of mutual legal assistance.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Develop a procedure to cover mechanisms for determining the best venue for prosecution of defendants in the interests of justice in cases that are subject to prosecution in more than one country.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	With a view to addressing those situations in which several jurisdictions may prosecute the same offender for the same facts, Article 5 of Law N. IX, *on "Amendments to the Criminal Code and the Code of Criminal Procedure"*, of 11 July 2013, amended Article 8 of the Criminal Code so as to require an explicit request from the Secretariat of State to proceed for the same facts against a foreign national if that case has already been tried in a foreign jurisdiction. **Article 5** **(*Concurrent jurisdiction*)** The text of article 8 of the Criminal Code is entirely replaced by the following: "In the cases foreseen in the preceding articles, when the citizen or the foreign national has been judged abroad, the prosecution for the same facts shall not proceed except upon request of the Secretariat of State. When the foreign trial is renewed in the State, the penalty served abroad shall be taken into account, considering its nature and applying, where necessary, the provisions of article 40." In addition, paragraph 5 of the *Motu Proprio* on "The Jurisdiction of the Vatican City State in criminal matters", of 11 July 2013, establishes that: 5. When the same facts are prosecuted in another State, the provisions in force in the Vatican City State on concurrent jurisdiction shall apply.
(Other) changes	Law N. IX, on *"Amendments to the Criminal Code and the Code of Criminal*

since the last evaluation reported as of 9 December 2013	*Procedure"*, of 11 July 2013, has updated the norms of the Code of Criminal Procedure on mutual legal assistance in light of the provisions of the 1988 Vienna Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances and of the 2000 Palermo Convention against Transnational Organized Crime. In continuity with the previous practice, article 635 of the Code of Criminal Procedure, as amended by Article 37 of the Law N. IX, gives immediate effect to the provisions on mutual legal assistance, extradition and rogatories set forth in ratified international conventions. Consequently, the new provisions on mutual legal cooperation are subsidiary to the international norms. Article 37 of Law N. IX reads as follows: **Article 37** **(*Judicial cooperation*)** The text of article 635 of the Code of Criminal Procedure is entirely replaced by the following: "In matters related to rogatory letters, extradition, the legal effect of foreign convictions and other relations with foreign authorities concerning the administration of criminal justice; ratified International Conventions, international customs and the laws are to be observed. In their defect, the following provisions apply." Article 636 of the Code of Criminal Procedure, as amended by Article 38 of the Law N. IX, ensures that mutual legal assistance may be provided for the widest range of purposes, including the voluntary transfer of detained persons, in line with Article 18, paragraphs 3, 10, 11, 12, and 29 of the 2000 Palermo Convention against Transnational Organized Crime. Article 38 of Law N. IX reads as follows: **Article 38** **(*Mutual legal assistance*)** The text of article 636 of the Code of Criminal Procedure is entirely replaced by the following: "The widest possible measure of legal assistance in matters relating to judicial investigations and proceedings is provided to the requesting State, within the limits and conditions set forth by the law. Mutual legal assistance may be afforded for the following purposes: a) taking evidence or statements from persons; b) effecting service of judicial documents; c) executing searches, seizures, and freezes; d) examining objects and sites; e) providing information, evidentiary items and expert evaluations; f) providing originals or certified copies or extracts of relevant documents and records, including public, bank, financial, corporate or business records; g) identifying or tracing proceeds of crime, property, instrumentalities or

	other goods, for confiscation or for evidentiary purposes; h) facilitating the voluntary appearance of persons in the requesting State; i) any other type of assistance foreseen by the law. Within the limits set forth by the laws, the competent authorities of the State may, without a prior request, transmit information relating to criminal matters to a competent authority of a foreign State, through diplomatic channels, whenever they believe that such information could assist the authorities in undertaking or successfully concluding inquiries and criminal proceedings or could provide the basis for a request for mutual legal assistance being formulated by the foreign State. Copies of government records, documents or information that are available to the general public under law, shall provide to the requesting State. Whenever the request concerns government records, documents or information are not available to the general public; complete or partial copies or summaries may be provided in a discretionary matter to the requesting State, within the limits set forth by the law and subject to such conditions as deemed appropriate. When a foreign State requests the presence of a person who is detained or who is serving a sentence in the territory of the State, for purposes of identification, testimony or otherwise providing assistance in obtaining evidence for investigations, prosecutions or judicial proceedings in relation to acts foreseen as offences by the Vatican law, the person may be transferred if: a) the person freely gives his informed consent; b) the competent authorities of both States agree, subject to such conditions as they may deem appropriate. For the purposes of the preceding paragraph: a) the foreign State to which the person is transferred shall keep the person transferred in custody, unless otherwise requested or authorized by the State; b) the foreign State to which the person is transferred shall return the person to the custody of the State Party without delay, as agreed; c) the foreign Party shall not require the State to initiate extradition proceedings for the return of the person; d) the person transferred is entitled to receive credit for time spent in the custody of the foreign State to be taken into account towards the service of his sentence. Mutual legal assistance may be provided subject to the condition that the requesting State undertakes not to transmit or to use that information or evidence for investigations, prosecutions or judicial proceedings other than those stated in the request without the prior consent of the competent authority of the State, unless such a disclosure was intended to exonerate an accused person." Article 637 of the Code of Criminal Procedure, as amended by Article 39 of the Law N. IX, sets forth the requirements and the procedure applicable to mutual legal assistance requests, in line with Article 18, paragraph 15, of the 2000 Palermo Convention against Transnational Organized Crime. In

	continuity with previous practice, the revised provisions require that assistance requests both from and to the Vatican tribunal be communicated through diplomatic channels. Article 39 of Law N. IX reads as follows: **Article 39** **(*Form and execution of the request*)** The text of article 637 of the Code of Criminal Procedure is entirely replaced by the following: "Requests for mutual legal assistance shall be communicated in writing to the Secretariat of State or through it through diplomatic channels, under conditions that allow to establish their authenticity. Requests for mutual legal assistance shall contain: a) the identity of the authority making the request; b) the subject matter and nature of the investigation, prosecution or judicial proceedings to which the request relates as well as the name and functions of the authority conducting the investigation, prosecution or judicial proceeding; c) a brief summary of the relevant facts, except for requests whose purpose is the service of judicial documents; d) a description of the kind of assistance sought as well as details of any particular procedure that the requesting State wishes to be followed; e) where possible, the identity, location and nationality of any persons concerned; f) the purpose for which the evidence, information or action is sought. Requests are ordinarily put forward by the Promoter of Justice and executed by the Tribunal upon request by the Secretariat of State. When it appears necessary for the execution, or when it may facilitate such execution, additional information may be sought from the requesting State." Article 638 of the Code of Criminal Procedure, as amended by Article 40 of the Law N. IX, introduces into the legal system the grounds for refusing or deferring a request of mutual legal assistance permitted by article 18, paragraphs 9, 20 and 25 of the 2000 Palermo Convention against Transnational Organized Crime, and article 7, paragraphs 15 and 17, of the Vienna Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. As foreseen in the abovementioned conventions, these grounds for refusal are optional, not mandatory. Consequently, even in the absence of dual criminality, cooperation may be provided in the interest of justice, if so determined by the tribunals, as foreseen in article 18, paragraph 9, of the Palermo Convention. Furthermore, it should be underlined that in the Vatican legal system financial secrecy is not one of the grounds for refusing cooperation. Paragraph 3 of amended article 638 is intended only to incorporate explicitly into the legal system the prohibition contained in Article 18, paragraph 8, of the 2000 Palermo Convention against Transnational Organized Crime and in Article 12, paragraph 2, of the 1999 International Convention for the Suppression of the Financing of Terrorism – both ratified by the Holy See –

	so as to remove any further doubts on this matter. Article 40 of Law N. IX reads as follows: **Article 40** **(*Refusal and deferral*)** The text of article 638 of the Code of Criminal Procedure is entirely replaced by the following: "Mutual legal assistance may be refused if: a) the request is not made in conformity with the provisions of article 637; b) it is deemed that execution of the request is likely to prejudice the sovereignty, security, public order or other essential interests of the State or of the Holy See; c) the relevant facts underling the proceedings in the requesting State are not foreseen as an offence under Vatican law; d) if the execution of the request is likely to impair ongoing investigations or criminal proceedings in the State. The refusal to provide mutual legal assistance shall be motivated. Where expressly provided for by the ratified international conventions, banking secrecy may not be relied upon to reject a request for mutual legal assistance. Mutual legal assistance may be deferred whenever granting it would hinder an ongoing investigation, prosecution or judicial proceedings." Article 639 of the Code of Criminal Procedure, as amended by Article 41 of Law N. IX, governs confiscation and seizure of in the context of mutual legal assistance requests in line with Article 13 of the 2000 Palermo Convention against Transnational Organized Crime. As noted above (see answers concerning Recommendation 3) all the goods that may be subject of seizure and confiscation in a domestic procedure may be subject of seizure and confiscation as a result of a mutual legal assistance request. Article 41 of Law N. IX reads as follows: **Article 41** **(*Confiscation and seizure*)** The text of article 639 of the Code of Criminal Procedure is entirely replaced by the following: "A mutual legal assistance request may also be directed at: a) the confiscation or execution of a confiscation order regarding goods referred to in article 36 of the Criminal Code; b) identifying or seizing goods referred to in article 36 of the Criminal Code with the view to their eventual confiscation; c) executing an order for the exhibition or seizure of bank, financial, or commercial records. In addition to the information required by article 637, the requests for mutual legal assistance referred to in paragraph 1 shall also: a) describe the goods to be confiscated and expose the facts relied upon by

	the requesting State such as to enable the requesting State to dictate a confiscation order under the law; b) in the case of a request for the execution of a confiscation order, transmit an authentic copy of the order, as well as expose the facts and provide the information required for its execution; c) in the case of a request made for the purposes referred to in paragraph 1, subparagraph b), expose the facts and motives relied upon in the request and provide a detailed description of the requested actions. Where appropriate, the tribunal orders those measures, including precautionary measures, that are necessary for the execution of the request. The goods confiscated pursuant to this article are acquired by the Patrimony of the Holy See. However, upon request from the requesting State, the tribunal may order the restitution of the confiscated goods, in whole or in part, with the view to compensate the victims of the offence or to return those goods to their legitimate owners." Article 639 *bis* of the Code of Criminal Procedure, introduced by Article 41 of Law N. IX, establishes that the costs of execution fall ordinarily on the requested State. **Article 42** **(*Costs of execution*)** The following article 639 *bis* is added to Book IV, "On the execution and special proceedings"; Chapter V, "On the judicial relations between the Italian authorities and the foreign authorities"; Section II, "On rogatories", of the Code of Criminal Procedure: "The ordinary costs of executing a request of mutual legal assistance shall be borne by the State, unless otherwise agreed with the requesting State. If expenses of a substantial or extraordinary nature are required to fulfil the request, the request shall be executed in agreement with *the requesting State."* Articles 643 and 644 *bis* of the Code of Criminal Procedure, as amended by Article 42 and 43 of Law N. IX, govern the temporary detention of a suspect upon a request for extradition, in line with Article 16, paragraph 9, of the 2000 Palermo Convention against Transnational Organized Crime. Articles 43 and 44 of Law N. IX read as follows: **Article 43** ***(Temporary detention)*** The text of article 643 of the Code of Criminal Procedure is entirely replaced by the following: "In order to ensure the presence in the territory of the State for the duration of the proceedings of a person who is alleged to have committed an offence abroad, an arrest warrant may be issued within the limits and conditions set forth by the law. Upon a request or an offer of extradition, a foreigner may be taken

	temporarily into custody with the view to ensure his presence in the relevant proceedings, pursuant to article 9, paragraph 4, of the Criminal Code. Where required by the ratified international conventions, the imposition of the measures foreseen in this article is notified, without delay to: a) the State that has requested the extradition; b) the State in whose territory the offence has been committed; c) the State or international organization that has been the target of the offence; d) the State of nationality of the natural or legal person that has been the victim of the offence or, if he is a stateless person, the State where he permanently resides; e) the state of nationality of the alleged offender or, if he is a stateless person, the State where he permanently resides; f) any other interested States." **Article 44** **(*Rights of the foreigner and of the stateless person*)** The following article 644 *bis* is added to Book IV, "On the execution and special proceedings"; Chapter V, "On the judicial relations between the Italian authorities and the foreign authorities"; Section III, "On extradition", of the Code of Criminal Procedure: "The foreigner or stateless person in custody pursuant to a precautionary measure pursuant to article 643 is entitled to: a) communicate without delay with the nearest appropriate representative of the State of his nationality, or of the State which is otherwise entitled to communicate with him, or, if he is a stateless person, of the State in whose territory he permanently resides; b) be visited by a representative of that State; c) be informed of the rights set forth in subparagraph a) and b)." Finally, new article 650 *bis* of the Code of Criminal Procedure, introduced by article 45 of Law N. IX, sets forth a guarantee for the protection of the extradited person: **Article 45** **(*Limits to the extradition*)** The following article 650 *bis* is added to Book IV, "On the execution and special proceedings"; Chapter V, "On the judicial relations between the Italian authorities and the foreign authorities"; Section III, "On extradition", of the Code of Criminal Procedure: "The extradited person shall not be subject to any restriction to his personal freedom in execution of a sentence or of a precautionary measure, nor shall be subjected to any other measure involving deprivation of his freedom, for acts committed prior to his surrender other than for those for which the extradition was granted unless: the foreign State expressly consents to it; the person does not leave the territory of the State within forty-five days after

	his final release, been able to do so; or he has voluntarily returned to the State after having left it."
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Recommendation 40 (Other forms of co-operation)	
Rating: Partially compliant	
Recommendation of the MONEYVAL Report	*The FIA should quickly conclude MOUs with at least FIUs from those countries with which it will most likely need to exchange information.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	AIF has so far stipulated MoUs with the competent authorities of relevant countries, namely: Belgium, Spain, Slovenia, Netherlands, United States of America, Germany and Italy. Moreover, negotiations are currently under way with a view to signing an MoU with more than 15 competent authorities of relevant countries. Finally, AIF entered into the Egmont Group in July 2013.
Measures taken to implement the recommendations since the adoption of the first progress report	The AIF has been following actively the implementation of the MOUs that it has signed in its capacity as "financial intelligence unit" of the Holy See/Vatican City State (Belgium, Spain, Slovenia, Netherlands, United States of America, Germany and Italy) and the membership to the Egmont Group. The AIF in its capacity as FIU for the Holy See/Vatican City State signed MOUs with the FIUs of the following countries: Albania, Argentina, Australia, Cyprus, Cuba, France, Hungary, Liechtenstein, Malta, Monaco, Norway, Peru, Poland, United Kingdom, Romania, San Marino and Switzerland.
Recommendation of the MONEYVAL Report	*The law should be amended to specifically allow for the exchange of supervisory information.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Articles 69 (b) of the new AML/CFT Act clarifies the AIF's power to exchange information with foreign supervisor authorities. **Article 69 – *Cooperation and exchange of information at the domestic and international levels***

	1. The Financial Intelligence Authority, with a view to carrying out adequately its functions of supervision and regulation and financial intelligence: [...] b) cooperates with and exchanges information with the equivalent authorities in other States, under the condition of reciprocity and on the basis of memoranda of understanding. The Secretariat of State shall be informed of the stipulation of such memoranda.
Measures taken to implement the recommendations since the adoption of the first progress report	The AIF in its capacity as "supervisor and regulator" for the Holy See/Vatican City State signed MOUs with the relevant supervisors and regulators of Germany, Luxembourg and United States. Contacts with others relevant supervisors and regulators are under way.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Special Recommendation I (Implement UN instruments)	
Rating: Partially compliant	
Recommendation of the MONEYVAL Report	*Prioritise the effective implementation of Chapter IV of Act N. CXXVII of January 2012 through the completion of the listing process and other means, as necessary, to ensure full and effective implementation of UN Security Council Resolutions on the financing of terrorism.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	On 3 April 2012, with the view to render operational Chapter IV of Law N. CXXVII, as modified in January 2012, the Secretariat of State promulgated a national list of persons and entities that threaten international peace and security on the basis, *inter alia*, of the designations made by the United Nations sanctions committees. On the same date, the FIA issued an ordinance giving effect to that list and transmitting it to all obligated subjects.
Measures taken to implement the recommendations since the adoption of the first progress report	Pursuant to Chapter IV of Law N. CXXVII, the national list of persons and entities that threaten international peace and security, identified, *inter alia*, on the basis of the designations made by the United Nations sanctions committees, is updated regularly (*see*: Decrees of the President of the Governatorate of the Vatican City State N° XXVII, of 8 November 2013; N° XXXVII, of 28 March 2014; N° XLVI of 11 August 2014; N° LXVI of 29 January 2015; N° LXXV of 18 May 2015; N° LXXXIII, 29 July 2015). As soon as the President of the Governatorate updates the list, the FIA issues an ordinance giving effect to that list and transmitting it to all obligated subjects.

Recommendation of the MONEYVAL Report	*Legislative measures should be taken to address the current deficiencies in the criminalisation of terrorist financing as identified in the analysis of SR.II.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	As noted above (*see* answers concerning Special Recommendation II.), Law N. VIII, on *"Supplementary norms on criminal law matters*", of 11 July 2013, introduced in Vatican law all the criminal offences set forth in the Conventions referred to in the annex of the Terrorist Financing Convention.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*The system for implementing UNSCR 1267 and 1373 needs to be made operational.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	As noted above, on 3 April 2012, the Secretariat of State promulgated a national list of persons and entities that threaten international peace and security on the basis, *inter alia*, of the designations made by the United Nations sanctions committees and various national authorities.
(Other) changes since the last evaluation as of 9 December 2013	Although the Holy See is not a State member of the United Nations and it is therefore not legally bound to implement the resolutions of the United Nations Security Council, it has voluntarily adopted a mechanism for the creation of a national list of designated persons and entities that threaten international peace and security, including terrorists, which are subject to financial measures equivalent to those requested by the UN Security Council. Thus, on 8 August 2013, Decree N. XI of the President of the Governorate of the Vatican City State on *"Norms concerning transparency, vigilance and financial information"* revised the mechanisms for the elaboration of the national list and entrusted the President of the Governorate with its adoption and updating. These provisions were confirmed articles 71 and 72 of Law N. XVIII, of 8 October 2013 "*confirming the Decree N. XI of the President of the Governorate of the Vatican City State, on Norms concerning transparency, supervision and financial information".* Article 71 and 72 of Law N. XVIII read: **Article 71** ***List of subjects who threaten international peace and security*** 1. The President of the Governorate, having heard the Secretariat of State, adopts and updates a list containing the names of subjects, physical persons and entities, regarding whom there are reasonable grounds to believe that they pose a threat to international peace and security shall be approved and periodically updated. 2. The list referred to in paragraph 1 must contain the name and all the

	information necessary to allow the positive and unequivocal identification of the subjects inscribed therein. 3. The list referred to in paragraph 1 and its updates shall be transmitted in a timely manner to the Financial Intelligence Authority and shall be published in the supplement of the *Acta Apostolicae Sedis*, as well as by displaying it at the door of the offices of the Governorate, in the Cortile San Damaso, in the State's post offices, and on the Internet sites of the State and of the Financial Intelligence Authority. **Article 72** ***Identification of the subjects who threaten international peace and security*** 1. The President of the Governorate shall designate those subjects in relation to whom he has determined that there are reasonable grounds to believe that they: a) commit, participate, organise, prepare, facilitate or finance terrorist acts; b) promote, constitute, organise, lead, finance, recruit or participate in an association which claims to commit terrorist acts; c) furnish, sale or transfer arms, explosive devices or other lethal devices for committing or participating in the commission of acts of a terrorist purposes, or participating in an association which claims to commit terrorist acts; d) participate, organise, prepare, facilitate, contribute, or finance an unlawful program for the proliferation of weapons of mass destruction. 2. The subjects referred to in the previous paragraph are to be inscribed in the list even if there is no criminal conviction or pending criminal process in their regard. 3. The Promoter of Justice, the Corps of Gendarmes and the Financial Intelligence Authority shall propose to the President of the Governorate the designation in the list of those subjects regarding whom there are reasonable grounds to believe that they carry out one of the activities referred to in paragraph 1 and shall transmit to the President of the Governorate all pertinent information and documentation. 4. In drawing up and updating the list, the President of the Governorate may request of the Promoter of Justice, the Corps of Gendarmes and the Financial Intelligence Authority any additional information or documentation that may contribute to his own assessment. 5. In drawing up and updating the list, the President of the Governorate shall examine the designations made by the competent organs of the Security Council of the United Nations, of the European Union and of other States. Such designations may constitute, even on their own, sufficient grounds for inscription in the list. It should be noted that, according to the aforementioned provisions, in compiling such a list of subjects full value is given to the designations made by United Nations organs, by EU entities and by other States. From a practical point of view, on the basis of article 72, paragraph 4, and article 73, paragraph 2, of Law N. XVIII of 8 October 2013, which empower

	the Promoter of Justice, the Corps of the Gendarmerie and the Financial Intelligence Authority to propose the listing and delisting subjects from the list national, operational mechanisms are currently being developed with a view to ensure that those institution assist the Governorate in keeping updated the list by periodically reviewing the information available to them through their international contacts (such as Interpol and bilateral cooperation).
Measures taken to implement the recommendations since the adoption of the first progress report	As noted above, the Holy See/Vatican City State mechanisms to impose financial sanctions on those persons and entities that threaten international peace and security is now fully operational.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Special Recommendation III (Freeze and confiscate terrorist assets)	
Rating: Partially compliant	
Recommendation of the MONEYVAL Report	*The legislative framework should be brought into full force and effect as a matter of urgency.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	As noted above (*see* answers concerning SR. I), on 3 April 2012, the Secretariat of State promulgated a national list of subjects that threaten international peace and security, thus rendering operational Chapter IV of Law N. CXXVII, as modified in January 2012. On the same date, the FIA issued an ordinance giving effect to that list and transmitting it to all the obligated subjects.
Measures taken to implement the recommendations since the adoption of the first progress report	The Holy See/Vatican City State mechanisms to impose financial sanctions on those persons and entities that threaten international peace and security, including the freezing and confiscation of terrorist assets, is now fully operational and the national list of persons and entities subject to sanctions is updated regularly.
Recommendation of the MONEYVAL Report	*Art. 24 of the revised AML/CFT Law should be clarified to place beyond doubt that it is intended to give effect to "designations" made by the EU and other "international" bodies and by third states.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 72, paragraph 5, of Law N. XVIII, of 8 October 2013, "*confirming the Decree N. XI of the President of the Governorate of the Vatican City State, on Norms concerning transparency, supervision and financial information"*, clearly states that, in compiling the national list of subjects that threaten international peace and security, full force is given to the designations made by the organs of the EU and of other States. In this

	regard, article 72, paragraph 5, of Law N. XVIII: 5. In drawing up and updating the list, the President of the Governorate shall examine the designations made by the competent organs of the Security Council of the United Nations, of the European Union and of other States. Such designations may constitute, even on their own, sufficient grounds for inscription in the list.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*On the basis that Art. 24 is so intended, separate procedures should be put in place to cover the so called "EU internals" (which are not subject to designation as such by the European Union).*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	As noted above, article 72, paragraph 5, of Law N. XVIII, of 8 October 2013, "*confirming the Decree N. XI of the President of the Governorate of the Vatican City State, on Norms concerning transparency, supervision and financial information"*, clearly states that, in compiling the national list of subjects that threaten international peace and security, full force is given to the designations made by the organs of the EU and of other States. Although the Holy See is not a member of the EU, the aforementioned provision was intentionally drafted in broad terms so as to give effect to the so called "EU internals" without the need for a separate procedure.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Guidance to obligated entities on the freezing of funds for terrorist purposes should be finalized and circulated.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	As noted above (*see* answers concerning Special Recommendation I), on 3 April 2012, the Financial Intelligence Authority issued an ordinance giving effect to the list of persons and entities that threaten international peace and security promulgated by the Secretariat of State and transmitted it to all the obligated subjects. Furthermore, articles 75 to 78 of Law N. XVIII of 8 October 2013 provided greater precision regarding the application of financial measures to freeze and confiscate terrorist assets, as well as regarding the imposition of precautionary measures and the administration of those assets. Articles 75 to 78 of Law N. XVIII read: **Article 75** ***Financial Measures***

	1. It is forbidden to place, directly or indirectly, at the disposal of subjects inscribed in the list funds or other financial assets or to grant them financial services or services connected to them. 2. The Financial Intelligence Authority, with its own provision, shall proceed immediately and without previous notice, to the freezing of: a) the funds and other financial assets owned, held, controlled or detained, in an exclusive or partial manner, directly or indirectly, by the subjects inscribed in the list; b) the benefits and profits generated by the funds and other financial assets referred to in letter a); c) the funds and other financial assets held or controlled by other subjects, physical persons or entities, in the name of or in behalf of or in favour of subjects inscribed in the list. 3. The provision of the Financial Intelligence Authority referred to in the previous paragraph shall define the terms, conditions and limits of freezing, with a view also to safeguarding the rights of third parties in good faith. 4. The provision ordering the freezing of assets referred to in number 2 shall be communicated without delay to the subjects who perform professionally financial activities. 5. Subjects who perform professionally financial activities shall verify without delay their presence within their own institution of funds or other financial assets owned or held, exclusively or jointly, directly or indirectly, by the subjects inscribed in the list. 6. The subjects that perform professionally financial activities shall communicate to the Financial Intelligence Authority, within 30 days from the date of the emanation of provision referred to in number 1: a) the measures adopted for the implementation of the provision on the freezing of assets, indicating the subjects involved and the amount and nature of the funds or other financial assets; b) any information relative to the reports, services or other transactions, as well as every other datum available that may be related to the subjects inscribed in the list; c) any information relative to any attempt at a financial transaction which may have for its object frozen funds or other financial assets pursuant to paragraph 2. 7. In the case of the delisting of a subject, the Financial Intelligence Authority, with its own provision, shall immediately revoke the provision ordering the freezing of assets referred to in paragraph 2, informing without delay the subjects who perform professionally financial activities. **Article 76** ***Precautionary measures*** 1. When there are reasonable grounds to believe that a subject poses a threat to international peace and security and that there is also the risk that the funds or other financial assets which should be frozen may be hidden or used for criminal purposes, the President of the Governorate shall inform the Promoter of Justice and the Financial Intelligence Authority with a view to the adoption of precautionary measures. 2. In the case foreseen by the previous paragraph, the Financial Intelligence Authority shall order immediately the freezing of the goods and assets,

	informing the subjects that perform professionally financial activities of the same. 3. The provision ordering the freezing of assets referred to in paragraph 2 shall become ineffective if, after 15 days from its adoption, the subject has not been inscribed in the list. **Article 77** ***Effects of the freezing of assets*** 1. The frozen funds and other financial assets shall not be the subject to transfer, modification, use, management or access in such a way as to modify their volume, import, place, property, possession, nature, destination or any other change which would permit the use, including the management of stock portfolios. 2. The frozen assets shall not be subject to transfer, modification, use or management, including sale, location or constitution of any other real right or guarantee, with a view to obtaining in any way goods and services. 3. The contracts and the acts of disposition having as their object the goods frozen pursuant to article 75 or 76 are null and void when the third parties knew or should have known that the funds or other financial assets which are the object of the contract or act of disposal were placed under the measures mentioned in article 75 or 76. 4. The provision ordering the freezing of assets referred to in articles 75 and 76 does not prejudice the effects of any eventual order for the sequestration or confiscation adopted in the context of a judicial or administrative procedure, having the same funds or other financial assets as their object. 5. The freezing of funds or other financial assets, as well as the omission or refusal to provide financial services, believed in good faith to be in conformity with the present title shall not give rise to any kind of liability for the physical or juridical person, including its legal representatives, administrators, directors, employees, advisers or collaborators of any kind, who puts them into effect, except in cases of grave fault. 6. The tribunal shall be competent over any legal recourse to the freezing of assets referred to in article 75 and 76. 7. The judicial process shall be conducted in accordance with articles 776 and following of the Code of Civil Procedure, insofar as applicable, with the necessary intervention of the Promoter of Justice and with the contradictory between the petitioner and the Financial Intelligence Authority. **Article 78** ***Safeguarding, administration and management of frozen funds and other financial assets*** 1. The President of the Governorate shall provide directly, or through the appointment of a guardian or an administrator, for the custody or administration of frozen funds and other financial assets. 2. If in the course of a judicial or administrative process, the sequestration or confiscation of the funds or other financial assets referred to in the previous paragraph is ordered, the authority which ordered the sequestration shall provide for their administration. In the case of confiscation, the President of the Governorate shall provide for their administration.

	3. The guardian or administrator shall operate under the direct control of the President of the Governorate, following his directives, sending periodic reports and presenting an account at the end of his activity. 4. The expenses of the guardianship or administration, including the remuneration of the guardian or administrator, shall be paid from the administered funds and other financial assets or from the funds and other financial assets that are their profit. 5. The President of the Governorate shall transmit to the Prefecture for Economic Affairs of the Holy See periodic reports on the state of the funds and other financial assets and on the activities carried out. 6. In the case of delisting of a subject, the Governorate shall provide for communication to the interested party, in accordance with article 170 and following of the Civil Code. In the same communication the interested party shall be invited to take possession of the funds and other financial assets within six months from the date of the communication and shall be informed about the activities undertaken pursuant to paragraph 8. 7. In the case of real estate or registered movable goods, an analogous communication shall be transmitted to the competent authorities with a view to the cancellation of the freezing from the public registers. 8. From the cessation of the freezing measures to the consignment to the interested parties, the President of the Governorate shall continue to provide the guardianship or the administration of the funds and other financial assets. 9. If the interested party does not request the consignment of the funds or other financial assets within the 12 months following the communication referred to in paragraph 6, the same goods and financial assets shall be acquired by the Apostolic See and destined, at least in part and taking into account any international agreements of repartition, to support the victims of terrorism and their families. The provision for the acquisition shall be communicated to the interested party and shall be transmitted to the competent authorities by the means referred to 6.
Measures taken to implement the recommendations since the adoption of the first progress report	In light of measures already adopted, no further measures are necessary.
Recommendation of the MONEYVAL Report	*Steps need to be taken to create a comprehensive and effective system for delisting, exemptions and like matters. This is particularly the case with respect to the authorization of access to funds needed for basic expenses or for extraordinary expenses in accordance with Security Council Resolution 1452 (2002).*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 73 of Law N. XVIII , of 8 October 2013, "*confirming the Decree N. XI of the President of the Governorate of the Vatican City State, on Norms concerning transparency, supervision and financial information*", sets forth the mechanism for the delisting of subjects from the national list which includes an administrative procedure, either *ex officio* or upon request, and the possibility of appeal to the judiciary. Articles 73 of Law N. XVIII reads: **Article 73** ***Removal of subjects from the list***

	1. The President of the Governorate, having heard the Secretariat of State, shall delist those subjects regarding whom there are no longer reasonable grounds to believe that they pose a threat to international peace and security. 2. The delisting may also take place pursuant to a proposal from the Promoter of Justice, the Corps of Gendarmes or the Financial Intelligence Authority. 3. To that end, the President of the Governorate shall examine also the decisions taken by the competent organs of the Security Council of the United Nations, of the European Union and of other States. 4. Those who believed that they have been inscribed in the list without sufficient grounds or by error may apply for delisting directly to the President of the Governorate. The President of the Governorate shall reply within 15 days. 5. In the case of a negative reply or of no reply within the allocated period, the designation may be challenged before the tribunal. 6. The trial shall proceed in accordance with articles 776 and following of the Code of Civil Procedure, insofar as applicable, with the necessary intervention of the Promoter of Justice and with the contradictory between the petitionary and the Governorate. 7. If the tribunal finds that the grounds for the designation of the subject were insufficient, it shall order its delisting. Article 79 of Law N. XVIII establishes a scheme for exceptions to the financial sanctions, covering both basic expenses and extraordinary needs. It reads: **Article 79** ***Exceptions*** 1. The Financial Intelligence Authority may authorise the release of funds or other financial assets frozen pursuant to 75 or 76 to the extent necessary for the payment of expenses essential to their proprietors, including food, rent, taxes, insurance, medical services, public services and legal expenses. 2. The Financial Intelligence Authority may authorise the release of funds or other financial assets frozen pursuant to articles 75 or 76 for the payment of extraordinary expenses, having previously obtained the *nulla osta* of the President of the Governorate. 3. The frozen bank accounts shall continue to generate interest and may receive payments and profits coming from contracts concluded prior to the adoption of the measures set forth in articles 75 or 76. 4. The Financial Intelligence Authority, having previously obtained the *nulla osta* of the President of the Governorate, may authorise the payment of debts incurred by designated subjects when: a) the debt was acquired before the imposition of the measures set forth in articles 75 or 76; b) it does not have as its object lethal arms or devices or materials, nor technologies or services which may promote a programme for the proliferation of weapons of mass destruction;

	c) the debt does not have as its counterpart another designated subject. Furthermore article 80 of Law N. XVIII provides a general norm to protect the good faith rights of third parties. It reads: **Article 80** ***The protection of the rights of good faith third parties*** Good faith third parties that have a right to the frozen funds and other financial assets, may initiate a civil legal action to ascertain their rights and the consequent restitution of the funds or, if that is not possible, for the compensation of damages.
(Other) changes since the last evaluation reported as of 9 December 2013	Article 74 of Law N. XVIII of 8 October 2013 requires the cooperation of the Holy See and the Vatican City State, through the Secretariat of State, with the authorities of the United Nations, the EU and Third States in the identification of subjects to be listed, the delisting and the exchange of relevant information. That provision reads: **Article 74** ***International cooperation*** The Secretariat of State: a) shall receive from the competent organs of the Security Council of the United Nations, of the European Union and of other States, communications regarding the subjects to be inscribed in the list and shall transmit them to the President of the Governorate; b) having heard the President of the Governorate, shall convey to the competent organs of the Security Council of the United Nations and of the European Union as well as other States proposals to identify subjects regarding whom there are reasonable grounds to believe that they pose a threat to international peace and security, communicating the information necessary to that end; c) having heard the President of the Governorate, shall present to the competent organs of the Security Council of the United Nations and the European Union as well as other States proposals for the delisting of subjects from their respective lists, also on the basis of the outcome of recourses presented in accordance with article 73; d) shall acquire from the competent organs of the Security Council of the United Nations and of the European Union as well as from other States any other information which may be useful to the carrying out of the tasks mentioned in articles 71, 72 and 73 and it shall forward it to the President of the Governorate; e) shall conclude accords or protocols of understanding with the authorities of other States and competent international organisations in order to contribute to the necessary international cooperation. In addition, article 47, paragraph 1, letter d, of Law N. XVIII, of 8 October 2013, empowers the Financial Information Authority to impose administrative sanctions in case of violation of the obligations set forth in

	articles 75 to 78 of the same Law, regarding the freezing and safeguarding funds and other financial assets as well as of the precautionary measures involving subjects that threaten international peace and security.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

2.4. Other Recommendations

In the last report the following FATF recommendations were rated as "partially compliant" (PC) or "non compliant" (NC) (see also Appendix 1). Please, specify for each one what measures, if any, have been taken to improve the situation and implement the suggestions for improvements contained in the evaluation report. Please also provide information which may demonstrate effective implementation.

Recommendation 6 (Politically exposed persons)	
Rating: Partially compliant	
Recommendation of the MONEYVAL Report	*Extend the requirement to put in place appropriate risk management systems to determine whether the counterpart is a politically exposed person to the case of the beneficial owner.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 28 (1) (a) of the new AML/CFT Act, relating to the enhanced CDD establishes the duty to determine if the customer or the beneficial owner is a PEP. **Article 28 - *Politically exposed persons*** 1. The obliged subjects: a) determine on a timely basis if the customer or the beneficial owner is a politically exposed person; [...]
Measures taken to implement the recommendations since the adoption	No further measures are necessary.

of the first progress report	
Recommendation of the MONEYVAL Report	*Extend the requirement to establish the source of funds of customers and beneficial owners identified as PEPS to expressly include the establishment of their wealth.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 28 (1) (c) of the new AML/CFT Act, relating to enhanced CDD in case of PEPs, introduced the duty to establish the source of wealth of customers and beneficial owners identified as PEPs. **Article 28 – *Politically exposed persons*** 1. The obliged subjects: [...] c) establish the source of the wealth and funds of the customers and the beneficial owners identified as politically exposed persons; [...]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*FIA should raise awareness with respect to the obligations that have been introduced or clarified in the AML/CFT Law after the MONEYVAL on-site visits to ensure effective implementation.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	AIF entered after the on-site visit into an in depth dialogue with the relevant entities carrying out professionally a financial activity to raise awareness with respect to the new AML/CFT Act.
Measures taken to implement the recommendations since the adoption of the first progress report	Following the adoption of the First Progress Report, the AIF continued the in-depth dialogue with the obliged subjects, and in particular the IOR, at all levels, especially the management (General Directorate) and the senior management (Board of Superintendence) of the IOR. Moreover, the AIF continues to provide written guidance and training sessions for officers and employees. In particular, after the entry into force of the new AML/CFT Law and Regulation No. 1 on prudential supervision, the AIF organized various ad hoc training sessions and has continues to provide written guidance on a regular basis.
Recommendation of the MONEYVAL Report	*FIA should put in place appropriate arrangements to monitor and ensure compliance with the requirements under R. 6 (including adequate sample testing).*
Measures reported as of 9 December 2013 to implement	AIF has indirectly introduced a remediation process to ensure full compliance with the requirements under FATF Recommendation n. 6

the Recommendation of the report	
Measures taken to implement the recommendations since the adoption of the first progress report	Within the broader framework of the activities relating to the consistency of the policies on the types of legal and natural persons eligible to maintain accounts in the supervised entities specific attention is devoted in relation to the PEPs (especially the domestic PEPs) in order to ensure the full compliance with the R.6. In early 2014, AIF carried out its first *on-site* inspection at the IOR. The scope of the inspection was the verification of the compliance of the organization and the management of the IOR in line with Law N. XVIII, assessing, *inter alia*: (i) the internal organization; (ii) the transaction monitoring system, evaluation procedures and risk management; (iii) the CDD procedures; (iv) registration and record keeping; (v) the procedures for the detection and reporting of suspicious activities; (vi) the relations with foreign financial institutions and the international transfer payment system. The on-site inspection included sample tests on files as well as on the accounts and individual transactions.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Recommendation 8 (New Technologies and Non-Face-to-Face Business)	
Rating: Partially compliant	
Recommendation of the MONEYVAL Report	*Eliminate the exemptions from CDD provided by Art. 31 §3 of the revised AML/CFT Law (in particular with respect to ongoing monitoring).*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to the new AML/CFT Act, the exemptions to CDD provided under article 31 (3) of the old AML/CFT Act have been abolished. See articles 25 ff.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL	*FIA should raise awareness with respect to the obligations that have been introduced or clarified in the AML/CFT Law after the MONEYVAL on-site visits to ensure effective implementation.*

Report	
Measures reported as of 9 December 2013 to implement the Recommendation of the report	AIF entered after the on-site visit into an in depth dialogue with the relevant entities carrying out professionally a financial activity to raise awareness with respect of the new AML/CFT Act.
Measures taken to implement the recommendations since the adoption of the first progress report	In early 2014, AIF carried out its first *on-site* inspection at the IOR. The scope of the inspection was the verification of the compliance of the organization and the management of the IOR in line with Law N. XVIII, assessing, *inter alia*: (i) the internal organization; (ii) the transaction monitoring system, evaluation procedures and risk management; (iii) the CDD procedures; (iv) registration and record keeping; (v) the procedures for the detection and reporting of suspicious activities; (vi) the relations with foreign financial institutions and the international transfer payment system. The on-site inspection included sample tests on files as well as on the accounts and individual transactions.
Recommendation of the MONEYVAL Report	*FIA should put in place appropriate arrangements to monitor and ensure compliance with the requirements under R. 8 (including adequate sample testing).*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	AIF has indirectly introduced a remediation process to ensure full compliance with the requirements under FATF Recommendation n. 8.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Recommendation 11 (Unusual transactions)	
Rating: Partially compliant	
Recommendation of the MONEYVAL	*Introduce a requirement in Law, regulation or "other enforceable means" to examine as far as possible the background and purpose of complex, unusual large transactions, or unusual patterns of transactions, that have no apparent*

Report	*or visible economic or lawful purpose and to set forth their findings in writing.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 41 (1) of the new AML/CFT Act, introduces the duty to examine the background and purpose of complex, unusual large transactions, or unusual patterns of transactions, that have no apparent or visible economic or lawful purpose and to set forth their findings in writing. **Article 41 - *Complex or unusual activities*** 1. Reporting subjects shall pay particular attention, inter alia, to complex activities, operations or transactions, or the ones of a notable or unusual value, or to unusual types of activities, operations or transactions, which have no clear or recognisable economic or legal purpose. [...]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Introduce a requirement in Law, regulation or "other enforceable means" to keep such findings available for competent authorities and auditors for at least five years.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 41 (2) introduces the duty to keep the findings relating to the complex or unusual activities available for competent authorities and for auditors for at least ten years. **Article 41 – *Complex or unusual activities*** [...] 2. Reporting subjects shall examine the context and scope of such operations or transactions and shall put their conclusions in writing, registering and recording those conclusions with respect to the obligations of registration and bookkeeping found in the present title and making them available for 10 years to the competent authorities and accountants.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Recommendation 12 (Customer due diligence and Record keeping - DNFBP)	
Rating: Partially compliant	
Recommendation of the MONEYVAL Report	*Clarify in law or regulation that notaries, lawyers, accountants, external accounting and tax consultants as well as trust and company service providers are also required to undertake CDD measures when establishing business relations.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 16 (2) (b) of the new AML/CFT Act establishes the DNFBP's to carry out CDD before establishing a relationship. **Article 16 – *Requirements*** […] 2. The customer due diligence and, in particular, the identification and verification of the identity of the counterpart, the persons authorised to act in the name of and on behalf of the counterpart, and of the beneficial owner, shall be carried out: [...] b) In cases involving subjects indicated by article 2, letters b) and c), in the initial phase of evaluation of the position of the counterpart and in any case before establishing a relationship or carrying out an operation or transaction;
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Set out in law, regulation or "other enforceable means" that trust and company service providers are subject to CDD and record-keeping requirements with respect to the creation, operation or management of legal persons or arrangements and buying and selling business entities.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Articles 15 (1) (c) and 38 of the new AML/CFT Act establishes that trust and company service providers are subject to CDD and registration and record-keeping requirements with respect to the creation, operation or management of legal persons or arrangements and buying and selling business entities.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*The recommended actions in Section 3 above with respect to R 5, 6, 8, 10 and 11 should also be implemented for DNFBP.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	The recommended actions in Section 3 above with respect to R 5, 6, 8, 10 and 11 have been also implemented for DNFBP.

Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Raise awareness amongst auditors and accountants with respect to their CDD and record-keeping obligations under the AML/CFT Law, provide training and put in place appropriate arrangements to monitor and ensure CDD and record-keeping compliance.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	No independent or external auditors and/or accountants falling under the scope of application of the new AML/CFT Act are currently active within the HS/VCS.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	
Recommendation 15 (Internal control rules, compliance and audit)	
Rating: Partially compliant	
Recommendation of the MONEYVAL Report	*Steps should be taken to ensure that all elements of guidance given by the FIU are sanctionable or make sure that relevant criteria are incorporated in the AML Law.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	With the new AML/CFT Act a comprehensive administrative sanctions system has been introduced. According to article 47 and article 66 of the new AML/CFT Act, AIF regulations are sanctionable.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*An explicit requirement for timely access to information for the compliance officer, either in law or guidance should be introduced.*

Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 11 (2) (d) of the new AML/CFT Act establishes the duties of the obliged subjects to appoint a complaint officer at management level with the power to access on a timely basis all relevant information. **Article 11 - *Internal controls*** [...] 2. Policies, procedures, measures and controls, under paragraph 1 are approved by the top level management and shall be proportionate to the nature, dimensions and activity of the obliged subject. These include: […] d) The appointment of a person responsible, at the management level, with the power of access on a timely basis to all information relating to the customer due diligence, operations and transactions; […]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Recommendation 16 (Suspicious transaction reporting)	
Rating: Partially compliant	
Recommendation of the MONEYVAL Report	*The issues under Recommendations 13,14, 15 and 21 should be addressed for DNFBP.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	The recommended actions under Recommendations 13, 14, 15 and 21 have been also implemented for DNFBP.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report	

(e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Recommendation 17 (Sanctions)	
Rating: Non-compliant	
Recommendation of the MONEYVAL Report	*Stipulate explicitly in law or guidance the full range of FIA's powers of disciplinary sanction.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Considering the nature of the institutional and legal framework of the HS/VCS, disciplinary sanctions are normally applied by competent administrative authorities in light of the relevant legislation relating to the job relationship. Moreover, article 47 (3) (a) (b) and article 66 (3) (a) (b) of the new AML/CFT Act clarified the full range of AIF's power of disciplinary sanctions, relating in particular to members of senior management or beneficial owners of a legal person. **Article 47 – *Administrative sanctions*** [...] 3. In the most serious cases, the Financial Intelligence Authority shall recommend to the President of the Governorate the application of the following administrative sanctions: a) permanent or temporary interdiction of physical persons, from activity in the economic, commercial or professional sector; b) removal or limitation of the powers of senior management members, or similar figures, or beneficial owners of an important or controlling share of a legal person; [...] **Article 66 - *Administrative sanctions*** [...] 3. In the most serious cases, the Financial Intelligence Authority shall recommend to the President of the Governorate the application of the following administrative sanctions: a) permanent or temporary interdiction of physical persons, from activity in the economic, commercial or professional sector; b) removal or limitation of the powers of senior management members, or similar figures, or beneficial owners of an important or controlling share of a legal person; [...]

Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Sanctions should encompass written warnings, orders to comply with specific instructions accompanied with daily fines for non-compliance, ordering regular reports, fines for non-compliance, barring individuals from employment in the sector, replacing or restricting the powers of managers, directors, imposing conservatorship, and at least the ability to withdraw or suspend a licence.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 47 (2) (3) and article 66 (2) (3) clarify the full range of administrative sanctions applicable by AIF. **Article 47 – *Administrative sanctions*** [...] 2. In cases established by paragraph 1, the Financial Intelligence Authority applies the following administrative sanctions, in accordance with Law n. X, *concerning general norms in the question of administrative sanctions*, of 11 July 2013: a) a written appeal, with a specific letter or within an accounting report; b) an order to respect specific instructions, with a fine in the case of total or partial non-fulfilment; c) an order to make regular reports on the measures adopted by the sanctions subject, with a fine in the case of total or partial non-fulfilment; d) corrective measures; e) a fine of up to €5 million for physical persons, and up to 10% of the gross annual income in the preceding financial year for juridical persons. f) suspension or withdrawal of authorisation to carry out professional financial activities; g) controlled administration. 3. In the most serious cases, the Financial Intelligence Authority shall recommend to the President of the Governorate application of the following administrative sanctions: a) permanent or temporary interdiction of physical persons, from activity in the economic, commercial or professional sector; b) removal or limitation of the powers of senior management members, or similar figures, or beneficial owners of an important or controlling share of a legal person; **Article 66 – *Administrative sanctions*** [...] 2. In cases established by paragraph 1, the Financial Intelligence Authority applies the following administrative sanctions, in accordance with Law n. X, *concerning general norms in the question of administrative sanctions*, of 11

	July 2013: a) a written appeal, with a specific letter or within an accounting report; b) an order to respect specific instructions, with a fine in the case of total or partial non-fulfilment; c) an order to make regular reports on the measures adopted by the sanctions subject, with a fine in the case of total or partial non-fulfilment; d) corrective measures; e) a fine of up to €5 million for physical persons, and up to 10% of the gross annual income in the preceding financial year for juridical persons. c) suspension or withdrawal of authorisation to carry out professional financial activities; d) controlled administration. 3. In the most serious cases, the Financial Intelligence Authority shall recommend to the President of the Governorate the application of the following administrative sanctions: a) permanent or temporary interdiction of physical persons, from activity in the economic, commercial or professional sector; b) removal or limitation of the powers of senior management members, or similar figures, or beneficial owners of an important or controlling share of legal a person;
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*All sanctions levied should be published.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 47 (6) of the new AML/CFT Law, sanctions shall be published. **Article 47 – *Administrative sanctions*** [...] 6. The sanctions applied shall be published according to the legislation into force.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Make explicit what the criminal sanctions are for natural persons in cases of infringement of the several articles of Act N. CXXVII relating to Chapters other than II and III.*

Measures reported as of 9 December 2013 to implement the Recommendation of the report	The breach or systematic non-fulfilment of the administrative requirements established by the new AML/CFT Act are punished with administrative sanctions and not with criminal sanctions.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Make explicit that sanctions can be applied to directors and senior management of financial institutions.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 47 (4) and article 66 (4) clarify that sanctions are applicable to directors and senior management of the obliged subjects. **Article 47 – *Administrative sanctions*** […] 4. The administrative sanctions established in paragraphs 2 and 3 shall be applied to all natural and legal persons, including directors and senior management. [...] **Article 66 – *Administrative sanctions*** […] 4. The administrative sanctions established in paragraphs 2 and 3 shall be applied to all natural and legal persons, including directors and senior management. [...]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Recommendation 19 (Other forms of reporting)	
Rating: Non-compliant	
Recommendation of the MONEYVAL Report	*Consider the feasibility and utility of implementing a system where obliged subjects report all transactions in currency above a fixed threshold to either the FIA or the Gendarmerie.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	The Financial Security Committee, established by article 4 of the *Motu Proprio* of Pope Francis of 8 August 2013, is actively considering the utility of a system where obliged subjects report all transactions in currency above a fixed threshold.
Measures taken to implement the recommendations since the adoption of the first progress report	In accordance with art. 81 (1) (5) of Law No. XVIII of 8 October 2013, the AIF is receiving automatically information relating to all the activities of withdrawal and deposits of currency equal or above EUR 10,000. **Article 81** – ***Duty to declare*** 1. Every person carrying out a cross-border transportation of currency equal to or above EUR 10,000, whether entering or leaving the State, shall make a written declaration to the offices of the Corps of Gendarmerie or to the offices authorized by the Financial Intelligence Authority. […] 5. A copy of the declaration is forwarded within twenty-four hours to the Financial Intelligence Authority.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	
Recommendation 21 (Special attention for higher risk countries)	
Rating: Non-compliant	
Recommendation of the MONEYVAL Report	*Introduce a requirement to give special attention to business relationships and transactions with persons from or in countries which do not or insufficiently apply the FATF Recommendations.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	With the new AML/CFT Act a clear risk-based approach has been established. In particular, according to article 9 (2) (b) (vi) AIF shall publish a list of high risk countries. Moreover, according to article 25 (3) AIF shall establish the application of enhanced CDD in case of high risk countries. Finally, according to article 10 (3) (a), obliged subjects shall give special attention to relationship and operations and transactions from or in countries which do not or insufficiently apply relevant AML/CFT international standards.

	Article 9 – *General risk assessment* […] 2. On the basis of the general risk evaluation: […] b) The Financial Information Authority: […] vi) informs the competent authorities and obliged subjects about the risks and the vulnerabilities of the systems of prevention and countering of money laundering in other States and to that end, publishes a list of high risk States; vii) identifies and orders adequate and proportionate counter measures to the risks in the case where a State persistently does not observe or observes insufficiently the international parameters in the area of prevention and countering of money laundering and the financing of terrorism; viii) undertakes the application of adequate reinforced controls, proportionate to the risks, for the relations, operations or transactions with physical or juridical persons, including financial institutions and States with a high risk of money laundering and the financing of terrorism; ix) may identify and publish a list of States that impose obligations equivalent to those established by this Title. **Article 25 – *Enhanced customer due diligence*** [...] 3. The Financial Intelligence Authority establishes the application of enhanced due diligence proportionate to the risks connected to the relationships, operations are transactions, whether physical or juridical persons, including financial institutions of countries at high risk of money-laundering and the financing of terrorism. In such cases, the Financial Intelligence Authority indicates the counter measures adequate and proportionate to the risks. [...] **Article 10 – *Specific risk assessment*** […] 3. The obliged subjects shall pay particular attention to: a) relationships, operations and transactions with physical or juridical persons, including financial institutions from States at high risk or which do not or insufficiently apply the international standards in the area of prevention and countering of money laundering and the financing of terrorism. […]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Introduce a requirement to examine transactions the background and purpose of such transactions, as far as possible, and to keep written findings available, if they have no apparent economic or visible lawful purpose.*

Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 10 (3) (a) of the new AML/CFT Act, obliged subjects, in case of operations or transactions with physical or juridical persons, including financial institutions from States at high risk or which do not or insufficiently apply the international standards, including FATF Recommendations, shall examine the background and purpose of such operations and transactions, as far as possible, and to keep written findings available, if they have no apparent economic or visible lawful purpose. **Article 10 – *Specific risk evaluation*** […] 3. The obliged subjects shall pay particular attention to: a) […] If the above operations and transactions have no economic or apparently lawful purpose, the motives and purpose for such operations and transactions, in so far as possible, are to be examined and their outcomes documented in writing and made available to assist the Financial Intelligence Authority and other financial authorities and accountants;
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Put in place effective measures to ensure that obliged subjects are advised of concerns about weaknesses in the AML/CFT systems of other countries.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 9 (2) (b) (vi) of the new AML/CFT Act, AIF shall inform obliged subjects of concerns about weaknesses in the AML/CFT systems of other countries.
Measures taken to implement the recommendations since the adoption of the first progress report	The AIF is in regular contact with the obliged subjects in view of advising them of concerns about weaknesses in the AML/CFT systems of other countries.
Recommendation of the MONEYVAL Report	*Introduce a clear empowerment to apply appropriate counter-measures where countries continue not to apply or insufficiently apply the FATF Recommendations.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According article 9 (2) (b) (vii) of the new AML/CFT Act, AIF shall identify and order appropriate counter-measures where countries continue not to apply or insufficiently apply relevant AML/CFT international standards, including FATF Recommendations.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.

(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Recommendation 24 (DNFBP - Regulation, supervision and monitoring)	
Rating: Non-compliant	
Recommendation of the MONEYVAL Report	*The FIA should issue a specific guideline for those DNFBP that operate in the HS/VCS, in particular on how they are to report to the FIA.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	No independent or external auditors and/or accountants falling under the scope of application of the new AML/CFT Act are currently active within the HS/VCS.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*The FIA should commence supervising the activities of DNFBP.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	No independent or external auditors and/or accountants falling under the scope of application of the new AML/CFT Act are currently active within the HS/VCS.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Recommendation 25 (Guidelines and Feedback)	
Rating: Partially compliant	
Recommendation of the MONEYVAL	*All regulations and instructions should be amended to reflect the revised AML/CFT Law (as they currently all refer to the original AML/CFT Law*

Report	*and to articles that no longer exist or have been changed considerably).*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	AIF is currently verifying the regulations and instructions in force and drafting new regulations in light of the new AML/CFT Act.
Measures taken to implement the recommendations since the adoption of the first progress report	Following the entry into force of Title II (AML/CFT supervision and regulation) of Law N. XVIII, the AML/CFT AIF Regulations and Instructions have been reviewed. On 25 September 2014, following the entry into force of Title III (prudential supervision and regulation) of the Law N. XVIII, the AIF approved Regulation no. 1 on "Prudential Supervision of the Entities Carrying Out Financial Activities on a Professional Basis". This regulation entered into force on 13 January 2015. Regulation no. 1 represents a fundamental step in the path of consolidation of the transparency, stability and sustainability of the financial sector and the activity of entities carrying out financial activities on a professional basis in the Vatican City State.
Recommendation of the MONEYVAL Report	*Give proactive explanations of the issued Regulations and Instructions to the financial sector and provide feedback on procedures sent to the supervisor by financial institutions.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	AIF is currently strengthening the knowledge and implementation of the new AML/CFT Act by the obliged subjects, including the explanation of its impact on the AIF regulations and instructions currently in force.
Measures taken to implement the recommendations since the adoption of the first progress report	The AIF continues the relevant activities in view of strengthening the knowledge and implementation of the new AML/CFT Act by the obliged subjects, including the explanation of its impact on the AIF regulations and instructions currently in force.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	
Recommendation 29 (Supervisors)	
Rating: Partially compliant	
Recommendation of the MONEYVAL Report	*It is recommended that the definition of supervision and inspection in the law is amended to make it clear that it is not restricted to certain activities.*
Measures reported as of 9 December 2013 to implement the Recommendation of	Article 46 (e) of the new AML/CFT Act clarifies and broadens the scope of the AIF's power to carry out on-site inspections. **Article 46 - *Supervision and regulation for the prevention and***

the report	***countering of money-laundering and financing of terrorism.*** The Financial Intelligence Authority is the central authority for the supervision and regulation for the prevention and countering of money-laundering and financing of terrorism. To this end: [...] e) [it] carries out off-site and on-site controls and inspections, which may also include a check and review of policies, procedures, measures, accounting ledgers and registers, as well as spot checks; [...]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*The Regulation of the Pontifical Committee should be amended to clarify what is understood by monitoring, verification and inspection. Ensure that it includes (also via on-site inspections) the review of policies, procedures, books and records, and sample testing.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	The new AML/CFT Act abolishes requirement of the regulation of the Pontifical Commission for the VCS empowering AIF to carry out on-site inspections, now regulated by article 46 (e). **Article 46 – *Supervision and regulation for the prevention and countering of money-laundering and financing of terrorism.*** The Financial Intelligence Authority is the central authority for the supervision and regulation for the prevention and countering of money-laundering and financing of terrorism. To this end: [...] e) [it] carries out off-site and on-site controls and inspections, which may also include a check and review of policies, procedures, measures, accounting ledgers and registers, as well as spot checks; [...]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessay.
Recommendation of the MONEYVAL Report	*The Regulation should make it clear how the change from 'full independence' to 'operational independence' in the law applies and to what extent this effects the role and tasks of the President and Board of Directors of the FIA.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	The term "operational" has been removed by the new AML/CFT Act. "Full" autonomy and independence of AIF is ensured by article 2 (2) of its Statute.

	Article 2 – *Functions* [...] § 2. The Financial Intelligence Authority, in accordance with the international law and principles relating to the fight against money laundering and financing of terrorism, carries out the functions, duties and activities mentioned in the preceding paragraph [Vatican laws] as well as in this Statute, in full autonomy and independence.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Reinstate Art 33, §2 of the original AML/CFT Law (which gave the FIA direct access to the financial, administrative, investigative and judicial information, required to perform its tasks in countering money laundering and financing of terrorism).*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 46 (b) (c) of the new AML/CFT Act AIF's power as supervisor and regulation has been strengthened and broadened in its scope. **Article 46 – *Supervision and regulation for the prevention and countering of money-laundering and financing of terrorism.*** The Financial Intelligence Authority is the central authority for the supervision and regulation for the prevention and countering of money-laundering and financing of terrorism. To this end: [...] b) [it] has access to, or request the production of, documents, data, information, registers and accounting ledgers, relevant to the purposes of oversight and including, *inter alia*, those related to accounts, operations and transactions, including the analyses that the overseen subject has carried out in order to identify unusual or suspect activities, operations and transactions; c) [it] has access to, or request the production of, documents, data and information, on the part of legal persons with a registered office in the State's territory or inscribed in the registers of legal persons held by the State, related to the nature and activity, to the beneficial owners, beneficiaries, members and administrators, including members of the senior management; [...]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Ensure supervisory authorities have the legal right of entry into the premises of the institution under supervision, the right to demand books of accounts and other information and the right to make and take copies of documents.*

Measures reported as of 9 December 2013 to implement the Recommendation of the report	The new AML/CFT Act clarifies the power of AIF to enter into the premises of obliged and supervised subjects. **Article 46 - *Supervision and regulation for the prevention and countering of money-laundering and financing of terrorism.*** The Financial Intelligence Authority is the central authority for the supervision and regulation for the prevention and countering of money-laundering and financing of terrorism. To this end: [...] e) [it] carries out off-site and on-site controls and inspections, which may also include a check and review of policies, procedures, measures, accounting ledgers and registers, as well as spot checks; [...]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Ensure sanctions can be imposed against financial institutions, and their directors and senior management for failure to comply with the powers given to the supervisor.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	The new AML/CFT Act ensures in article 47 (f) that administrative sanctions can be imposed against financial institutions, and their directors and senior management, for failure to comply with the powers given to the supervisor. **Article 47 – *Administrative sanctions*** 1. The Financial Intelligence Authority, upon the contestation of charges, applies administrative sanctions in the following cases: [...] e) the obstruction of the oversight activity established in article 46.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*The FIA should take up its supervisory role as soon as possible.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	In the current year AIF has carried out two *ad hoc* inspections and an in depth supervisory program is in preparation.
Measures taken to implement the recommendations since the adoption of the first progress	In early 2014, AIF carried out its first *on-site* inspection at the IOR. The scope of the inspection was the verification of the compliance of the organization and the management of the IOR in line with Law N. XVIII, assessing, *inter alia*: (i) the internal organization; (ii) the transaction monitoring system, evaluation procedures and risk management; (iii) the

report	CDD procedures; (iv) registration and record keeping; (v) the procedures for the detection and reporting of suspicious activities; (vi) the relations with foreign financial institutions and the international transfer payment system. The on-site inspection included sample tests on files as well as on the accounts and individual transactions. In a broader perspective, the AIF adopted a manual and a schedule of inspections, regularly updated according to Art. 4 (2) (e) and Art. 6 (2) (e) (f) of the Statute. **Article 4** – ***The Board of Directors and the President.*** […] 2. The Board of Directors shall: […] e) adopt the schedule of off-site and on-site inspections of the supervised subjects prepared by the Director; **Article 6** – ***The Director.*** […] 2. The Director, in line with the general policy and fundamental strategies defined by the Board of Directors, shall: […] e) propose to the Board of Directors the schedule of off-site and on-site inspections of the supervised subjects; f) within the framework of the schedule approved by the Board of Directors, prepare and conduct the off-site and on-site inspections of the supervised subjects;
Recommendation of the MONEYVAL Report	*The President of the FIU should not be a member of the Cardinal's Committee.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	The President of AIF stepped back as member of the Cardinals' Commission at the beginning of 2013 to prevent any potential conflict of interest.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.

Recommendation of the MONEYVAL Report	*Clarity should be provided on the role of the Board of the FIA in terms of identifying the supervision and sanctioning strategy on the basis of the Statute given the change towards "operational independence" in the new law.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	The term "operational" has been removed by the new AML/CFT Act. "Full" autonomy and independence of AIF is ensured by article 2 (2) of its Statute. **Article 2 – *Functions*.** [...] § 2. The Financial Intelligence Authority, in accordance with the international law and principles relating to the fight against money laundering and financing of terrorism, carries out the functions, duties and activities mentioned in the preceding paragraph [Vatican laws] as well as in this Statute, in full autonomy and independence.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Recommendation 30 (Resources, integrity and training)	
Rating: Partially compliant	
Recommendation of the MONEYVAL Report	*Ensure an adequate structure and staffing of the FIA to reflect its supervisory role.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	With the consolidation and broadening of AIF's institutional functions, by the *Motu Proprio* of Pope Francis of 8 August 2013, and the new AML/CFT Act, AIF is currently reviewing its structure, staffing and internal organization.
Measures taken to implement the recommendations since the adoption of the first progress report	The AIF strengthened its structure, staffing and internal organization. In 2015, following the adoption of Regulation No. 1, the AIF approved an organizational chart consistent with statutory functions, including consistent job descriptions. As far as the staffing is concerned, the AIF hired new personnel, highly qualified and with consolidated experience in the financial sector of relevant foreign countries. The process is currently going on, in order to ensure for further strengthening of the structure and staffing of the AIF.
Recommendation of the MONEYVAL Report	*Ensure that FIA staff receive appropriate training on the supervisory aspect of their function.*

Measures reported as of 9 December 2013 to implement the Recommendation of the report	With the consolidation and broadening of AIF's institutional functions, by the *Motu Proprio* of Pope Francis of 8 August 2013, and the new AML/CFT Act, AIF is currently reviewing its structure, staffing and internal organization, including appropriate training.
Measures taken to implement the recommendations since the adoption of the first progress report	The staff of the AIF receives regular and adequate training, considering also the unique nature of the institutional, legal and financial framework of the Holy See/Vatican City State, either within the AIF or through ad hoc brainstorming and workshops organized with other bodies of the Holy See/Vatican City State.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Special Recommendation VII (Wire transfer rules)	
Rating: Non-compliant	
Recommendation of the MONEYVAL Report	*A clearer basis for requirements regarding the obligations of payment service providers in the law (instead of in guidance) should be established.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Requirements relating to obligations of payment service providers have been clarified and strengthened by articles 33-37 of the new AML/CFT Act.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*An explicit requirement that ensures that non-routine transactions are not batched where this would increase the risk of money laundering should be established.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 32 (3) of the new AML/CFT Act, non-routine transactions are not batched where this would increase the risk of money laundering. **Article 32 – *Batched wire transfers*** [...] 3. The non-routine transfers of funds are not batched if this increases risks of money-laundering and financing of terrorism.
Measures taken to implement the	No further measures are necessary.

recommendations since the adoption of the first progress report	
Recommendation of the MONEYVAL Report	*Effective risk-based procedures for identifying and handling wire transfers from beneficiary financial institutions which are not accompanied by complete originator information should be established for beneficiary financial institutions.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According article 36 (3), beneficiary payment service providers shall adopt effective risk-based procedures for identifying and handling wire transfers which are not accompanied by complete originator information. **Article 36 – *Beneficiary payment service providers*** [...] 3. The beneficiary payment service providers shall adopt adequate risk-based policies, procedures and measures to determine: a) when to execute, reject or suspend wire transfers lacking required originator or beneficiary data or information; b) the appropriate follow-up action.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*The FIA should apply its sanctioning powers where breaches of regulations are uncovered.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 47 (c) of the new AML/CFT Act clarifies that AIF shall apply administrative sanctions in case of breach of systematic non-fulfilment of AIF regulations relating to wire transfers. **Article 47 – *Administrative sanctions*** 1. The Financial Intelligence Authority, upon the contestation of charges, applies administrative sanctions in the following cases: [...] c) breach of systemic non-fulfilment of requirements relating to [...] wire transfers [...] established by articles [...] 31, 32, 33, 34, 35, 36, 37 [...] and the connected requirements established by the regulations of the same Financial Intelligence Authority. [...]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL	*Art. 5 of Regulation 4 which obliges the payment service provider of the payer to 'verify the completeness' of the informative data before*

Report	*transferring the funds should be extended to require that financial institutions should verify the 'identity' of the originator as well.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 31 (1) (a) clarifies that payment service providers of the originator shall ensure that the transfer of funds shall always be accompanied by the data relating to the identity of the originator. Under the general requirements of CDD such identity shall be verified. Moreover, the same article 31 (2) establishes the duty to carefully verify the identity of the originator in case of suspicion of ML or FT. **Article 31 – *Cross-border wire transfers*** 1. In the case of cross-border wire transfers the originator and beneficiary payment service providers shall ensure that the transfers of sums of EUR 1,000 or more shall always be accompanied by the following data and information: a) with reference to the originator: i) the name and surname or, in the case of a juridical person, the official title; ii) the account number or, in the absence of an account, a unique identification number which allows the traceability of the transaction; iii) the address of residence or domicile, or the date and place of birth, or in the case of a juridical person, the address of the registered office; [...] 2. The data and information mentioned in number 1, letters a) and b), shall be carefully verified with enhanced measures in the case of suspicion of money-laundering or of financing of terrorism.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Art. 6 of Regulation 4 should be amended to limit the exemption that domestic transfers include only the originator's account number or a unique identifier to domestic transactions within the HS/VCS.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 6 of the AIF regulation n. 4 has been abolished. Article 33 (1) of the new AML/CFT establishes the duty, also in case of domestic wire transfers, to include relevant information relating to the originator. **Article 33 – *Domestic wire transfers*** 1. In the case of internal wire transfers the ordering payment service provider shall accompany the internal wire transfer with data and information found in article 31, number 1, letter a). 2. Where the data and information accompanying the domestic wire transfer can be made available to the beneficiary payment service provider and to the competent authorities by other means, the ordering payment

	service provider shall include the account number and this is used for the transaction or, in the absence of an account, a unique identification code which allows the traceability of the transaction and which leads back to the provider of the beneficiary. 3. The ordering payment service provider shall make the data and information available within three business days of receiving the request of the beneficiary payment service provider or the competent authorities. In either case, law enforcement and judicial authorities can order the immediate production of such data and information.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Full originator information in the message or payment form accompanying the wire transfer should be required for all other transactions.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 31 (1) (a) of the new AML/CFT Act shall other transactions shall be accompanied with the full originator information. **Article 31 – *Cross-border wire transfers*** 1. In the case of cross-border wire transfers the originator and beneficiary payment service providers shall ensure that the transfers of sums of EUR 1,000 or more shall always be accompanied by the following data and information: a) with reference to the originator: i) the name and surname or, in the case of a juridical person, the official title; ii) the account number or, in the absence of an account, a unique identification number which allows the traceability of the transaction; iii) the address of residence or domicile, or the date and place of birth, or in the case of a juridical person, the address of the registered office; [...] 2. The data and information mentioned in number 1, letters a) and b), shall be carefully verified with enhanced measures in the case of suspicion of money-laundering or of financing of terrorism.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Art. 1 should be deleted and the Art. should apply only to transactions where technical limitations prevent the full originator information accompanying a cross-border wire transfer from being transmitted with a*

	related domestic wire transfer.
Measures reported as of 9 December 2013 to implement the Recommendation of the report	According to article 35 (2) in the case of technical limitations preventing the full originator information to accompany a domestic wire transfer, the intermediary payment service provider shall register and keep for 10 years the data and information received by the payment service provider of the originator or by another intermediary payment service provider. **Article 35 – *Intermediary payment service providers*** [...] 2. Where technical limitations prevent maintenance of data and information on the originator and on the beneficiary which accompany an international wire transfer linked to a domestic wire transfer, the intermediary payment service provider shall comply with the obligations of registration and record-keeping established in this Title, keeping for 10 years the data and information received by the payment service provider of the originator or by any other intermediary payment service provider.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Special Recommendation VIII (Non-profit organisations)	
Rating: Non-compliant	
Recommendation of the MONEYVAL Report	*Undertake a review the adequacy of domestic laws and regulations that relate to all NPOs located within VCS and conduct an assessment on the sector's potential vulnerabilities to terrorist activities.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	The Holy See authorities are currently reviewing the laws applicable to NPOs that have their legal seat in the Vatican City State. An advanced draft is currently being examined by the relevant authorities. Since there are three kinds of NPOs in the jurisdiction: some with Vatican City State legal personality, some with canonical legal personality, and some with both, Pope Francis, in his *Motu Proprio* of 8 August 2013 decided to subject all NPOs having canonical legal personality and legal seat in the territory of Vatican City State to the Vatican anti-money laundering and countering of terrorism laws. Article 1 of the aforementioned *Motu Proprio* reads: **Article 1**

	The dicasteries of the Roman Curia and other institutes and entities dependent on the Holy See, as well as non-profit organizations that enjoy juridical personality in canon law and are based in Vatican City State, are bound to observe the laws of Vatican City State with regard to: a) measures for the prevention and countering of money laundering and the financing of terrorism; b) measures against those who threaten international peace and security; c) prudential supervision of entities habitually engaged in a professional financial activity. Article 3 of the afore-mentioned *Motu Proprio* gives jurisdiction to the Vatican Tribunal over the NPOs having canonical legal personality and legal seat in the territory of Vatican City State on anti-money laundering and countering of terrorism matters: **Article 3** The competent judicial bodies of Vatican City State exercise jurisdiction in the above-mentioned issues also with regard to the dicasteries and other entities and institutions dependent on the Holy See, as well as to those non-profit organizations which have juridical personality in canon law and are based in Vatican City State. Meanwhile, those NPOs having only Vatican civil legal personality are subject, as a matter of course, to Vatican laws.
Measures taken to implement the recommendations since the adoption of the first progress report	An exhaustive review of the NPOs that have their legal seat in the Vatican City State led to the conclusion that those entities have been created and are under the direct or the indirect control of public entities of the Holy See or the Vatican City State Consequently, on 22 February 2015, Pope Francis subjected the NPOs located in the Vatican to the supervision of the new Secretariat for the Economy.
Recommendation of the MONEYVAL Report	*The FIA should have its responsibilities extended to risk-based monitoring of the NPO sector with necessary access to relevant books and financial records.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	As noted above, NPOs, as all legal persons, are subject to the Vatican AML/FCT laws. Article 5, paragraph 2, of Law N. XVIII of 8 October 2013 requires, in particular, that all legal persons keep adequate records on their beneficiaries, beneficial owners and managers and provide such information, upon request, both to the competent authorities and to the financial institutions. Article 5, paragraph 2, reads: 2. Juridical persons having their legal seat in the State or inscribed in the registers of legal persons of the State, are to register, update and keep for a period of ten years all the documents, data and information relevant to their own nature and activity, and their beneficial owners, beneficiaries, members and administrators, disclosing them, upon request, to the competent authorities and the obliged subjects.

	Moreover, pursuant to article 46, letter c), of Law N. XVIII of 8 October 2013, the FIA may require from all legal persons, including NPOs, documents, data and information regarding its beneficiaries, beneficial owners and managers. Article 46, letter c reads: The Financial Intelligence Authority: (…) has access to, or require the disclosure of, documents, data and information, on the part of juridical persons having their legal seat in the State's territory or inscribed in the registers of legal persons held by the State, relating to the their nature and activity, and to their beneficial owners, beneficiaries, members and administrators, including members of the senior management;" In addition, pursuant to article 50, letter c), of Law N. XVIII of 8 October 2013, the FIA has access to all the financial and administrative information held by the juridical persons inscribed in the Vatican City State registries. Article 50, letter c) reads: The Financial Intelligence Authority: (…) has access to information of a financial and administrative nature possessed by the signaling subjects and by juridical persons having their legal seat in the State or inscribed in the registers held by the State;
Measures taken to implement the recommendations since the adoption of the first progress report	In light of measures adopted earlier, it was deemed that no further action was required.
Recommendation of the MONEYVAL Report	*Develop guidance on the risks of terrorist abuse and the available measures to protect against such abuse for all NPOs which are located within VCS and then undertake outreach to raise awareness within the sector.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	The Holy See authorities have undertaken a careful analysis – in light of the international standards – of the laws applicable to those NPOs that have their legal seat in the Vatican City State. As a result, Pope Francis, in his *Motu Proprio* of August 8, 2013, decided to subject all NPOs having canonical legal personality and legal seat in the territory of Vatican City State to the Vatican anti-money laundering and countering of terrorism laws. In addition, the new Law N. XVIII requires all legal persons with their legal seat in the Vatican – including NPOs – to keep adequate records on their activities, beneficiaries, beneficial owners and managers and to provide such information, upon request, both to the competent authorities, including AIF, and to the financial institutions. Moreover, Holy See and the Vatican City State authorities are currently finalizing a new law to regulate the NPO sector, which is expected to be adopted in the course of the coming weeks. The new law will reaffirm the duty of all NPOs to inscribe themselves in the State registries, to keep updated the relevant information regarding their senior management and

	beneficial owners, possess detailed books and records, and to apply the "know your beneficiaries" rule. Adequate sanctions will be imposed for the violation of those rules.
Measures taken to implement the recommendations since the adoption of the first progress report	As noted above, on 22 February 2015, Pope Francis, recognizing that the NPOs that have their legal seat in Vatican City State have been created and are under the direct or indirect control of public entities of the Holy See or the Vatican City State, subjected those NPOs to the supervision of the new Secretariat for the Economy. On the basis of the ongoing Domestic Risk Assessment, the competent authority will provide comprehensive guidance on the risk of terrorist financing to the NPOs located in Vatican City State.
Recommendation of the MONEYVAL Report	*Legislation should:* *a) Require NPOs to maintain and file records on the purpose and objectives of their stated activities and the identity of person(s) who own, control or direct their activities, including senior officers, board members and trustees;* *b) Require NPOs to maintain, for a period of at least five years, and make available to appropriate authorities, records of domestic and international transactions that are sufficiently detailed to verify that funds have been spent in a manner consistent with the purpose and objectives of the organisation; and* *c) Sanction violations of oversight measures or rules by NPOs or persons acting on behalf of NPOs.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	As noted above, article 5, paragraph 2, of Law N. XVIII of 8 October 2013, requires that all legal persons keep adequate records on their beneficiaries, beneficial owners and managers and provided such information, upon request, both to the competent authorities and to the financial institutions. In addition, article 47, paragraph 1, letter e), of Law N. XVIII, of 8 October 2013, empowers the FIA to impose administrative sanctions to in case of obstruction, on the part of NPOs, of the oversight measures set forth in article 46, letter c), of same Law. These issues are to be addressed in greater detail in the law on NPOs, currently under consideration.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Legislation should develop provisions for the FIA and Gendarmerie to have full access to information on the administration and management of a particular NPO (including financial and programmatic information) during the course of an investigation.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	As noted above, according to article 5, paragraph 2, of Law N. XVIII of 8 October 2013, all legal persons – including NPOs – are bound to keep adequate records on their beneficiaries, beneficial owners and managers and to provided such information, upon request, both to the competent

	authorities, including FIA and the Gendarmerie. Pursuant to article 50, letter c), of Law N. XVIII of 8 October 2013, the FIA has access to all the financial and administrative information held by the juridical persons inscribed in the Vatican City State registries. In addition, pursuant to article 50, letter c), of Law N. XVIII of 8 October 2013, FIA may require from all legal persons – including NPOs – documents, data and information regarding its beneficiaries, beneficial owners and managers. Finally, in the course of a criminal investigation, the Corps of the Gendarmerie has access to the relevant information in its capacity as judicial police pursuant the norms of the Code of Criminal Procedure (articles 162 and following).
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Formal procedures for national co-operation and information exchange between the national agencies which investigate ML/FT cases should be developed.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 8, paragraph 6, of Law N. XVIII, of 8 October 2013, requires that all competent authorities of the Holy See and the Vatican City State cooperate actively in the exchange of information. It reads: 6. For the purposes of preventing and countering money laundering and the financing of terrorism, the competent authorities of the Holy See and of the State actively cooperate and exchange information among themselves, as well as with analogous entities in other States, in the manner and within the limits set forth by law. Moreover, the Financial Security Committee, established by Pope Francis in his *Motu Proprio* on *"the prevention and countering of money-laundering, the financing of terrorism and the proliferation of weapons of mass destruction"*, of 8 August 2013, coordinates the adoption and update of all AML/CFT procedures. In this context, article 9, paragraph 2, subparagraph iii), of Law XVIII, of 8 October 2013, reads: 2. On the basis of the general risk evaluation: a) The Financial Security Committee: (…) iii) coordinates the adoption and regular updating of policies and procedures for the prevention and the countering of money laundering, of the financing of terrorism and the proliferation of weapons of mass destruction;
Measures taken to implement the recommendations	No further measures are necessary.

since the adoption of the first progress report	
Recommendation of the MONEYVAL Report	*An appropriate point of contact should be identified to respond to international requests for information regarding particular NPOs that are suspected of terrorist financing or other forms of terrorist support. Procedures should also be developed to process such requests.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	This issue is to be addressed in the draft law on NPOs, currently under consideration.
Measures taken to implement the recommendations since the adoption of the first progress report	It has been determined that the Secretariat of State of the Holy See is the appropriate contact point to respond to international requests for information regarding particular NPOs located in Vatican City State. Any request received by the Secretariat of State will be handled in accordance with its ordinary internal procedures.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

Special Recommendation IX (Cross border declaration and disclosure)	
Rating: Partially compliant	
Recommendation of the MONEYVAL Report	*Take stock of the sanctions applied and analyse whether the voluntary settlement provisions undermine the effectiveness of the sanctions.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	The provision of the old AML/CFT Law relating to voluntary settlement has been abolished.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*As necessary reconsider the statutory sanctions to ensure that these are proportionate.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	The new AML/ CFT Act clarifies the scope of the administrative sanctions in case of false, omitted or incomplete declaration of cross-border transportation of currency or securities. **Article 85 – *False, omitted or incomplete declarations***

	1. In the case of a false, omitted or incomplete declaration, the holder of the currency is bound to rectify, submit or complete the declaration referred to in article 74. 2. In the case of false, omitted or incomplete declaration, the holder of the currency incurs a fine ranging from a minimum of 10% to a maximum of 40% of the sum in his possession exceeding €10,000. 3. At the same time that it documents the infraction, the Corps of Gendarmes may sequester, as a guarantee of payment of the fine, up to a of 40% of sum exceeding Euro 10,000. 4. The sequestration set forth in paragraph 3 shall continue until the sanctioning procedure is concluded.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Consider introduction of clearer law enforcement powers to act on suspicion of money laundering or financing of terrorism in Art. 39 of the revised AML/CFT Law.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 84 (3) of the new AML/CFT Act strengthens the law enforcement powers in case of suspicion of ML or FT. **Article 84 – *Checks on vehicles, luggage and persons*** [...] 3. If there is any suspicion of money-laundering or of the financing of terrorism, the Corps of Gendarmes seizes the currency for seven days in order to verify the suspicions and to search for evidence.
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
Recommendation of the MONEYVAL Report	*Review the existing legal provisions to facilitate more effective Gendarmerie action in the restraint of suspect currency.*
Measures reported as of 9 December 2013 to implement the Recommendation of the report	Article 84 (1) (2) strengthens the powers of the Corps of the Gendarmerie for the restrain of suspect currency or securities. **Article 84 – *Checks on vehicles, luggage and persons*** 1. For the purposes of ensuring the application of the provisions of this title, the Corps of Gendarmerie, when there is any suspicion or in the course of a spot check, shall: a) checks the means of transport crossing the state border;

	b) requests to persons crossing the state border to show the contents of luggage, objects and values carried about their person. 2. In case of refusal, and where there are reasonable grounds for suspicion, an official of the Corps of Gendarmerie may proceed, with written provision specifically motivated, to search the means of transport, luggage and the above-mentioned persons. An official record of the search is made and transmitted within 48 hours, together with the motivated provision, to the Promoter of Justice at the tribunal. The Promoter of Justice, if he considers the provision legitimate, confirms it within the successive 48 hours. [...]
Measures taken to implement the recommendations since the adoption of the first progress report	No further measures are necessary.
(Other) changes since the first progress report (e.g. draft laws, draft regulations or draft "other enforceable means" and other relevant initiatives	

2.5. Specific Questions

Answers from the first progress report

1. At the time of the on-site visit a review was being undertaken of all accounts at the IOR. Has this review been concluded?
By the end of 2012, the IOR concluded the preliminary review process of its customer database.
2. Have any actions been taken as a consequence of the review referred to in 1 above?
Based on the findings of the preliminary review process, an in-depth audit of customer records and remediation, including analysis of transactions, under the supervision of AIF was launched in the beginning of 2013. This process is still ongoing. Furthermore, the IOR redefined the categories of customers entitled to IOR services and were published in July 2013 on IOR's website.
3. Please provide details of international cooperation requests received by the FIU and requests for judicial mutual legal assistance received including the number and nature of requests and the time taken to respond.
(a) AIF's international cooperation and exchange of information Between August 2012 and September 2013, AIF received 8 requests by 2 counterparts, for cooperation and exchange of financial, administrative and investigative information. Those requests were answered within two to eighteen days after their receipt. **(b) Judicial mutual legal assistance** In the course of 2012, the Holy See received 9 requests of judicial mutual legal assistance from three countries, 4 of which were related to financial offences. Those requests were answered, on average, 4 months after their receipt. From January to September 2013, the Holy See has received so far 9 requests of judicial mutual legal assistance, 4 of which were related to financial offences. Of those, 6 requests have already been answered (on average, 2 months after their reception). The remaining 3 requests are currently being processed. The figures of the last two years (also based on the first reform and further amendments of the AML/CFT Law in 2012 and the second reform of the AML/CFT legal system in 2013) show a significant improvement of the system and its effectiveness.
4. If the above mentioned international cooperation and mutual legal assistance requests received were declined, please set out the reasons for declining.
All the requests of judicial mutual legal assistance received through diplomatic means in the period 2011-2013 were transmitted for execution to the appropriate judicial or canonical

authority. None of the requests was declined; however, in two cases related to financial offences the information requested was not available.

Additional questions since the first progress report

1. *Please indicate whether the remediation process in the 10R has been completed, and write that results (including in terms of closure of accounts and submission of STRs).*

At the beginning of 2015, the review process of the IOR was concluded. In particular, it included a systematic screening of all existing customer records in order to identify missing or insufficient information required for the completion of new customer identity data templates the Institute introduced in 2013. Subsequent to the screening process, the IOR has terminated customer relationships, which were either „dormant account" or did not meet anymore the restricted customer categories of the IOR, in an orderly process under the supervision of AIF.

2. *Please provide details of international cooperation requests received by the FIU and requests for judicial mutual legal assistance received, including the number and nature of the requests, the jurisdictions involved, and the time taken to respond.*

In 2014, AIF had 113 exchanges of information at international level, 20 following a request made by AIF, 93 following a request made by a foreign counterpart. Those requests were answered within two to eighteen days after their receipt.

In 2015, the number of international information exchanges increased significantly. AIF had 240 exchanges of information, 97 following a request made by AIF and 143 following a request made by a foreign counterpart. Those requests were answered within two to eighteen days after their receipt.

From September to December to 2013, the Holy See received 3 requests of judicial mutual legal assistance from 3 different jurisdictions. One of those requests was related to financial offences. The request were answered approximately 3 months after receipt.

In the course of 2014, the Holy See received 13 requests of judicial mutual legal assistance from five different countries. 5 of those requests were related to financial offences. The requests were answered, on average, 4 months after their receipt. One request, not related to financial offences, is still pending.

From January to September 2015, the Holy See received 12 requests of judicial mutual legal assistance from four different jurisdictions. 3 of those requests were related to financial offences. Those requests were answered, on average, 3 months after their receipt.

Requests of judicial mutual legal assistance have been received from: Argentina, the Czech Republic, France, Italy, Peru, Poland, Portugal, Slovakia and Spain.

The consolidation of international cooperation and exchange of information at an international level is ongoing.

3. *If any of the above mentioned international cooperation requests received were declined, please set out the reasons for declining.*

All the requests received by the AIF received a comprehensive reply.

All requests of judicial mutual legal assistance received through diplomatic channels were transmitted for execution to the appropriate judicial or canonical authority. Two of those requests, not related to financial offences, were deferred because they were likely to impair ongoing investigations in the Vatican. One request related to a financial offence was declined for procedural reasons.

4. *Please provide information on actions taken by the AIF in its prudential and AML/CFT supervisory role since the last progress report, to include the results of relevant inspections, and any sanctions imposed.*

In early 2014, AIF carried out its first *on-site* inspection at the IOR. The scope of the inspection was the verification of the compliance of the organization and the management of the IOR in line with Law N. XVIII, assessing, *inter alia*: (i) the internal organization; (ii) the transaction monitoring system, evaluation procedures and risk management; (iii) the CDD procedures; (iv) registration and record keeping; (v) the procedures for the detection and reporting of suspicious activities; (vi) the relations with foreign financial institutions and the international transfer payment system. The on-site inspection included sample tests on files as well as on the accounts and individual transactions.

Following the on-site inspection, the AIF provided the IOR with an Action Plan, whose implementation is monitored by the same AIF.

In a broader perspective, the AIF is providing regular written guidance and feedback to the IOR.

On 25 September 2014, the Financial Intelligence Authority (AIF) approved Regulation no. 1 on "Prudential Supervision of the Entities Carrying Out Financial Activities on a Professional Basis". This regulation entered into force on 13 January 2015.

Regulation no. 1 represents a fundamental step in the path of consolidation of the transparency, stability and sustainability of the financial sector and the activity of entities carrying out financial activities on a professional basis in the Vatican City State.

Furthermore, on 19 December 2014, in the framework of the Monetary Agreement between the European Union and the Vatican City State of 17 December 2009, the Holy See/Vatican City State agreed on an Ad hoc Arrangement to include relevant European principles and rules applicable to entities carrying out financial activities on a professional basis to further strengthening the Vatican prudential supervisory system.

2.6. Questions related to the Third Directive (2005/60/EC) and the Implementation Directive (2006/70/EC)7

Implementation / Application of the provisions in the Third Directive and the Implementation Directive	
Please indicate whether the Third Directive and the Implementation Directive have been fully implemented / or are fully applied and since when.	The Holy See/VCS are not a member of the EU. According to art. 8 (1) of the *Monetary Convention between the Holy See and the European Union* of 2009: The Vatican City State shall undertake to adopt all appropriate measures, through direct transpositions or possibly equivalent actions, with a view to implementing the EU legal acts and rules listed in the Annex to this Agreement, in the field of: […] (b) prevention of money laundering, […]. The Third Directive has been implemented through equivalent actions by Law N. CXXVII of 30 December 2010, as reformed and further amended in 2012, and reformed by Law N. XVIII of 8 October 2013.
Please indicate whether the Third Directive and the Implementation Directive have been fully implemented / or are fully applied and since when.	The Third Directive has been fully implemented.

Beneficial Owner	
Please indicate whether your legal definition of beneficial owner corresponds to the definition of beneficial owner in the 3rd Directive[8] (please also provide the legal text with your reply)	The definition of beneficial owner is given by Law N. XVIII of 8 October 2013, Article 1 (24), and is stricter in comparison with the definition given by the Third Directive. **Article 1 – *Definitions*** [...] 24. « *Beneficial owner* »: the physical person, in the name of whom and on whose behalf a transaction or operation is accomplished, or, in the case of a juridical person, the person who is the ultimate titular or controls the juridical person in the name of whom or on whose behalf an operation or transaction is accomplished, or that is beneficiary of it. a) In the case of companies, the beneficial owner is:

[7] For relevant legal texts from the EU standards see Appendix II.

[8] *See Please see Article 3(6) of the Third Directive reproduced in Annex II.*

	i) the physical person who ultimately possesses or controls the juridical entity, through ownership or control, direct or indirect, of a sufficient percentage of shares in the company's capital or voting rights, also through shareholding; ii) The physical person who exercises in other ways control of management and direction of the company. b) In the case of foundations, of non-profit organizations and of trusts which distribute and administer funds, the beneficial owner is: i) the physical person who effectively exercises control of the patrimony of the juridical person or entity; ii) if the future beneficiaries have already been established, the physical person who is the effective beneficiary of the patrimony of the juridical person or entity; iii) if the future beneficiaries of the juridical person or entity have not yet been determined, the category of persons in whose principal interest the juridical person or entity has been established or acts.
Please indicate whether your legal definition of beneficial owner corresponds to the definition of beneficial owner in the 3rd Directive[9] (please also provide the legal text with your reply)	The Third Directive has been fully implemented.

Risk-Based Approach	
Please indicate the extent to which financial institutions have been permitted to use a risk-based approach to discharging certain of their AML/CFT obligations	The new AML/CFT Act introduces risk-based approach criteria to exclude obliged subjects from its scope of application, establishing the conditions and empowering AIF to verify them in order to exclude an obliged subject from the scope of application. **Article 3 –** ***Exclusion from the scope of application*** 1. The Financial Intelligence Authority may exclude from the scope of this Law subjects who carry out a financial activity on an occasional basis or limited scale, and where there is a low risk of money laundering or financing of terrorism, provided that the following conditions are met: a) It is to be documented that the main activity of the subject: i) Is not a professional financial activity; ii) Is not included in the activities listed in article 2, f); iii) Is not a currency remittance;

[9] Please see Article 3(6) of the 3rd Directive reproduced in Appendix II.

	b) It is to be documented that the subject's activity of a financial nature: i) Is ancillary and directly related to the main activity; ii) Is offered only to the customers of the main activity and not to the general public; iii) Is limited in its overall revenue; iv) Is limited as to the amount of each operation or transaction. 2. The Financial Intelligence Authority, for the exclusion from the scope of application of this Law: a) In assessing the risk of money laundering or financing of terrorism, pays particular attention to the activities of a financial nature considered as particularly likely, by their nature, to be used or abused for money laundering or financing of terrorism. b) In assessing the criteria of exclusion: i) For the purposes of paragraph 1, a), i), [it] verifies that the revenue of financial activity does not exceed 5% of total revenues of the subject. ii) For the purposes of paragraph 1, b), iii), [it] verifies that the revenue of a financial nature does not exceed a certain threshold, which must be sufficiently low. The threshold is set by the Financial Intelligence Authority depending on the kind of financial activity; iii) For the purposes of paragraph 1, b), iv), [it] applies a maximum threshold for customer and individual operations or transactions, whether the transaction is executed in a single operation or in several operations which appear to be linked. The threshold is set according to the type of financial activity, and must be low enough to ensure that the kind of activity does not constitute a method of money laundering or the financing of terrorism, and does not exceed the threshold of EUR 1,000. The Financial Intelligence Authority adopts procedures and measures of control based upon the risk of preventing the abuse of exclusion from the scope of application of the present Title.
Please indicate the extent to which financial institutions have been permitted to use a risk-based approach to discharging certain of their AML/CFT obligations.	No financial institutions have been authorized by the AIF to use a risk-based approach when discharging certain of their AML/CFT obligations.

Politically Exposed Persons	
Please indicate whether criteria for identifying PEPs in accordance with	Criteria for identifying PEPs are established by article 1 (14) (16) of the new AML/CFT Act, in accordance of the Third EU Directive.

the provisions in the Third Directive and the Implementation Directive[10] are provided for in your domestic legislation (please also provide the legal text with your reply).	**Article 1 – *Definitions*** […] 14. « Person who is or has been entrusted with prominent public functions »: a) Heads of State or of Government, Ministers and their deputies, Secretaries-General and persons with analogous functions; b) Members of Parliaments; c) Members of Supreme Courts, of Constitutional Courts and of other high-level judicial organs whose decisions are not normally subject to appeal, except in extraordinary circumstances; d) Members of Court of account and Board of Central Banks, or analogous functions. e) Ambassadors and Chargés d'Affaires; f) Senior Officers of the Armed Forces; g) Members of management, management, administration or oversight boards, of State enterprises; h) Analogous offices with the Holy See or the State. […] 16. « Politically exposed person »: a person who has or has had a function, an important public office in the Holy See, in the State, or in any State or who has or has held the office of Secretary-General, Deputy or Under Secretary-General, Director, Deputy Director or member of the branches of Government of international organization.
Please indicate whether criteria for identifying PEPs in accordance with the provisions in the Third Directive and the Implementation Directive[11] are provided for in your domestic legislation (please also provide the legal text with your reply).	The criteria for identifying PEPs contained in Vatican legislation are consistent with the provisions of the Third Directive.

"Tipping off"	
Please indicate whether the prohibition is limited to the	Article 44 (3) of the new AML/CFT Act establishes the prohibition to disclose also in case of ongoing investigations or criminal cases.

[10] *See Article 3(8) of the 3rd Directive and Article 2 of Commission Directive 2006/70/EC reproduced in Appendix II.*

[11] Please see Article 3(8) of the 3rd Directive and Article 2 of Commission Directive 2006/70/EC reproduced in Appendix II.

transaction report or also covers ongoing ML or TF investigations.	**Article 44 – *Prohibition of disclosure*** 1. The reporting subjects, members of the senior management, officers and employees, and advisers and assistants of any kind, shall not disclose to the interested subject or to third parties knowledge of the suspicious activity, or the sending or preparation to send suspicious activity report, data and related information. […] 3. The prohibition of disclosure established by paragraphs 1 and 2 shall be applied also in case of ongoing investigations of criminal judiciary actions.
Please indicate whether the prohibition is limited to the transaction report or also covers ongoing ML or TF investigations.	The prohibition covers also the ML/TF investigations. See above art. 44 (2).
With respect to the prohibition of "tipping off" please indicate whether there are circumstances where the prohibition is lifted and, if so, the details of such circumstances	According to article 44 (2) of the new AML/CFT Act, the prohibition of disclosure is lifted only in the case in which lawyers, notaries, other independent legal professionals and accountants, as independent legal professionals, attempt to dissuade a client from committing an unlawful activity. **Article 44 – *Prohibition of disclosure*** [...] 2. The cases in which lawyers, notaries, other independent legal professionals and accountants, as independent legal professionals, attempt to dissuade a client from committing an unlawful activity does not constitute a violation of the prohibition of disclosure.
With respect to the prohibition of "tipping off" please indicate whether there are circumstances where the prohibition is lifted and, if so, the details of such circumstances.	The prohibition covers also the ML/TF investigations. See above art. 44 (2).

"Corporate liability"	
Please indicate whether corporate liability can be applied where an infringement is committed for the benefit of that legal person by a person who	As noted above, (*see* answers concerning Special Recommendation II), Chapter X of Law N. VIII, on *"Supplementary norms on criminal law matters"*, of 11 July 2013, has introduced a new approach on the administrative liability of legal persons arising from crimes, replacing article 43 *bis* of the revised law CXXVII . Pursuant to article 46, paragraph 1, of Law N. VIII, a legal person may be held liable for any criminal offence committed in its favour or on behalf by

occupies a leading position within that legal person.	its senior management or by those who have effective control over it. Article 46 of Law N. VIII reads: **Article 46** **(*Liability of legal persons*)** 1. A legal person is liable for the offences committed in its favour or to its benefit by: a) persons holding positions representing, managing or directing the entity or one of its units having financial and functional autonomy, as well as by persons who manage or control, even *de facto*, the entity; b) by persons subject to the direction or supervision of one of the subjects referred to in subparagraph a). 2. The legal persons is not liable if the subjects referred to in paragraph 1 have operated exclusively to their own benefit or in favour of a third party. 3. If the offence is committed by one of the subjects referred to in paragraph 1, subparagraph a), the legal person is not liable if it proves that: a) the directing organ adopted and implemented effectively, before the commission of the offence, structural and managerial models apt to prevent offences such as the one that has been committed; b) the responsibility of supervising the operation and implementation of the said models and of ensuring their continuous review has been delegated to an organism having autonomous powers of action and control; c) the subjects have committed the offence by evading fraudulently the said structural and managerial models; and, d) the organism referred to in subparagraph b) has not omitted or exercised insufficient supervision. 4. The confiscation of the goods of the legal person that were used or that were intended to be used to commit the offence, as well as its proceeds, profits, their value and other benefits, even of an equivalent value, is always ordered. 5. The liability of the legal persons subsists even if: a) the author of the offence is not identified or is not imputable; b) the offence becomes extinguished for a reason other than an amnesty. 6. The provisions of this chapter do not apply to public authorities. 7. In those instances where the tribunals have jurisdiction over offences committed outside the territory of the State, the legal persons having their corporate seat in the State, may also be liable for the offences committed abroad. Pope Francis, in his *Motu Proprio* on *"the Jurisdiction of Vatican City State on Criminal Matters"*, of 11 July 2013, extended the application of this provision to entities that operate within the Holy See. Paragraph 4, of the afore-mentioned *Motu Proprio* reads: 4. The jurisdiction referred to in paragraph 1 comprises also the administrative liability of juridical persons arising from crimes, as regulated by Vatican City State laws. In addition to the administrative liability of legal persons arising from crimes,

	legal persons may be held liable for the administrative violations committed by their managers or employees. Article 6, paragraphs 3, 4 and 5, of Law N. X, on "General norms on administrative sanctions" reads: **Article 6** **(*Joint liability and administrative liability of legal persons*)** (…) 3. If the violation is committed, in the exercise of his functions or duties, by the legal representative or by an employee of a legal person, an entity or a subject that engages professionally in an economic or financial activity, that legal person, entity or professional is held jointly liable with the author of the violation for the payment due. 4. Legal persons are directly liable for the administrative violations committed by their legal representatives or employee only in the cases foreseen by the laws. In those cases, the legal persons held liable for the violation even if the natural person responsible for the violation is not identified. 5. In the cases mentioned in the preceding paragraphs, whoever pays has the right to be fully reimbursed by the author of the violation.
Please indicate whether corporate liability can be applied where an infringement is committed for the benefit of that legal person by a person who occupies a leading position within that legal person.	See above art. 46 (1).
Can corporate liability be applied where the infringement is committed for the benefit of that legal person as a result of lack of supervision or control by persons who occupy a leading position within that legal person.	Article 46, paragraph 3, of Law VIII, on "Supplementary norms on criminal law matters", of 11 July 2013, specifically provides that the legal person is not liable if it had in place effective supervisory mechanisms. Accordingly, if the legal person lacks effective supervision or control, it may be held liable. Article 46, paragraph 3, of Law VIII, reads: 3. If the offence is committed by one of the subjects referred to in paragraph 1, subparagraph a), the legal person is not liable if it proves that: a) the directing organ adopted and implemented effectively, before the commission of the offence, structural and managerial models apt to prevent offences such as the one that has been committed; b) the responsibility of supervising the operation and implementation of the said models and of ensuring their continuous review has been delegated to an organism having autonomous powers of action and control; c) the subjects have committed the offence by evading fraudulently the said structural and managerial models; and, d) the organism referred to in subparagraph b) has not omitted or exercised insufficient supervision.
Can corporate liability be applied	See above art. 46 (3).

where the infringement is committed for the benefit of that legal person as a result of lack of supervision or control by persons who occupy a leading position within that legal person.	

DNFBPs	
Please specify whether the obligations apply to all natural and legal persons trading in all goods where payments are made in cash in an amount of € 15 000 or over.	Relevant obligations are applicable to all natural of legal persons trading in all goods where payments are made in cash amounting to Euro 10,000 or over. **Article 2 – *Scope of application*** The following are obliged to comply with the present Title: […] Natural or legal persons who trade in goods or services in relation to currency transactions of EUR 10,000 or more, including when the transaction is made by several linked operations.
Please specify whether the obligations apply to all natural and legal persons trading in all goods where payments are made in cash in an amount of € 15 000 or over.	The obligations apply to all natural and legal persons trading in all goods where payments are made in cash in an amount of € 10 000.

2.7. Statistics

a) Money laundering and financing of terrorism cases

Statistics provided in the first progress report

2011												
	Investigations		**Prosecutions**		**Convictions (final)**		**Proceeds frozen**		**Proceeds seized**		**Proceeds confiscated**	
	cases	**persons**	**cases**	**persons**	**cases**	**persons**	**cases**	**amount** (in EUR)	**cases**	**amount** (in EUR)	**cases**	**amount** (in EUR)
ML	1	1										
FT												

2012												
	Investigations		**Prosecutions**		**Convictions (final)**		**Proceeds frozen**		**Proceeds seized**		**Proceeds confiscated**	
	cases	**persons**	**cases**	**persons**	**cases**	**persons**	**cases**	**amount** (in EUR)	**cases**	**amount** (in EUR)	**cases**	**amount** (in EUR)
ML												
FT												

January-September 2013												
	Investigations		**Prosecutions**		**Convictions (final)**		**Proceeds frozen**		**Proceeds seized**		**Proceeds confiscated**	
	cases	**persons**	**cases**	**persons**	**cases**	**persons**	**cases**	**amount** (in EUR)	**cases**	**amount** (in EUR)	**cases**	**amount** (in EUR)
ML	3	4							1	1.980.000		
FT												

<u>Please complete, to the fullest extent possible, the following tables since the adoption of the first progress report</u>

October-December 2013												
	Investigations		**Prosecutions**		**Convictions (final)**		**Proceeds frozen**		**Proceeds seized**		**Proceeds confiscated**	
	cases	**persons**	**cases**	**persons**	**cases**	**persons**	**cases**	**amount** (in EUR)	**cases**	**amount** (in EUR)	**cases**	**amount** (in EUR)
ML	1	1										
FT												

2014												
	Investigations		**Prosecutions**		**Convictions (final)**		**Proceeds frozen**		**Proceeds seized**		**Proceeds confiscated**	
	cases	**persons**	**cases**	**persons**	**cases**	**persons**	**cases**	**amount** (in EUR)	**cases**	**amount** (in EUR)	**cases**	**amount** (in EUR)
ML	3	3	1	1								
FT												

January-September 2015												
	Investigations		**Prosecutions**		**Convictions (final)**		**Proceeds frozen**		**Proceeds seized**		**Proceeds confiscated**	
	cases	**persons**	**cases**	**persons**	**cases**	**persons**	**cases**	**amount** (in EUR)	**cases**	**amount** (in EUR)	**cases**	**amount** (in EUR)
ML	3	4							2	415.813		
FT												

b) STR/CTR

Explanatory note:
The statistics under this section should provide an overview of the work of the FIU.
The list of entities under the heading "*monitoring entities*" is not intended to be exhaustive. If your jurisdiction covers more types of monitoring entities than are listed (e.g. dealers in real estate, supervisory authorities etc.), please add further rows to these tables. If some listed entities are not covered as monitoring entities, please also indicate this in the table.

The information requested under the heading "*Judicial proceedings*" refers to those cases which were initiated due to information from the FIU. It is not supposed to cover judicial cases where the FIU only contributed to cases which have been generated by other bodies, e.g. the police.

"C*ases opened*" refers only to those cases where an FIU does more than simply register a report or undertakes only an IT-based analysis. As this classification is not common in all countries, please clarify how the term "cases open" is understood in your jurisdiction (if this system is not used in your jurisdiction, please adapt the table to your country specific system).

Statistics provided in the first progress report

April-December 2011															
Statistical Information on reports received by the FIU								**Judicial proceedings**							
Monitoring entities, e.g.	**reports about transactions above threshold**	**reports about suspicious transactions**		**cases opened by FIU**		**notifications to law enforcement/ prosecutors**		**indictments**				**convictions**			
								ML		**FT**		**ML**		**FT**	
		ML	**FT**	**ML**	**FT**	**ML**	**FT**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**
Commercial Banks															
Insurance Companies															
Notaries															
Currency Exchange															
Broker Companies															
Securities' Registrars															
Lawyers															
Accountants/Auditors															
Company Service Providers															
Others (please specify and if necessary add further rows) **(a) Supervised subjects** **(b) Authorities of the HS/VCS** **(c) Other entities**		1		1		1									
Total		**1**													

2012															
Statistical Information on reports received by the FIU								**Judicial proceedings**							
Monitoring entities, e.g.	**reports about transactions above threshold**	**reports about suspicious transactions**		**cases opened by FIU**		**notifications to law enforcement/ prosecutors**		**indictments**				**convictions**			
								ML		**FT**		**ML**		**FT**	
		ML	**FT**	**ML**	**FT**	**ML**	**FT**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**
Commercial Banks															
Insurance Companies															
Notaries															
Currency Exchange															
Broker Companies															
Securities' Registrars															
Lawyers															
Accountants/Auditors															
Company Service Providers															
Others (please specify and if necessary add further rows) **(a) Supervised subjects** **(b) Authorities of the HS/VCS** **(c) Other entities**		5 1		5 1											
Total		**6**													

January-September 2013															
Statistical Information on reports received by the FIU								**Judicial proceedings**							
Monitoring entities, e.g.	**reports about transactions above threshold**	**reports about suspicious transactions**		**cases opened by FIU**		**notifications to law enforcement/ prosecutors**		**indictments**				**convictions**			
								ML		**FT**		**ML**		**FT**	
		ML	**FT**	**ML**	**FT**	**ML**	**FT**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**
Commercial Banks															
Insurance Companies															
Notaries															
Currency Exchange															
Broker Companies															
Securities' Registrars															
Lawyers															
Accountants/Auditors															
Company Service Providers															
Others (please specify and if necessary add further rows) **(a) Supervised subjects** **(b) Authorities of the HS/VCS** **(c) Other entities**		98 5 2		98 5 2		3									
Total		**105**													

Please complete, to the fullest extent possible, the following tables since the adoption of the first progress report

October-December 2013															
Statistical Information on reports received by the FIU								**Judicial proceedings**							
Monitoring entities, e.g.	**reports about transactions above threshold**	**reports about suspicious transactions**		**cases opened by FIU**		**notifications to law enforcement/ prosecutors**		**indictments**				**convictions**			
								ML		**FT**		**ML**		**FT**	
		ML	**FT**	**ML**	**FT**	**ML**	**FT**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**
Commercial Banks															
Insurance Companies															
Notaries															
Currency Exchange															
Broker Companies															
Securities' Registrars															
Lawyers															
Accountants/Auditors															
Company Service Providers															
Others (please specify and if necessary add further rows) **(a) Supervised subjects** **(b) Authorities of the HS/VCS** **(c) Other entities**		95 0 2		95 0 2		5									
Total		**97**													

2014															
Statistical Information on reports received by the FIU								**Judicial proceedings**							
Monitoring entities, e.g.	**reports about transactions above threshold**	**reports about suspicious transactions**		**cases opened by FIU**		**notifications to law enforcement/ prosecutors**		**indictments**				**convictions**			
								ML		**FT**		**ML**		**FT**	
		ML	**FT**	**ML**	**FT**	**ML**	**FT**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**
Commercial Banks															
Insurance Companies															
Notaries															
Currency Exchange															
Broker Companies															
Securities' Registrars															
Lawyers															
Accountants/Auditors															
Company Service Providers															
Others (please specify and if necessary add further rows) **(a) Supervised subjects** **(b) Authorities of the HS/VCS** **(c) Other entities**		141 4 2		141 4 2		7		1							
Total		**147**													

Other relevant statistical information (2014):

I) FINANCIAL INTELLIGENCE

Domestic cooperation	
Request to domestic authorities for information	41
Request for information received by domestic authorities	7

International cooperation	
Request to foreign authorities for information	20
Request for information received from foreign authorities	93

Preventive measures against money laundering	
Suspension of transactions	3

and operations	
Total amount	€561.547,89

II) SUPERVISION AND REGULATION

International cooperation	
Request to foreign authorities for information	2
Request for information received from foreign authorities	2

III) COLLECTION AND ANALYSIS OF DECLARATIONS OF CROSS-BORDER TRANSPORTATION OF CURRENCY MADE BY THE FINANCIAL INFORMATION AUTHORITY

Cross-border transportation of currency	
Number of incoming declarations	429
Number of outgoing declarations	1.111

January-September 2015																
Statistical Information on reports received by the FIU								**Judicial proceedings**								
Monitoring entities, e.g.	**reports about transactions above threshold**	**reports about suspicious transactions**		**cases opened by FIU**		**notifications to law enforcement/ prosecutors**		**indictments**				**convictions**				
								ML		**FT**		**ML**		**FT**		
		ML	**FT**	**ML**	**FT**	**ML**	**FT**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**
Commercial Banks																
Insurance Companies																
Notaries																
Currency Exchange																
Broker Companies																
Securities' Registrars																
Lawyers																
Accountants/Auditors																
Company Service Providers																
Others (please specify and if necessary add further rows) **(a) Supervised subjects** **(b) Authorities of the HS/VCS** **(c) Other entities**		323 4 2		323 4 2		13										
Total		**329**														

Other relevant statistical information (January-September 2015):

IV) FINANCIAL INTELLIGENCE

Domestic cooperation	
Request to domestic authorities for information	17
Request for information received by domestic authorities	9

International cooperation	
Request to foreign authorities for information	97
Request for information received from foreign authorities	143

Preventive measures against money laundering	
Suspension of transactions	4

and operations	
Total amount	€ 490.000,00 $ 1.060.000,00

V) SUPERVISION AND REGULATION

International cooperation	
Request to foreign authorities for information	9
Request for information received from foreign authorities	2

(Applied) Administrative Sanctions	4

Cross-border transportation of currency	
Number of incoming declarations	276
Number of outgoing declarations	884

VI) COLLECTION AND ANALYSIS OF DECLARATIONS OF CROSS-BORDER TRANSPORTATION OF CURRENCY MADE BY THE FINANCIAL INFORMATION AUTHORITY

October-December 2013																
Statistical Information on reports received by the FIU								**Judicial proceedings**								
Monitoring entities, e.g.	**reports about transactions above threshold**	**reports about suspicious transactions**		**cases opened by FIU**		**notifications to law enforcement/ prosecutors**		**indictments**				**convictions**				
								ML		**FT**		**ML**		**FT**		
		ML	**FT**	**ML**	**FT**	**ML**	**FT**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**	
Commercial Banks																
Insurance Companies																
Notaries																
Currency Exchange																
Broker Companies																
Securities' Registrars																
Lawyers																
Accountants/Auditors																
Company Service Providers																
Others (please specify and if necessary add further rows)																
Total																

2014																
Statistical Information on reports received by the FIU								**Judicial proceedings**								
Monitoring entities, e.g.	**reports about transactions above threshold**	**reports about suspicious transactions**		**cases opened by FIU**		**notifications to law enforcement/ prosecutors**		**indictments**				**convictions**				
								ML		**FT**		**ML**		**FT**		
		ML	**FT**	**ML**	**FT**	**ML**	**FT**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**	
Commercial Banks																
Insurance Companies																
Notaries																
Currency Exchange																
Broker Companies																
Securities' Registrars																
Lawyers																
Accountants/Auditors																
Company Service Providers																
Others (please specify																

and if necessary add further rows)															
Total															

January-September 2015															
Statistical Information on reports received by the FIU								**Judicial proceedings**							
Monitoring entities, e.g.	**reports about transactions above threshold**	**reports about suspicious transactions**		**cases opened by FIU**		**notifications to law enforcement/ prosecutors**		**indictments**				**convictions**			
								ML		**FT**		**ML**		**FT**	
		ML	**FT**	**ML**	**FT**	**ML**	**FT**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**	**cases**	**persons**
Commercial Banks															
Insurance Companies															
Notaries															
Currency Exchange															
Broker Companies															
Securities' Registrars															
Lawyers															
Accountants/Auditors															
Company Service Providers															
Others (please specify and if necessary add further rows)															
Total															

3. Appendices

3.1. APPENDIX I - Recommended Action Plan to Improve the AML / CFT System

AML/CFT System	Recommended Action (listed in order of priority)
1. General	**No text required**
2. Legal System and Related Institutional Measures	
2.1 Criminalisation of Money Laundering (R.1 & 2)	**R.1** • Further consideration should be given to clarifying the relationship between the money laundering offence (Arts. 1 (4) & (5) of the revised AML/CFT Law) and the traditional receiving offence (Art. 421 of the Criminal Code). **R.2** • Art. 42 *bis* of the revised AML/CFT Law on administrative responsibility of legal persons being contingent on the securing of a prior conviction of a natural person should be reconsidered in the light of the examiners' concerns and practical experience of its functioning.
2.2 Criminalisation of Terrorist Financing (SR.II)	• The terrorist acts set out in the Annex to the UN Terrorist Financing Convention should be brought into the Criminal Code. • The Criminal Code should be amended to criminalise the financing of terrorist organisations and individual terrorists for legitimate purposes. • Art. 42 *bis* of the revised AML/CFT Law on administrative responsibility of legal persons being contingent on the securing of a prior conviction of a natural person should be reconsidered in the light of the examiners' concerns and practical experience of its functioning.
2.3 Confiscation, freezing and seizing of proceeds of crime (R.3)	• A detailed, comprehensive and modern scheme to address the range of issues described in the report should be introduced. • The Criminal Procedure Code should be amended quickly to clarify the authority to take steps to prevent or void actions, whether contractual or otherwise, where the persons involved knew or should have known that as a result of those actions the authorities would be prejudiced in their ability to recover property

	subject to confiscation.
2.4 Freezing of funds used for terrorist financing (SR.III)	• The legislative framework should be brought into full force and effect as a matter of urgency. • Art. 24 of the revised AML/CFT Law should be clarified to place beyond doubt that it is intended to give effect to "designations" made by the EU and other "international" bodies and by third states. • On the basis that Art. 24 is so intended, separate procedures should be put in place to cover the so called "EU internals" (which are not subject to designation as such by the European Union). • Guidance to obligated entities on the freezing of funds for terrorist purposes should be finalised and circulated. • Steps need to be taken to create a comprehensive and effective system for delisting, exemptions and like matters. This is particularly the case in respect to the authorisation of access to funds needed for basic expenses or for extraordinary expenses in accordance with Security Council Resolutions 1452 (2002).
2.5 The Financial Intelligence Unit and its functions (R.26)	• Expressly extend the power of enquiry of the FIA to the information held by all entities subjected to the reporting duty. • Clarify to what additional sources the FIA has access and to include explicitly the foundations located in and/or dependent from the HS. • Specify the instances triggering the authority and intervention of the FIA, beside the receipt of SARs. • Reinforce the autonomy of the FIA by restoring its decision power to conclude mutual co-operation agreements with its counterparts. • As an effectiveness consideration, strengthen the freezing capacity of the FIA to include accounts and revisit the obligation of immediate handover to the Promoter of Justice.
2.6 Law enforcement, prosecution and other competent authorities (R.27 & 28)	• Intensify the training of the law enforcement authorities in AML/CFT investigative tools, computer techniques and financial investigation. • Include the judiciary in such training to develop its own expertise to deal with the legal challenges inherent in the prosecution of ML/FT. • Law enforcement should further interact and coordinate with the FIA to develop the necessary investigative

	skills. • Develop HS/VCS' own experience and jurisprudence in stand-alone money laundering prosecutions, rather than transferring cases to the Italian investigative authorities. • Consider developing a joint committee to review and evaluate the effectiveness of the AML/CFT system.
2.7 Cross Border Declaration & Disclosure (SR.IX)	• Take stock of the sanctions applied and analyse whether the voluntary settlement provisions undermine the effectiveness of the sanctions. • As necessary reconsider the statutory sanctions to ensure that these are proportionate. • Consider introduction of clearer law enforcement powers to act on suspicion of money laundering or financing of terrorism in Art. 39 of the revised AML/CFT Law. • Review the existing legal provisions to facilitate more effective Gendarmerie action in the restraint of suspect currency.
3. Preventive Measures – Financial Institutions	
3.1 Risk of money laundering or terrorist financing	• HS/VCS authorities should undertake a formal and comprehensive risk assessment and should in particular review if the circumstances for simplified and enhanced due diligence are appropriate for the local environment/peculiarities.
3.2 Customer due diligence, including enhanced or reduced measures (R.5 to 8)	**R.5** • The AML/CFT Law needs to be amended to specifically require that financial institutions should verify that the transactions are consistent with the institution's knowledge of the source of funds, if necessary. • Serious consideration should be given to a statutory provision describing the types of legal and natural persons eligible to maintain accounts in the IOR and APSA. • Amend the exemptions for low-risk customers, products and transactions as adopted from the Third EU AML Directive by clarifying that minimum CDD (i.e. less detailed CDD) should nevertheless be accomplished.

	• Provide in the Law that simplified CDD measures are not permissible where higher risk scenarios apply. • Stipulate in the AML/CFT Law that simplified CDD measures, with respect to credit or financial institutions located in a State that observes equivalent AML/CFT requirements, shall only be permissible where those institutions are supervised for compliance with those requirements. • Simplified CDD measures should only be permissible if listed companies are subject to regulatory disclosure requirements. • Amend FIA Instruction N. 2 to clarify that the verification of the identity of the customer and beneficial owner, following the establishment of the business relationship, should only be permissible where all conditions mentioned under criterion 5.14 are met cumulatively. • Abolish the exemptions to CDD provided under Art. 31 §3 of the revised AML/CFT Law. • Where the Law allows for simplified or reduced CDD measures to customers resident in another country, HS/VCS authorities should limit this in all cases to countries that the HS/VCS is satisfied are in compliance with and have effectively implemented the FATF Recommendations. • The FIA Instructions should be amended to require that verification should occur as soon as possible in situations where verification occurs after establishment of a business relationship. • The provision that only transactions executed within a period of seven days have to be considered as "linked transactions" should be abolished. • Introduce an express requirement to verify that the transactions are consistent with the institution's knowledge of the source of funds where necessary. **R.6** • Extend the requirement to put in place appropriate risk management systems to determine whether the counterpart is a politically exposed person to the case of the beneficial owner. • Extend the requirement to establish the source of funds of customers and beneficial owners identified as PEPS to expressly include the establishment of their wealth.

	R.7 • The AML/CFT Law should be amended to introduce an express requirement to assess whether a correspondent body has been subject to a ML/TF investigation or regulatory action nor to assess the respondent institution's AML/CFT controls, and to ascertain that they are adequate and effective. • Abolish the possibility to delegate the senior management approval for establishing new business relationships with a correspondent relationship. **R.8** • Eliminate the exemptions from CDD provided by Art. 31 §3 of the revised AML/CFT Law (in particular with respect to ongoing monitoring). **R.5 to R.8 generally** • FIA should raise awareness with respect to the obligations that have been introduced or clarified in the AML/CFT Law after the MONEYVAL on-site visits to ensure effective implementation. • FIA should put in place appropriate arrangements to monitor and ensure compliance with the requirements under R. 5 to 8 (including adequate sample testing).
3.3 Third parties and introduced business (R.9)	
3.4 Financial institution secrecy or confidentiality (R.4)	• Introduce an express exemption from the obligation to observe financial secrecy with respect to the exchange of information with foreign financial institutions where this is required to implement FATF Recommendations. • Clarify FIA's powers to request information as recommended under R. 26 and R. 29 to ensure that obliged subjects cannot refuse to comply with a request for information based on the financial secrecy obligation. • Clarify FIA´s power to exchange information with foreign supervisory authorities to make sure that official secrecy cannot inhibit such information exchange. • Consider adding the Judicial Authority to the list of all competent authorities in Chapter I *bis* of the revised AML/CFT Law in order to eradicate any potential doubts.

3.5 Record keeping and wire transfer rules (R.10 & SR.VII)	**R.10** • FIA should put in place appropriate arrangements to monitor and ensure effective implementation of the record-keeping requirements (including adequate sample testing). • Adopt internal procedures clearly specifying the record keeping duties and responsibilities of APSA staff. **SR.VII** • A clearer basis for requirements regarding the obligations of payment service providers in the law (instead of in guidance) should be established. • An explicit requirement that ensures that non-routine transactions are not batched where this would increase the risk of money laundering should be established. • Effective risk-based procedures for identifying and handling wire transfers from beneficiary financial institutions which are not accompanied by complete originator information should be established for beneficiary financial institutions. • The FIA should apply its sanctioning powers where breaches of regulations are uncovered. • Art. 5 of Regulation 4 which obliges the payment service provider of the payer to 'verify the completeness' of the informative data before transferring the funds should be extended to require that financial institutions should verify the 'identity' of the originator as well. • Art. 6 of Regulation 4 should be amended to limit the exemption that domestic transfers include only the originator's account number or a unique identifier to domestic transactions within the HS/VCS. • Full originator information in the message or payment form accompanying the wire transfer should be required for all other transactions. • Art. 1 should be deleted and the Art. should apply only to transactions where technical limitations prevent the full originator information accompanying a cross-border wire transfer from being transmitted with a related domestic wire transfer.
3.6 Monitoring of transactions and relationships (R.11 & 21)	**R.11** • Introduce a requirement in Law, regulation or "other enforceable means" to examine as far as possible the

	background and purpose of complex, unusual large transactions, or unusual patterns of transactions, that have no apparent or visible economic or lawful purpose and to set forth their findings in writing. • Introduce a requirement in Law, regulation or "other enforceable means" to keep such findings available for competent authorities and auditors for at least five years. **R.21** • Introduce a requirement to give special attention to business relationships and transactions with persons from or in countries which do not or insufficiently apply the FATF Recommendations. • Introduce a requirement to examine transactions the background and purpose of such transactions, as far as possible, and to keep written findings available, if they have no apparent economic or visible lawful purpose. • Put in place effective measures to ensure that obliged subjects are advised of concerns about weaknesses in the AML/CFT systems of other countries. • Introduce a clear empowerment to apply appropriate counter-measures where countries continue not to apply or insufficiently apply the FATF Recommendations.
3.7 Suspicious transaction reports and other reporting (R.13-14, 19, 25 & SR.IV)	**R.13 & SR.IV** • Amend the AML/CFT Law to broaden the reporting scope beyond the strict terrorism financing to bring it in line with the standards. • Amend the reporting requirement to require that a report is submitted to the FIA when it is suspected or there are reasonable grounds to suspect that "funds" (rather than "transactions") are the proceeds of a criminal activity. • Formally broaden the reporting duty beyond suspect operations to include suspicions on funds generally. • Remove any doubt about the reporting obligation including attempted transactions. • Remove any uncertainty as to the extent of the reporting obligation of the financial institutions in respect of the identification of the predicate offence. • Emphasise the priority rule of the subjective assessment of the suspicious nature of the funds, where

	the objective indicators should only be seen as a guidance and support. **R.14** • Extend the tipping off prohibition to the fact that a STR has been identified and is in the process of being prepared/reported. **R.19** • Consider the feasibility and utility of implementing a system where obliged subjects report all transactions in currency above a fixed threshold to either the FIA or the Gendarmerie. **R.25** • All existing guidance should be updated in accordance with the revised AML/CFT Law. • The FIA should provide active explanations of the issued Regulations and Instructions to the financial sector. • The FIA should provide appropriate feedback on the internal procedures sent to the FIA by financial institutions.
3.8 Internal controls, compliance, audit and foreign branches (R.15 & 22)	**R.15** • Steps should be taken to ensure that all elements of guidance given by the FIU are sanctionable or make sure that relevant criteria are incorporated in the AML Law. • An explicit requirement for timely access to information for the compliance officer, either in law or guidance should be introduced. **R.22** • Introduce a requirement to pay particular attention that branches and subsidiaries in countries, which do not or insufficiently apply the FATF Recommendations, observe AML/CFT measures consistent with the home country requirements and the FATF Recommendations. • Consider introducing a requirement for financial institutions subject to the Basel Core Principles for Banking Supervision (the IOR qualifies as such) to apply consistent CDD measures at the group level, taking into account the activity of the customer with the various branches and majority owned subsidiaries worldwide.

3.9 Shell banks (R.18)	• Introduce an express requirement for financial institutions to satisfy themselves that respondent financial institutions in a foreign country do not permit their accounts to be used by shell banks.
3.10 The supervisory and oversight system - competent authorities and SROs. Role, functions, duties and powers (including sanctions) (R.23, 29, 17 & 25)	**R.23** • The definition of supervision and inspection should be changed so that it is made clear what the powers, given to the AML supervisor, encompass in practice. • Clarify in law or regulation the exact meaning of "operational" as opposed to "full" independence of the FIA as supervisor. • Introduce specific measures to involve the supervisor in the process of licensing and approving of senior staff at financial institutions. • Directors and senior management of IOR and APSA should be specifically evaluated and 'licensed' on the basis of "fit and proper" criteria including those relating to expertise and integrity. • Give the FIA the power to assess 'fit and properness' on an ongoing basis. • The FIA (or another body) should take up its supervisory role on AML issues immediately, plan for (a schedule of) inspections, set up a standard manual and work procedure and provide for feedback proactively. • The FIA should start a supervisory inspection with IOR as soon as possible. • Annual statistics on on-site inspections by the supervisor or sanctions applied should be published. Reinstate the requirement to draw up such statistics in the law. • IOR should subscribe to the Basel Core Principles for Banking Supervision. • IOR should be supervised by a prudential supervisor in the near future. • Clearly separate the task of supervision from the FIA as FIU and combine this with adequate prudential supervision, including: (i) licensing and structure; (ii) risk management processes to identify, measure, monitor and control material risks;

	(iii) ongoing supervision and (iv) global consolidated supervision when required by the Core Principles. **R.17** • Stipulate explicitly in law or guidance the full range of FIA's powers of disciplinary sanction. • Sanctions should encompass written warnings, orders to comply with specific instructions accompanied with daily fines for non-compliance, ordering regular reports, fines for non compliance, barring individuals from employment in the sector, replacing or restricting the powers of managers, directors, imposing conservatorship, and at least the ability to withdraw or suspend a licence. • All sanctions levied should be published. • Make explicit what the criminal sanctions are for natural persons in cases of infringement of the several articles of Act N. CXXVII relating to Chapters other than II and III. • Make explicit that sanctions can be applied to directors and senior management of financial institutions. **R.25** • All regulations and instructions should be amended to reflect the revised AML/CFT Law (as they currently all refer to the original AML/CFT Law and to articles that no longer exist or have been changed considerably). • Give proactive explanations of the issued Regulations and Instructions to the financial sector and provide feedback on procedures sent to the supervisor by financial institutions. **R.29** • It is recommended that the definition of supervision and inspection in the law is amended to make it clear that it is not restricted to certain activities. • The Regulation of the Pontifical Committee should be amended to clarify what is understood by monitoring, verification and inspection. Ensure that it includes (also via on-site inspections) the review of policies, procedures, books and records, and sample testing. • The Regulation should make it clear how the change from 'full independence' to 'operational independence' in the law applies and to what extent this effects the

	role and tasks of the President and Board of Directors of the FIA. • Reinstate Art 33, §2 of the original AML/CFT Law (which gave the FIA direct access to the financial, administrative, investigative and judicial information, required to perform its tasks in countering money laundering and financing of terrorism). • Ensure supervisory authorities have the legal right of entry into the premises of the institution under supervision, the right to demand books of accounts and other information and the right to make and take copies of documents. • Ensure sanctions can be imposed against financial institutions, and their directors and senior management for failure to comply with the powers given to the supervisor. • The FIA should take up its supervisory role as soon as possible. • The President of the FIU should not be a member of the Cardinal's Committee. • Clarity should be provided on the role of the Board of the FIA in terms of identifying the supervision and sanctioning strategy on the basis of the Statute given the change towards "operational independence" in the new law.
3.11 Money value transfer services (SR.VI)	
4. Preventive Measures – Non-Financial Businesses and Professions	
4.1 Customer due diligence and record-keeping (R.12)	• Clarify in law or regulation that notaries, lawyers, accountants, external accounting and tax consultants as well as trust and company service providers are also required to undertake CDD measures when establishing business relations. • Set out in law, regulation or "other enforceable means" that trust and company service providers are subject to CDD and record-keeping requirements with respect to the creation, operation or management of legal persons or arrangements and buying and selling business entities. • The recommended actions in Section 3 above with respect to R 5, 6, 8, 10 and 11 should also be

	implemented for DNFBP. • Raise awareness amongst auditors and accountants with respect to their CDD and record-keeping obligations under the AML/CFT Law, provide training and put in place appropriate arrangements to monitor and ensure CDD and record-keeping compliance.
4.2 Suspicious transaction reporting (R.16)	• The issues under Recommendations 13, 14, 15 and 21 should also be addressed for DNFBP.
4.3 Regulation, supervision and monitoring (R.24-25)	• The FIA should issue a specific guideline for those DNFBP that operate in the HS/VCS, in particular on how they are to report to the FIA. • The FIA should commence supervising the activities of DNFBP.
4.4 Other non-financial businesses and professions (R.20)	
5. Legal Persons and Arrangements & Non-Profit Organisations	
5.1 Legal Persons – Access to beneficial ownership and control information (R.33)	
5.2 Legal Arrangements – Access to beneficial ownership and control information (R.34)	
5.3 Non-profit organisations (SR.VIII)	• Undertake a review the adequacy of domestic laws and regulations that relate to all NPOs located within VCS and conduct an assessment on the sector's potential vulnerabilities to terrorist activities. • The FIA should have its responsibilities extended to risk-based monitoring of the NPO sector with necessary access to relevant books and financial records. • Develop guidance on the risks of terrorist abuse and the available measures to protect against such abuse for all NPOs which are located within VCS and then undertake outreach to raise awareness within the sector. • Legislation should: a) Require NPOs to maintain and file records on the purpose and objectives of their stated activities and the identity of person(s) who own, control or direct their activities, including senior officers, board

	members and trustees; b) Require NPOs to maintain, for a period of at least five years, and make available to appropriate authorities, records of domestic and international transactions that are sufficiently detailed to verify that funds have been spent in a manner consistent with the purpose and objectives of the organisation; and c) Sanction violations of oversight measures or rules by NPOs or persons acting on behalf of NPOs. • Legislation should develop provisions for the FIA and Gendarmerie to have full access to information on the administration and management of a particular NPO (including financial and programmatic information) during the course of an investigation. • Formal procedures for national co-operation and information exchange between the national agencies which investigate ML/FT cases should be developed. • An appropriate point of contact should be identified to respond to international requests for information regarding particular NPOs that are suspected of terrorist financing or other forms of terrorist support. Procedures should also be developed to process such requests.
6. National and International Co-operation	
6.1 National co-operation and co-ordination (R.31)	• Consider creating a formal mechanism for co-operation and co-ordination of their actions in the AML/CFT sphere. • There should be a collective review of the AML/CFT system and its performance which would enable setting the basis for future developments and implementation of policies and activities to combat money laundering and terrorist financing.
6.2 The Conventions and UN Special Resolutions (R.35 & SR.I)	• Prioritise the effective implementation of Chapter IV of Act N. CXXVII of January 2012 through the completion of the listing process and other means, as necessary, to ensure full and effective implementation of UN Security Council Resolutions on the financing of terrorism. • Legislative measures should be taken to address the current deficiencies in the criminalisation of terrorist financing as identified in the analysis of SR.II.

	• The system for implementing UNSCR 1267 and 1373 needs to be made operational.
6.3 Mutual Legal Assistance (R.36-38 & SR.V)	• Consideration should be given to enacting modern and detailed legislative provisions covering tracing, freezing and seizure and confiscation of the proceeds of money laundering, predicate offences, and terrorist finances or related instrumentalities. • Develop a procedure to cover mechanisms for determining the best venue for prosecution of defendants in the interests of justice in cases that are subject to prosecution in more than one country.
6.4 Extradition (R.39, 37 & SR.V)	• Address the identified deficiencies in the criminalisation of terrorist financing and other conduct, as required by SR.II, to ensure that extradition is not inhibited.
6.5 Other Forms of Co-operation (R.40 & SR.V)	• The FIA should quickly conclude MOUs with at least FIUs from those countries with which it will most likely need to exchange information. • The law should be amended to specifically allow for the exchange of supervisory information.
7. Other Issues	
7.1 Resources and statistics (R. 30 & 32)	**R.30** • Ensure an adequate structure and staffing of the FIA to reflect its supervisory role. • Ensure that FIA staff receive appropriate training on the supervisory aspect of their function. **R.32** • The FIA should draw up statistics concerning the application and effectiveness of the measures taken; for example, the annual statistics on on-site inspections by the supervisor or sanctions applied. • The FIA and the Gendarmerie should keep detailed statistics showing in particular their response times and whether the requests were fulfilled in whole or in part or were incapable of being fulfilled. • Statistics should also be kept in relation to the numbers and types of spontaneous disclosures made by the FIA.

3.2. APPENDIX II - Excerpt from Directive 2005/60/EC of the European Parliament and of the Council, formally adopted 20 September 2005, on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing

Article 3 (6) of EU AML/CFT Directive 2005/60/EC (3rd Directive):

(6) "beneficial owner" means the natural person(s) who ultimately owns or controls the customer and/or the natural person on whose behalf a transaction or activity is being conducted. The beneficial owner shall at least include:

(a) in the case of corporate entities:

(i) the natural person(s) who ultimately owns or controls a legal entity through direct or indirect ownership or control over a sufficient percentage of the shares or voting rights in that legal entity, including through bearer share holdings, other than a company listed on a regulated market that is subject to disclosure requirements consistent with Community legislation or subject to equivalent international standards; a percentage of 25 % plus one share shall be deemed sufficient to meet this criterion;
(ii) the natural person(s) who otherwise exercises control over the management of a legal entity:

(b) in the case of legal entities, such as foundations, and legal arrangements, such as trusts, which administer and distribute funds:

(i) where the future beneficiaries have already been determined, the natural person(s) who is the beneficiary of 25 % or more of the property of a legal arrangement or entity;
(ii) where the individuals that benefit from the legal arrangement or entity have yet to be determined, the class of persons in whose main interest the legal arrangement or entity is set up or operates;
(iii) the natural person(s) who exercises control over 25 % or more of the property of a legal arrangement or entity;

Article 3 (8) of the EU AML/CFT Directive 2005/60EC (3rd Directive):

(8) "politically exposed persons" means natural persons who are or have been entrusted with prominent public functions and immediate family members, or persons known to be close associates, of such persons;

Excerpt from Commission directive 2006/70/EC of 1 August 2006 laying down implementing measures for Directive 2005/60/EC of the European Parliament and of the Council as regards the definition of 'politically exposed person' and the technical criteria for simplified customer due diligence procedures and for exemption on grounds of a financial activity conducted on an occasional or very limited basis.

Article 2 of Commission Directive 2006/70/EC (Implementation Directive):

Article 2
Politically exposed persons

1. For the purposes of Article 3(8) of Directive 2005/60/EC, "natural persons who are or have been entrusted with prominent public functions" shall include the following:
(a) heads of State, heads of government, ministers and deputy or assistant ministers;
(b) members of parliaments;
(c) members of supreme courts, of constitutional courts or of other high-level judicial bodies whose decisions are not subject to further appeal, except in exceptional circumstances;
(d) members of courts of auditors or of the boards of central banks;
(e) ambassadors, chargés d'affaires and high-ranking officers in the armed forces;
(f) members of the administrative, management or supervisory bodies of State-owned enterprises.
None of the categories set out in points (a) to (f) of the first subparagraph shall be understood as covering middle ranking or more junior officials.
The categories set out in points (a) to (e) of the first subparagraph shall, where applicable, include positions at Community and international level.

2. For the purposes of Article 3(8) of Directive 2005/60/EC, "immediate family members" shall include the following:
(a) the spouse;
(b) any partner considered by national law as equivalent to the spouse;
(c) the children and their spouses or partners;
(d) the parents.

3. For the purposes of Article 3(8) of Directive 2005/60/EC, "persons known to be close associates" shall include the following:
(a) any natural person who is known to have joint beneficial ownership of legal entities or legal arrangements, or any other close business relations, with a person referred to in paragraph 1;
(b) any natural person who has sole beneficial ownership of a legal entity or legal arrangement which is known to have been set up for the benefit de facto of the person referred to in paragraph 1.

4. Without prejudice to the application, on a risk-sensitive basis, of enhanced customer due diligence measures, where a person has ceased to be entrusted with a prominent public function within the meaning of paragraph 1 of this Article for a period of at least one year, institutions and persons referred to in Article 2(1) of Directive 2005/60/EC shall not be obliged to consider such a person as politically exposed.