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Haute école de gestion  
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# **Impact of the Vatican's new financial regulations on money laundering and terrorism financing**

**Bachelor Project submitted for the obtention of the  
Bachelor of Science HES in International Business Management**

by

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**International Business Management**

## Declaration

This Bachelor Project is submitted as part of the final examination requirements of the Haute Ecole de Gestion de Genève, for the Bachelor of Science HES-SO in International Business Management.

The student accepts the terms of the confidentiality agreement if one has been signed. The use of any conclusions or recommendations made in the Bachelor Project, with no prejudice to their value, engages neither the responsibility of the author, nor the adviser to the Bachelor Project, nor the jury members nor the HEG.

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Geneva, 31<sup>st</sup> May 2017

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## Executive Summary

The smallest country of the world, the Vatican City State, holds on its territory a financial institute called the IOR. It is not a bank *stricto sensu* as it does not offer conventional banking services but acts as the financial arm of the Holy See.

Since at least the scandal of the Banco Ambrosiano in 1982, the IOR has been regularly in the newspapers due to insufficient corporate governance. Until 2010, the Vatican did not have any anti-money laundering and counter terrorism law but hopefully, transparency and integrity in the financial sector are now priorities for the Catholic Church.

Pope Benedict XVI started and Pope Francis continues now the modernization process of the Holy See, and to support this change, more lay experts are being brought in, even if it disturbs some persons to give key positions to non-religious people. The creation of committees, commissions and institutions managed and composed by laymen are examples of this change in the governing style of the Vatican. Moreover, since centuries Italians have always occupied key positions within the Holy See and more recently in the Vatican. The actual Pope is as well looking at internationalizing the Roman Curia to decrease the risks of nepotism and cronyism.

Importantly, the legal and regulatory frameworks in the Vatican are getting more adapted to the actual financial threats. Furthermore, the regulations are respected and accurately applied by the staff, which gives very good results for the new norms. At the international level, the Holy See applies the FATF standards, and through the Financial Information Authority (AIF), is being part of Egmont Group and participates to Moneyval in order to exchange expertise and good practices in the domain of the combat against money laundering and terrorism financing.

In 2012, Moneyval, who supervises the proper implementation of the international and FATF standards, has reviewed the Holy See and it was compliant with most of their recommendations. According to Moneyval, the work has been efficiently done over a short period of time and by now the recommendations have all been implemented.

The Institute for the Works of the Religion (IOR) and more generally the financial operations of the Vatican are now complying with the highest international standards. Accountability and transparency are now the new key words in the Catholic Church.

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## Glossary

All the definitions come from the Cambridge Dictionary, Reverso Dictionary, Wikipedia or renowned literature.

AEol :	Automatic exchange of information
AIF :	Financial Information Authority of the Holy See
AML :	Anti-money laundering
Apostolic letter :	ecclesiastical document issued by the Pope or in his name
Apostolic Nunciature :	top-level diplomatic mission of the Holy See; equivalent in International Law to Embassy
Apostolic palace :	official residence of the Pope
APSA :	Administration of the Patrimony of the Apostolic See
Bishop :	appointed member of the Christian clergy who is generally entrusted with a position of authority and oversight. Usually leads or assist another bishop to lead a diocese
Canon Law :	the body of laws and regulations made by an ecclesiastical authority
Cardinal :	a senior ecclesiastical leader, considered a Prince of the Church. The Cardinals are part of the College of Cardinals from which the youngest ones (<80 years old) can elect the new Pope
CDD :	Customer due diligence
CFT :	Counter-terrorism financing
CH :	Swiss Confederation
Cleric :	a religious leader
Chirography :	papal decree whose circulation is limited to the Roman Curia
Conclave :	a meeting of the College of Cardinals convened to elect a Pope
CoSiFi :	Financial Security Committee in the Vatican



Dicastery :	a department of the Roman Curia
Diocese :	a territorial unit of administration under the supervision of a bishop
Divine Law :	comes directly from the "will of God", in contrast to man-made law. It is eternal and constant, not subject to change
Ecclesiastic :	a Christian priest or official
Episcopate :	the office, status or term of office of a bishop
FATCA :	Foreign account tax compliance act
Fedpol :	Federal Police of Switzerland
FINMA :	Federal authority of monitoring for the financial markets in Switzerland
FIU :	Financial intelligence unit
His Holiness / Holy Father / Roman or Supreme Pontiff :	titles referring to the Pope
IOR :	Institute for the Works of Religion
IFRS :	International Financial Reporting Standards
IRS :	Internal revenue service
KYC :	Know your customer
Motu Proprio :	document issued by the Pope on his own initiative and signed by himself
MROS :	Money laundering reporting office Switzerland
MOU :	Memorandum of understanding
Nuncio :	title for an ecclesiastical diplomat
OECD :	Organization for Economic Co-operation and Development
Papal States :	territories in the Italian Peninsula under the sovereign direct rule of the Pope from 754 to 1870.
Pastoral mission :	related to the mission of the shepherds
PEP :	Political exposed person

Prelate :	high-ranking member of the clergy
Roman Curia :	the administrative apparatus of the Holy See and the central body through which the Pope conducts the affairs of the universal Catholic Church.
SAR :	Suspicious activity report
Shell bank :	financial institution that does not have a physical presence in any country
US :	United States of America
Vatileaks :	scandal initially involving leaked Vatican documents

### Concept of money laundering

“Money laundering is the attempt to conceal or disguise the nature, location, source, ownership or control of illegally obtained money. Money laundering is illegal. There are three stages to money laundering: placement, layering, and integration.

- The first time funds derived from criminal activities are used in a legitimate money transfer is referred to as *placement*.
- Creating a series of transactions to hide the first transaction is referred to as *layering*.
- The return of funds to legitimate activities is referred to as *integration*.<sup>1</sup>

### Concept of terrorism financing

“Terrorist financing provides funds for terrorist activity. It may involve funds raised from legitimate sources, such as personal donations and profits from businesses and charitable organizations, as well as from criminal sources, such as the drug trade, the smuggling of weapons and other goods, fraud, kidnapping and extortion.

Terrorists use techniques like those of money launderers to evade authorities' attention and to protect the identity of their sponsors and of the ultimate beneficiaries of the funds.”<sup>2</sup>

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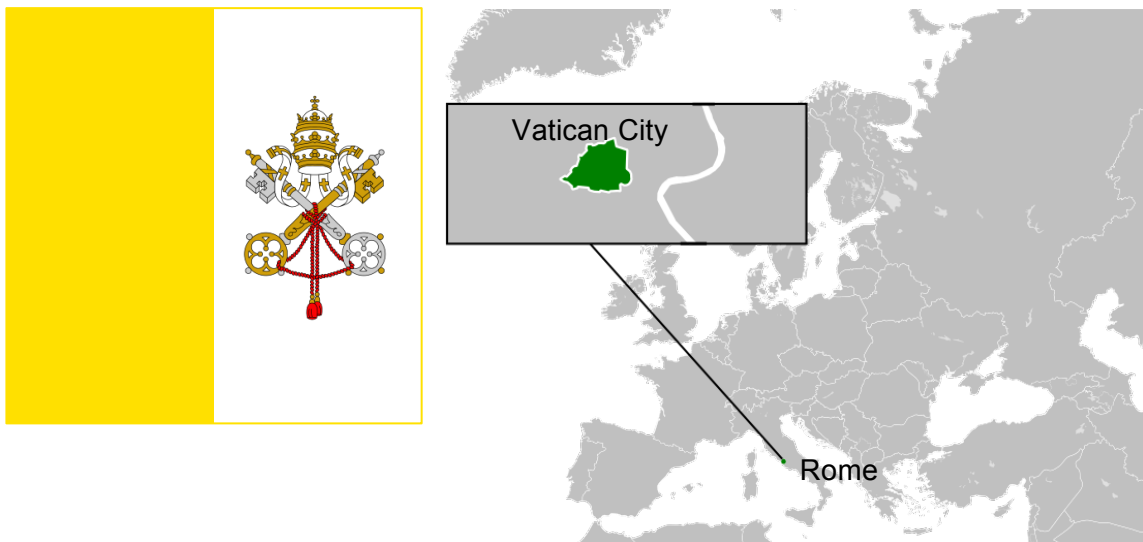
<sup>1</sup> Moneygram, 2008. *Anti-money laundering compliance guide* [on line]. Page 4. [Consulted on May 24, 2017]. [http://corporate.moneygram.com/Documents/Corp%20site%20docs/Compliance/LatAm%20and%20Caribbean/aml\\_lacaml0908\\_eng.pdf](http://corporate.moneygram.com/Documents/Corp%20site%20docs/Compliance/LatAm%20and%20Caribbean/aml_lacaml0908_eng.pdf)

<sup>2</sup> What is terrorist financing ? *Financial transactions and reports analysis centre of Canada* [on line]. [Consulted on May 24, 2017]. <http://www.fintrac-canafe.gc.ca/fintrac-canafe/definitions/terrorist-terroriste-eng.asp>

## General context

### History

What is today known as “The Vatican” exists on the site of the martyrdom of St Peter, circa 64-70 AD. Prior to the spread of Christianity to Rome, the place was the location of the circus of Nero. The upside-down crucifixion of St Peter would make the site one of the most sacred places for all Christians. For a thousand years, from 311 AD onward, the Popes, the successors of Peter, lived on the other side of Rome in the Lateran Palace (a property donated by the Emperor Constantine upon his conversion). For a period, the papacy held court in Avignon, France, until the year 1377, when the Supreme Pontiff returned to Rome and took up residence in the Apostolic Palace at the Vatican. On 22<sup>nd</sup> January 1506, 150 Swiss mercenaries arrived in Rome via the Porta del Popolo.<sup>3</sup> The Swiss Guard remains in the Vatican until this day, with the mission and purpose of protecting and serving the Popes. The Swiss Guards are linked directly to the person of the Holy Father and are accountable to no other entity – neither the Vatican City State nor the Holy See. When Italian troops entered Rome on 20<sup>th</sup> September 1871, the Popes could not move freely outside of the Vatican City, and were prisoners in the Vatican, as they refused to recognize the legitimacy of the Italian Kingdom over the lost Papal States.



source : wikipedia

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<sup>3</sup> <http://www.guardiasvizzera.va/content/guardiasvizzera/fr/storia.html>

On 11<sup>th</sup> February, 1929 with the signing of the Lateran Pacts between His Eminence Cardinal Pietro Gaspari, the Holy See's Secretary of State, and Benito Mussolini, President of the Italian Counsel, the Vatican City State was officially created. After decades of unsuccessful negotiations between the Popes and the Italian Kingdom to find a compromise, Pope Pius XI reached an agreement with Mussolini, who needed to maintain cordial relations with the Catholic Church to get the support of Italian Catholics. However, by the 1930s, the fascist and totalitarian ambitions of Mussolini had become increasingly incompatible with the values preached by the Church, and consequently the relations between the Church and the Italian government were in decline.

The Lateran Treaty gave to the Vatican State its sovereignty and made the Pope Head of State. The Vatican City became the smallest country of the world with only 44 hectares. Several buildings and areas owned by the Holy See in Italy received the status of extraterritorial zones, functioning approximately like foreign embassies. Moreover, to settle the financial claims of the Church concerning compensation over the loss of the Papal States, an agreement was reached consisting in a payment of 1'750 million lira (about 90 million of American dollars)<sup>4</sup> by the Kingdom of Italy to the Vatican. Pope Pius XI invested this money in the stock markets and in real estate, in order to have sufficient cash flows to pay for the maintenance of thousands of buildings and to support the Catholic Church throughout the world. In the mind of Mussolini, a sustainable sovereign State would need a train station, an airport and an access to a sea; given the geography, however, Pope Pius XI only considered a train station as necessary, as the aim of the Vatican State is not to own as much territory as possible but to ensure independence of the Holy See in regard to the Kingdom of Italy.

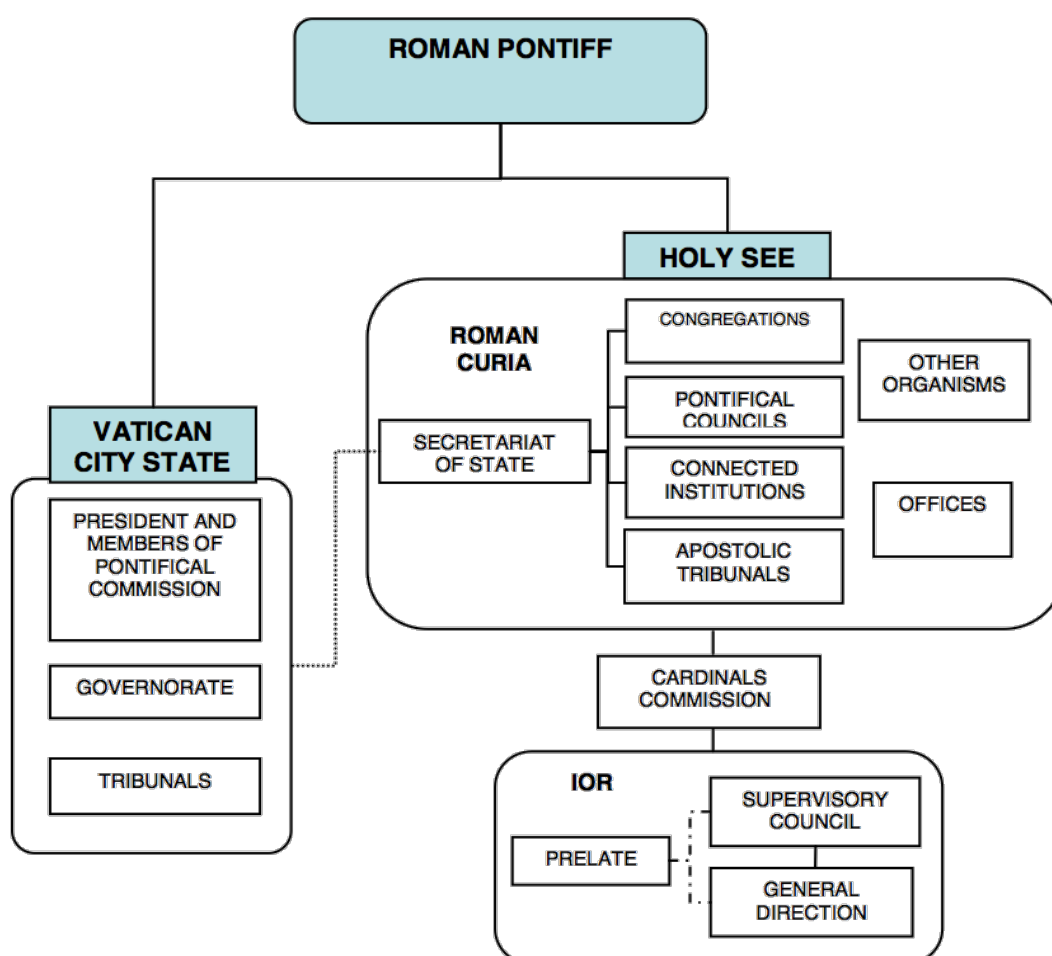
It is important to note the difference between the Vatican City and the Holy See. The latter is the spiritual entity; the ecclesiastical jurisdiction of the Catholic Church representing the Pope and the Roman Curia while the Vatican City is the temporal entity, a State. The Secretariat of State is the eldest and largest dicastery of the Roman Curia and engages in the political and diplomatic functions of the Holy See, which is a legal entity recognized in international law. It is under the direction of the Cardinal Secretary of State who is the closest collaborator of the Pope. From at least the XI<sup>th</sup> century, and even following the end of the Papal States in 1870, the Holy See has represented the Pope, continuing to do so through the Apostolic Nunciatures in those countries or to various international

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<sup>4</sup> POLLARD, John, 2014. *The Papacy in the Age of Totalitarianism, 1914-1958*. P. UK : Oxford University Press. ISBN 978-0-19-920856-2

organizations with which the Holy See has diplomatic relations. Ambassadors are accredited to the Holy See and not to the Vatican City State. Today, the Holy See is recognized as equal to States by governments and it participates in international organizations and discussions. The Holy See can also offer its help to settle international crises. The Holy See, through the Roman Curia, supports the Pope in his governance of the various local churches, religious orders and institutes. At the same time, the Vatican City State provides independence to the Catholic Church in its universal mission, being possessed of a full administration and a wide range of infrastructures and entities required by any country in order to be autonomous and sustainable. The link between those two entities is the Pope, who is the spiritual and temporal leader having absolute power (executive, legislative and judicial).

Regarding the graph here below, it represents the situation before 2014 when the Council and the Secretariat for the Economy had not been established. Today, the Secretariat for the Economy is part of the Roman Curia, at the same level than the Secretariat of State. The Council supervises the Secretariat for the Economy.



source : Moneyval mutual evaluation report on Holy See 2012

## Today's situation

In today's context, to be truly independent and efficient in its apostolic mission, the Vatican can count on institutions such as a post office (works in collaboration with the Swiss post for all the non-Italian mail), a printing house, a radio (one of the few free radios continuing in operation throughout the WWII), a television channel, etc.

Moreover, the State holds a financial entity, known as "Institute for the Works of Religion" or IOR (*Istituto per le Opere di Religione*) commonly called "the Vatican Bank". The currency of the Vatican is the Euro, which produces a few thousands of coins every year, a part of which is put into circulation through the shops in the Vatican. The supermarkets are accessible to all employees and their relatives who can apply for a pass allowing them access to tax free or specialty products unavailable in Italy. The clinic in the Vatican provides quality and affordable treatments and healthcare for Vatican employees and their families; the Vatican drugstore is open to all persons – Vatican employees, dependents or otherwise – who have a medical prescription. It offers a wider range of products, many unique, as it has different regulations than Italy.

The Vatican City is a State with its own regulations and laws such as civil, penal or administrative. The supreme source of law is Canon Law, which applies both to the Holy See and to the Vatican City. In 2010<sup>5</sup>, the accounts of the Holy See showed annual revenues amounting to 245 million euros and expenditures for a total of 235 million euros. The Holy See supports hundreds of schools and hospitals particularly in developing countries, and the surplus of approximately 10 million euros in 2010 was entirely allocated to the works of religion, i.e. charitable work. The Pope receives no special bonus or pay for surpluses. Inside the Vatican, a section known as the Governorate is responsible for the day-to-day management of the territory and all the related institutions, infrastructures and facilities. In 2010<sup>4</sup>, the revenues of the Governorate reached 256 million euros, with expenses of 235 million euros (leaving a surplus of 21 million euros). The total assets of the Holy See and the Vatican amount to less than 6 billion euros (a large part of that total comes from the art collection and real estate). Between the Vatican City and the Holy See, there are approximately 3'000 employees, and numerous retirees.

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<sup>5</sup>, <sup>4</sup> Council of Europe, MONEYVAL, 2012. *Mutual Evaluation Report anti-money laundering and combating the financing of terrorism, the Holy See* [on line]. Page 24. July 4, 2012. [Consulted on April 5, 2017].  
[http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round4/MONEYVAL\(2012\)17\\_MER\\_HS\\_en.pdf](http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round4/MONEYVAL(2012)17_MER_HS_en.pdf)

In the Catholic Church in 2010 there were more than 414'000 priests and around five thousand diocesan bishops<sup>6</sup>. As of this writing, there are 116 cardinals who are able to elect a Pope and 106 who, due to their advanced age (>80 years old), cannot anymore participate in a conclave.

The Vatican can count on reliable infrastructures and efficient delivery channels; it even has lands that are cultivated by farmers to furnish its shops. The official language is still Latin, but Italian is more commonly used and it is very usual to hear people talking a wide variety of languages, as the Vatican draws people from all over the world.

The government type for the Holy See and the Vatican City is an ecclesiastical elective monarchy and the Supreme Pontiff acts as an absolute monarch. The current pontiff is His Holiness Pope Francis, who was elected on 13<sup>th</sup> March 2013. The Secretary of State is His Eminence Cardinal Pietro Parolin, who is second in command after the Pope. His Eminence Cardinal Giuseppe Bertello is President of the Governorate; he is responsible in large part for legislation within the Vatican City, and he also has certain executive powers as delegated by the Pope.

## Change of paradigm

In order to ensure a good understanding of the transition between the last and the actual Pope, it is important to acknowledge that they share the same view on the content of the work that has to be done in the Holy See and in the Vatican City. The form of operating those changes is quite similar even though the management, the approach and the personalities may be quite different. We cannot consider that there is a revolution happening with Pope Francis.

- Pope Benedict XVI

When he was the Sovereign Pontiff, Benedict XVI (2005-2013) set financial transparency and efforts against pedophilia as priorities for the Church. The reform processes were not easy, as he faced strong resistance from some individuals and groups. Pope Francis experiences the same now. Right after the death of Pope John Paul II (+2005), Benedict XVI initiated attempts at improvement requesting more accountability from persons, and by creating various commissions to discuss the issues and controversies. Owing to the

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<sup>6</sup> Conférence des évêques de France, 2012. Statistiques de l'Eglise dans le monde. *Eglise catholique en France* [on line]. 2012. [Consulted on March 2<sup>nd</sup>, 2017]. <http://www.eglise.catholique.fr/conference-des-vevques-de-france/guide-de-leglise/leglise-catholique-en-france-et-en-chiffres/369948-leglise-catholique-dans-le-monde-et-des-pretres-etrangers-dans-les-dioceses/>

long and slow decline in the health and capacities of his predecessor, Pope John Paul II, Pope Benedict XVI had much ground to cover. In 2010, he established the Financial Information Authority to oversee all the reforms related to the financial sector of the Vatican. After the resignation of Benedict XVI, Pope Francis removed all economical duties of the Cardinal of State to transfer them to the newly created Council for the Economy.

- Pope Francis

The reform of the Curia undertaken by Pope Francis aims at improving its organization, monitoring the financial operations and decentralizing the government of the Catholic Church. The Holy Father wishes to enhance collegiality and transparency to react to the scandals and problems that have hurt the credibility and efficiency of the Church. One of the main criticisms of the Holy See is the lack of accountability when an issue arises, a weakness compounded by the lack of controls at different levels. The Vatileaks case showed the little trust that can exist between some persons and bodies of the Curia, as well as its difficulty to work in an organized and efficient manner. In 2014, His Holiness Pope Francis made a speech for the Curia, in which he outlined fifteen sicknesses that may infect its members. He talked about vanity, spiritual Alzheimer, over planning, etc. and asked the members of the Curia to make an examination of conscience, to think about their role and how to reset the Church on the right path.

Regarding the organization, the competencies of the Secretariat of State had to be reduced and the responsibility of the economical affairs was withdrawn to it in favor of the newly created Secretariat for the Economy, supervised by the Council for the Economy. Moreover, Pope Francis tries to reduce the power of the Italians in the administration and to give more non-pastoral jobs to laymen. In order to promote the collegiality as he wishes, the Pope created a Council of nine cardinals (C9) coming from different continents to advice and help him in the management of the universal Church. It is the beginning of a switch from a centralized and very hierarchical Church toward a system allowing for more decision making to be made at lower levels, particularly at the level of national episcopal conference.

In 2011, Archbishop Carlo Viganó, Secretary General of the Governorate, denounced numerous situations of frauds and briberies he had uncovered. The same year, he was appointed as Apostolic Nuncio to the United States. Pope Francis clearly stated that he wants “a poor Church for the poor” and that “money must serve, not rule”. One of his main goals is to make the financial institution of the Vatican – the IOR – more transparent and less profit-oriented.



In July 2013, the Pontifical Commission for Reference on the Organization of the Economic-Administrative Structures of the Holy See, referred as the COSEA, and the Referring Pontifical Commission on the Institute for the Works of Religion, abbreviated CRIOR, were instituted by pontifical chirography, with the scope of gathering information to prepare the reforms of the institutions. The principal novelty of the COSEA was that it was composed of eight persons, of which seven were laymen. Pope Francis wants to involve more experts at the various decisional levels, even if it means to give more key jobs to people who are not religious. The COSEA was dissolved when the Council and the Secretariat for the Economy were set up by a *motu proprio* on 24<sup>th</sup> February 2014 as a direct outcome from the COSEA.

The Council for the Economy is an entity established to “oversight for the administrative and financial structures and activities of the dicasteries of the Roman Curia, the institutions linked to the Holy See, and the Vatican City State.”<sup>7</sup> Fifteen members, of which eight are Cardinals and Bishops from different part of the world (representing the universality of the Church) and seven lay experts, compose this Council. At the same time, Pope Francis, following the advice from the COSEA and the C9, established the Secretariat for the Economy, which is now a new dicastery of the Roman Curia. The Secretariat for the Economy answers directly to the Sovereign Pontiff and has the mission to proceed to the economic control and vigilance over administrative and financial entities of various Vatican dicasteries. Moreover, it has to establish an appropriate allocation of human resources and is responsible for the economic policies and procedures for the new acquisitions.

However, the COSEA recommended to keep only one assets manager for the Holy See (either the IOR or the APSA) but still both remains because the APSA offers more long-term assets management and the IOR financial services such as worldwide payments. In 2015, the Council for the Economy mandated PricewaterhouseCooper to review the consolidated accounts of the Vatican. The head of the new Secretariat for the Economy must be a cardinal and holds the title of Prefect. Currently, the position is held by His Eminence Cardinal George Pell; as he comes from Australia, he is the symbol of the internationalization of the Curia. He is now considered as the number three of the Vatican after the Holy Father and the Secretary of State. The statutes of the Council for the Economy and for the Secretariat for the Economy were ratified on 22<sup>nd</sup> February 2015.

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<sup>7</sup> Motu Proprio Fidelis Dispensator et Prudens of His Holiness Pope Francis establishing a new coordinating agency for the economic and administrative affairs of the Holy See and the Vatican City State. *Holy See* [on line]. February 24, 2014. [Consulted on December 15, 2016]. [https://w2.vatican.va/content/francesco/en/motu\\_proprio/documents/papa-francesco-motu-proprio\\_20140224\\_fidelis-dispensator-et-prudens.html](https://w2.vatican.va/content/francesco/en/motu_proprio/documents/papa-francesco-motu-proprio_20140224_fidelis-dispensator-et-prudens.html)



## Judicial system

In order to exercise immediate, supreme and full jurisdiction in the universal Church, the Holy Father is assisted by the Roman Curia and its tribunals, which accomplish their duties in his name and with his authority for the good of the Church. The only tribunal that the average layman may have to deal with is at a local level, namely the marriage tribunal of the local diocese, which deals with questions of marriage nullity.

The first source of legislation in the Church is the Canon Law. For matters that are not treated by the Vatican laws, the laws and norms issued by the Italian Republic must be followed after the approval from the competent Vatican authority. The approval is at the condition that these additional regulations are not in contradiction with the precepts of divine Law, Canon Law nor the Lateran Pacts<sup>8</sup>. According to the article 1 paragraph 4 on the source of Law from 2008, the Vatican legal framework abides by the international regulations and the bilateral agreements.

### Holy See

- Apostolic Penitentiary

The Apostolic Penitentiary is one of the three tribunals of the Catholic Church and has jurisdiction over everything that is linked to the internal forum (judgment of an act looking at one's personal conscience); the Penitentiary renders verdict principally in case of excommunication, dispensation of sacramental impediments and indulgences.

- Rota Romana

This tribunal is composed of 21 members, all chosen by the Sovereign Pontiff. The Rota Romana is essentially an appellate tribunal of second instance for the trials that have already been judged by local Bishops. The Rota Romana also functions as a court of third and last instance for the judgments rendered by the Rota Romana itself or other ecclesiastic tribunals.

- Segnatura Apostolica

The Supreme Tribunal of the Segnatura Apostolica is the highest judicial authority of the Holy See (after the Pope). This tribunal is constituted of prelates and a prefect who are all nominated by the Pope himself. The Segnatura Apostolica is a tribunal that deal with

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<sup>8</sup> *Institute for the Works of Religion* [on line]. [Consulted on March 2, 2017]. <http://www.ior.va/content/ior/en/cos-e-lo-ior.html>

administrative issues on decisions from the Roman Curia, appeals against the sentences from the Rota Romana, and has the competence to oversee all the courts from the Catholic Church and the Vatican City.

## Vatican City

The legislative body is the Pontifical Commission for the Vatican City State, which is composed by six cardinals and led by the President of the Governorate. Any proposition of law or regulation has to be presented through the Secretariat of State to the Sovereign Pontiff for acceptance. The court system of the Vatican City is part of the Governorate and has jurisdiction over matters of civil, administrative and criminal cases.

- Promoter of Justice

The promoter of Justice is a person nominated by the Pope who acts in the higher tribunals with the duty to sue for the public good. In case of penal procedure, he carries out the accusation in favor of the Catholic Church and prosecutes it to a court.

- Single Judge

Deals with simple cases like small claims and traffic infractions.

- Tribunal

Three judges are appointed by the Pope to constitute the court of first instance for the cases that are not in the scope of the Single Judge.

- Court of Appeal

The Pope nominates for a five years-term a president and three other judges to compose the court of Appeal, which acts as the disciplinary entity for the Vatican lawyers, hears appeals from the Disciplinary Commission and deals with the employment matters.

- Court of Cassation

It is the highest court for the Vatican City that hears penal matters against Cardinals and Bishops when the Sovereign Pontiff does not want to settle them personally. It also receives appeals from the Court of Appeal.

## Administration of the Patrimony of the Apostolic See (APSA)



The mission of the *Amministrazione del Patrimonio della Sede Apostolica* (in English, the Administration of the Patrimony of the Apostolic See), known by its acronym APSA is to manage the properties and the assets of the Holy See and to provide the necessary funds for the functioning of the Roman Curia. It acts as the treasury of the Vatican. A Cardinal assisted by a board of Cardinals leads the Council. The APSA was composed of two separated sections, which were under the supervision of a delegate: the Ordinary section and the Extraordinary section. The Ordinary Section administers the properties assigned to its care, supervises juridical and economical aspects of the employees of the Holy See, creates provisions for carrying out the normal activities of the dicasteries, records incomes and expenditures as well as incoming and outgoing money for the previous year, and forecasts for the coming year. The Extraordinary Section manages its own moveable goods and the ones entrusted to it by the other entities of the Holy See. On 8<sup>th</sup> July 2014, following the recommendation of the Council for the Economy, Pope Francis decided to separate the Ordinary Section from the Extraordinary one, moving the Ordinary Section to the competence of the Dicastery for the Economy.

Currently, the APSA carries out only the activities that the Extraordinary Section used to handle. In 2012<sup>9</sup>, the assets of the Extraordinary Section amounted to 680 million euros belonging to 102 customers (75% Holy See's Institutions and religious orders and 25% natural persons). The Financial Information Authority of the Vatican (AIF) was regulating the activities carried out by the APSA only until end of 2015 because after an on-site inspection, the AIF assessed that the APSA did not fulfill the conditions to be considered as an entity that carries out financial activities on a professional basis. As a result, the APSA is not anymore in the scope of the AIF and falls under the jurisdiction of the Secretariat for the Economy.

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<sup>9</sup> Council of Europe, MONEYVAL, 2012. *Mutual Evaluation Report anti-money laundering and combating the financing of terrorism, the Holy See* [on line]. Page 39. July 4, 2012. [Consulted on April 5, 2017].  
[http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round4/MONEYVAL\(2012\)17\\_MER\\_HS\\_en.pdf](http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round4/MONEYVAL(2012)17_MER_HS_en.pdf)

## History

The Institute for the Works of Religion (Istituto per le Opere di Religione - IOR) is a financial institution founded on 27<sup>th</sup> June 1942 by a papal decree of Pius XII which replaced the Administration of the Works of Religion (which was not a bank at all) established by Pope Leo XIII on 11<sup>th</sup> February 1887. By making the institute a legal person, Pius XII enabled it to transfer part of its funds abroad to keep them safe from the Nazis and the fascists.

## Key figures

Figure 1: Key figures 2012-2015, annual report of the IOR

	2015	2014	2013	2012
<b>Customers' Assets</b>	EUR 5.8bn	EUR 6.0bn	EUR 5.9bn	EUR 6.3bn
- Deposits	EUR 2.0bn	EUR 2.1bn	EUR 1.9bn	EUR 2.3bn
- Asset Management	EUR 3.2bn	EUR 3.2bn	EUR 3.3bn	EUR 3.2bn
- Custody	EUR 0.6bn	EUR 0.7bn	EUR 0.8bn	EUR 0.8bn
<b>Equity</b>	EUR 0.7bn	EUR 0.7bn	EUR 0.7bn	EUR 0.8bn
<b>Net profit</b>	EUR 16.1m	EUR 69.3m	EUR 2.9m	EUR 86.6m
<b>Number of customers</b>	14,801	15,181	17,400	18,900
<b>Employees</b>	110	112	115	114

The IOR manages assets totaling 5.8 billion euros in 2015<sup>10</sup>, which make it a very small player on the international scene. Despite its little importance in term of assets, the IOR is regularly present in the international press. This is due to its prominence as an institution of the Vatican and the high expectations regarding an institution from the Catholic Church. Compared, for instance, to Pictet SA who holds 477 billion of American dollars, the magnitude of the frauds that could be committed by the IOR is of insignificant size. In 2012, 54.7 million euros were distributed to the Holy See to perform its apostolic mission.

In 2015, the number of customers amounted to 14'801 of which the vast majority are legal persons under Canon Law. The customers can be divided into two categories : the institutional counterparties (sovereign institutions of the Holy See and the Vatican,

<sup>10</sup> *Institute for the Works of Religion* [on line]. [Consulted on October 8, 2016]. <http://www.ior.va/content/ior/en.html>

nunciatures, embassies,...) and non-institutional counterparties (canonical or civil entities, clerics, employees, pensioners, etc.) The largest groups of clients in terms of assets are the religious orders with 48%<sup>11</sup>. In addition, the IOR has no business customers: all of its clients are legal or physical persons who have “professional” relations with the Holy See or the Vatican City.

The important decrease of the net profit was mostly caused by several factors: negative impact of net trading income from securities, decrease of net interest result and a large provision for tax remediation with foreign authorities. The customers of the IOR expect a conservative approach in terms of investment strategies with liquid securities and low credit risk positions.

*“For decades, the institution [...] functioned as an offshore bank in the heart of Rome, much to the vexation of European regulators and police, whose jurisdiction stopped at the Vatican’s walls.”* (Jeremy Kahn, Bloomberg, 2015)

## Mission

The goal of the financial institution of the Vatican lies in its statutes that were modified by Pope John Paul II in 1990: “to provide for the custody and administration of goods transferred or entrusted to the Institute by physical or juridical persons, designated for religious works or charity. The institute can accept deposits of assets from entities or persons of the Holy See and of the Vatican State.”<sup>12</sup> In other words, its purpose is to serve the Holy See and its customers worldwide, even though there may be severe lack of infrastructures in underdeveloped areas. The IOR cannot work with modern tools everywhere.

Moreover, the IOR serves the global mission of the Catholic Church by taking care of and increasing its patrimony. The Institute provides worldwide payment services for the Holy See, the correlated entities, religious orders, the employees and the accredited diplomats. The Institute is located entirely within the Vatican City and but is not a department of the Roman Curia. Due to its nature, it does not fall under the monitoring of the Council for the

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<sup>11</sup> Institute for the Works of Religion, 2015. *Annual report 2015*. [on line] [Consulted on April 5, 2017]. [http://www.ior.va/content/dam/ior/documenti/rapporto-annuale/Bil\\_IOR\\_Annual%20Report\\_2015\\_ENG\\_Sito.pdf](http://www.ior.va/content/dam/ior/documenti/rapporto-annuale/Bil_IOR_Annual%20Report_2015_ENG_Sito.pdf)

<sup>12</sup> *Institute for the Works of Religion* [on line]. [Consulted on October 8, 2016]. <http://www.ior.va/content/ior/en.html>

Economy but under the regulatory power of the Financial Information Authority (AIF). The IOR is not a commercial nor a private bank, as it does not offer loans and is not looking to maximize profits. The Institute invests mostly in fixed interest securities, governmental bonds and money market accounts. The benefits are distributed for religious purposes and charities.

## Corporate Governance

The management structure of the Institute for the Works of Religion is stated in its statutes. There are five bodies: Commission of Cardinals, Prelate, Board of Superintendence, Directorate and Board of Auditors.

- Commission of Cardinals

The Pope appoints its six members for a five-year period. They monitor the compliance of the Institute with its statutes and appoint the members of the Board of Superintendence and the Prelate.

- Prelate

He has access to all documents and oversees the activities of the IOR. He acts as the Secretary of the Commission of Cardinals and he participates at the meetings of the Board of Superintendence.

- Board of Superintendence

Administrates and manages the Institute. In addition, it oversights and supervises financial, economic and operational activities. There are six members and a non-voting secretary nominated for five years. The actual President is Jean-Baptiste Douville de Franssu.

- Directorate

Composed of two members responsible for all operational activities and responsible toward the Board of Superintendence. They are appointed by the Board of Superintendence and approved by the Commission of Cardinals.

- Board of Auditors

They must verify at least four times a year the accounting books and the administrative review. They can proceed to internal audits if ordered by the Board of Superintendence. The Board of Auditors consists in three persons appointed by the Board of Superintendence for a three-year term.

## Legal framework

The IOR is subject to the laws and regulations of the Holy See and the Vatican City. The regulator of the IOR is the AIF, which has the mission to prevent frauds, money laundering and the financing of terrorism in the Vatican City. From 2010, an auditor from the Big Four proceeds to an annual revision<sup>13</sup> and since 2012, the Institute has released an annual report. In 2013, based on the new regulations issued by the AIF, the IOR had a few axes of progress in order to comply with the new legislations by January 2016, which is now done. Regarding the accounting framework, the Institute for the Works of Religion follows the IFRS standards<sup>13</sup> and the AIF brought some additional guidelines specific to the situation of the IOR in the Vatican where there is a public monopoly regime and no market economy.

Since 2015, the IOR is subject to the Foreign Account Tax Compliance Act (FATCA) of the United States, which requires that the US legal and physical persons residing abroad signal their full financial situation to the Internal Revenue Service (IRS). Moreover, an Intergovernmental Agreement (IGA) was ratified meaning that the IOR must communicate to the IRS all the information relative to their US customers. The Institute is still currently working to check and confirm every single fiscal position form its customers toward their own country. This analysis enabled them to identify probable risks from the past years and the IOR is now actively working to correct them. The Institute, through the AIF, is ready to communicate with the respective authorities over whichever fraudulent fiscal declaration made and to honor any repayment deriving from such a case<sup>14</sup>.

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<sup>13</sup> Appendix n°1

<sup>14</sup> Institute for the Works of Religion, 2014. *Annual report 2014* [on line]. Page 25. [Consulted on April 5, 2017]. [http://www.ior.va/content/dam/ior/documenti/rapporto-annuale/IOR\\_AnnualReport\\_EN\\_2014.pdf](http://www.ior.va/content/dam/ior/documenti/rapporto-annuale/IOR_AnnualReport_EN_2014.pdf)



## Past scandals

There have been a few scandalous stories related to the IOR, some of which, through part of the popular imagination, were subsequently shown to be based on unfounded allegations. Often, the source of the hypothetical and speculative cases came from a lack of transparency from the IOR itself, which let investigators and journalists to imagine and worsen the reality. Hereunder are presented three real situations that can be considered as well-documented and based on true facts. This is not an exhaustive list.

- Banco Ambrosiano<sup>15</sup>

Between 1946 and 1971, the IOR was the largest shareholder of the Banco Ambrosiano. In 1978, the Italian Central Bank ordered an inspection over the accounts of the Banco Ambrosiano revealing the hidden parts of the accounting. The inspection linked the bank to several shell companies in Panamá and Luxembourg, which served as smokescreen for more than a million euros which had left the Banco Ambrosiano. Moreover, the director, Roberto Calvi, borrowed more than 400 million euros for its shell companies from 120 banks to manipulate the share's price of the Banco Ambrosiano. The inspection revealed as well that behind several societies that were investing in the Banco Ambrosiano, the two final investors were always the IOR and Roberto Calvi, who was the President of the bank because of the support from an American prelate, Msgr Paul Marcinkus, former director of the IOR. Msgr Paul Marcinkus engaged the liability of the IOR by giving letters of patronage in favor of the Banco Ambrosiano. In 1982, the Banco Ambrosiano was put in bankruptcy and had a loss of 2 billion American dollars, from which 1'159 billion were guaranteed by the IOR. In Geneva on 25<sup>th</sup> May 1984, the IOR refuted its responsibility in the bankruptcy of the Banco Ambrosiano but accepted to pay 406 million American dollars to the creditors as a volunteer payment. On 20<sup>th</sup> February 1987, Msgr Marcinkus and two other leaders from the IOR were placed under an arrest warrant by an Italian court. He was accused for fraudulent bankruptcy and of money laundering for the mafia in connection to the illegal masonic lodge Propaganda Due (P2). The prelate was protected by his diplomatic passport from the Vatican City and the two others stayed behind the Vatican walls until they could benefit from the penal immunity provided by the Lateran Pacts offered to people who act on behalf of an official entity. Three deaths can be related to this case: Roberto Calvi was fund hanged on the Blackfriars Bridge (members of the lodge P2 called themselves "black friars") in London in

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<sup>15</sup> WILLAN, Philipp, 2013. *The Vatican at war, from Blackfriars Bridge to Buenos Aires*. United States of America : Universe LLC. ISBN 978-1-4917-0793-7

1982; Graziella Corrocher, Roberto Calvi's secretary, was found dead after a fall from the 4<sup>th</sup> level of the building of the bank; and Michele Sindona, ex-financial consultant for the Vatican and ex-member of the board of IOR, was poisoned on the day he was scheduled to give testimony in the case, by a coffee laced with cyanide.

- Enimont's trial

In 1993, "mani pulite" was a vast investigation lasting over a few years to discover the fraudulent relationships between the Italian politics and the corporate world. Over 52 million euros in Italian obligations transited by the accounts of the IOR. On request of the judges, the IOR opened its doors to the investigators but the Institute was accused of having falsified the documents.

- Money laundering operations

In May 2010, the Roman prosecutor opened an investigation on the suspicious transactions between the IOR and other banks, i.e. Unicredit, JP Morgan, Credit Artigiano, etc. Several million euros were sent from one bank to another from at least since 2009, when the financial intelligence of the Italian Central Bank signaled those movements. No information was given on those operations, which was against the anti-money laundering norms. The end beneficiaries were people who had fiscal residence in Italy; the sum of the incriminated movements was over 180 million euros. On 20<sup>th</sup> September 2010, the Roman prosecutor seized 23 million euros of the IOR on an account held by Credit Artigiano. Following this event, Pope Benedict XVI enforced the Monetary Convention signed with the European Union one year earlier to fight money laundering. In 2010, the Pope established the AIF to provide oversight of the IOR; one year later the Roman prosecutor released the 23 million because of all the efforts made by the Vatican.

# Financial Information Authority (AIF)



Financial Information Authority

## The authority

The AIF is a canonical public legal personality of the Holy See and the Vatican City, which is in charge of preventing money laundering and financing of terrorism. The Institution answers directly to the person of the Holy Father and so it enjoys full autonomy and independence. The missions of the Authority are to provide a service of financial intelligence, to perform prudential supervision and to supervise and prevent the illegal acts as cited above. It is the regulator for the moral and legal persons who carry out financial activities on a professional basis and currently it supervises on the IOR. Furthermore, the AIF carries out on-site inspections under the form of ordinary or unannounced inspections.

Pope Benedict XVI created the AIF by means of an Apostolic Letter *motu proprio* dated 30<sup>th</sup> December 2010. On 15<sup>th</sup> November 2013, Pope Francis assigned the duty of prudential supervision to the AIF and consolidated its institutional mandate. The activities of the AIF are regulated by the Vatican Law no. XVIII of 8<sup>th</sup> October 2013. The AIF can carry out in an efficient way its mission only if it has a strong political support from the Holy Father. The Auditor General and the Secretariat for the Economy oversee the budget and the financial statements of the Authority.

On the international side, on 24<sup>th</sup> February 2011, the Cardinal Secretary of State requested the experts' committee for money laundering and terrorism financing from the Council of Europe (Moneyval) to evaluate and follow up the evolution of the situation of the Holy See and in the Vatican State. In April, the Committee of Ministers of the Council of Europe agreed to the request of the Vatican and it became a member of Moneyval.

As a consequence of this measure, the smallest country of the world applies the standards of the Financial Action Task Force (FATF, or GAFI in French) and its assessing body is still Moneyval. The FATF's objective is to examine and develop measures to fight money laundering and the financing of terrorism. By being linked to the FATF, the AIF could give to the supervised entity suggestions on anomaly indicators to prevent that the voluntary tax compliance programs (VTC) send by third countries are used to avoid complying with the Vatican laws and regulations.

On 3<sup>rd</sup> July 2013, the AIF became part of the Egmont Group, which is a united body of 152 different Financial Intelligence Units (FIU). The Egmont Group offers a forum for the national authorities to exchange expertise and financial intelligence to be more effective in

their combat against money laundering and terrorism financing. At the bilateral level, the AIF signed a few Memoranda of Understanding (MoU) with various countries like Brazil, Cyprus, Cuba, Lichtenstein, Italy, Malta, Monaco, USA, Switzerland, etc. in order to collaborate efficiently and to exchange information.

## Structure

The organs of the AIF are: the President, the Board of Directors and the Director. Moreover, the Institution can be divided into two departments: the Office of Supervision and Regulation and the Office of Financial Intelligence; this division implies different collaborations and distinctive exchange of information at the internal and international level.

The Holy Father appoints the President and the four members of the Board for a five-year term. The trend followed by the Holy See for a few years is to empower laymen within the Church. The President and Board members are persons with broad experience, usually renowned for their financial and legal expertise. The current President, René Brülhart, chairs the Board of Directors and is the legal representative of the Authority. He can sign on behalf of the AIF. The Board of Directors has to elaborate the general policies and the strategies of the Authority. The Director is nominated by the Cardinal Secretary of State and must also be an expert in his profession. He is appointed for five years and has to direct, organize and control the AIF.

## Regulations

The regulation n°1 is currently applicable and is an outcome from the law XVIII from the 8<sup>th</sup> October 2013. The law XVIII cancelled the regulations n°2-3-4-5 (made under law CXXVII from the 30<sup>th</sup> December 2010), which are not applicable anymore because the new law goes further and that they became inconsistent.

- N°1 Prudential Supervision. 25<sup>th</sup> September 2014

This first regulation is the main paper of the Financial Information Authority destined to the entities carrying out professionally financial activities. The conduct of financial activity on a professional basis and the establishment of a subsidiary abroad are subject to the prior authorization from the AIF. Furthermore, this first directive regulates the acquisitions of participations or the equity holdings in tierce entities by the supervised entities. The AIF ensures that the members of management have proven experiences for the tasks that they will be carrying out and that they fulfill a list of honorability requirements. The

Authority has to monitor the corporate governance (organization, internal controls, etc.) of the regulated entities and to ensure that external auditors are mandated and that they fulfill a certain number of requirements: i.e. not being appointed by more than one supervised entity. Regarding risk management, the credit risk control unit shall be independent from management functions and report directly to the senior management. Chapter 7 of the directive is entirely dedicated to risks and how should they be approached and handled. In addition, regulation N°1 covers other topics like regulatory capital, risk exposure (credit rating classes, mitigation, counterparty, market risk, operational risk), and minimum and total capital requirements. The whole regulation must respect the principles of coherence and proportionality.

- N°2 Transportation of cash and financial instruments. 14<sup>th</sup> November 2011

In order to prevent money laundering and fraud, every person entering or leaving the Vatican City with more than 10'000 euros in cash or in financial instruments is obliged to declare them. The declaration has to take place with the Gendarmes of the Vatican or with a competent office and must contain all the personal details of the holder, the owner and the receiver, as well as the value of the goods or money and their origin and destination. The declaration must then be sent to the AIF within 48 hours<sup>16</sup>.

- N°3 Sanctions in case of infringement in favor of money laundering and financing of terrorism. 14<sup>th</sup> November 2011

This regulation concerns the administrative and pecuniary sanctions. A pecuniary sanction is comprised between a minimum of 10'000 euros and a maximum of 250'000 euros based on the importance of the transgression and the infringer's personality and conduct.

- N°4 Transfer of assets. 14<sup>th</sup> November 2011

The purpose of the fourth regulation is to establish norms regarding the information that follows a transfer of assets to prevent, investigate and identify cases of money laundering and financing of terrorism. Data such as name, surname, address (place and date of birth or national identity number are fine) must be verified and transmitted to the receiver entity. The payment provider has to keep the records of the data and the transaction for five years. This regulation concerns all transfers of funds excluding those done via a credit card to acquire goods or services, the transfers from a Vatican account to another one and the withdrawals of cash. However, in case of deposit or withdrawal at the desk, there

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<sup>16</sup> Appendix n°2

is a form<sup>17</sup> to fill with indications on the origin of the funds in case of deposit and the utilization of the money if it is a withdrawal.

- N° 5 Indicators of anomaly and forwarding of suspicious reports. 14<sup>th</sup> November 2011

This last regulation aims at standardizing the information contained in the reports regarding the nature of the case. Moreover, it states that the entities supervised by the AIF have a duty to signal and report any known or suspected or actual operations of money laundering or frauds. The suspicion of financing terrorism may also have for base a single name put on the list of the AIF and for consequence the freezing of assets. The President of the Governorate, with approval of the Secretary of State, creates and updates a list<sup>18</sup> with the names of the physical and legal persons that threaten peace and international security. The AIF advises the President of the Governorate for the addition or removal of names based on the lists from the Counsel of Security from the United Nations, the European Union and other countries.

## Statistics

**Figure 2: Declarations of cross-border cash transportation, annual report 2015 of the AIF**

<b>Declarations</b>	<b>2011</b> (starting from April)	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Number of incoming declarations	658	598	550	429	367
Number of outgoing declarations	1,894	1,782	1,557	1,111	1,196

This statistic of cash cross-border transportation (amounts over 10'000 euros) is the result from the regulation n°2 of the AIF. Since the creation of the AIF and the reinforcement of the legal framework in the Vatican, it appears that there is a diminution and stabilization of the outgoing declarations and a continuous decrease of the number of incoming declarations. In 2015, the outgoing declarations amounted to 24 million euros and the incoming ones to 9.5 million euros<sup>19</sup>. The same year, the inspections for cross-border transportation represented an average 30 daily checks with a total of 8 arrests and 53 detentions during the year<sup>20</sup>. A declaration is available as annex n°1.

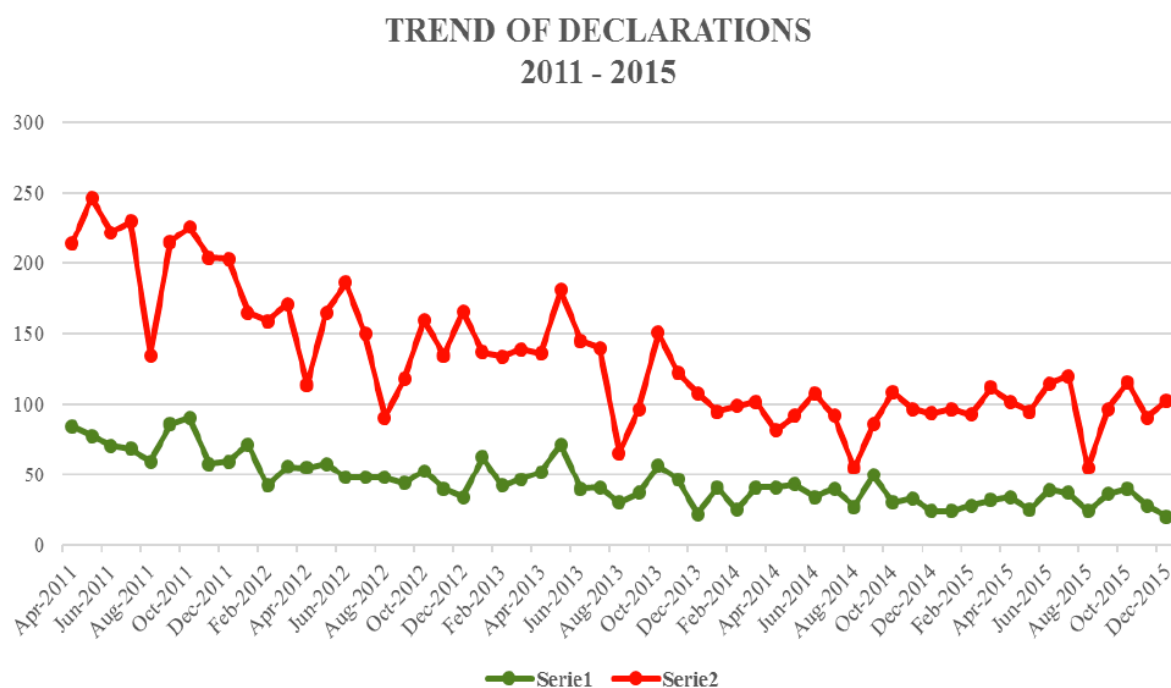
<sup>17</sup> Appendix n°3

<sup>18</sup> Appendix n°4

<sup>19</sup> Financial Information Authority, 2015. *Annual report 2015*. [on line]. Page 21. [Consulted on April 5, 2017]. <http://www.aif.va/ENG/pdf/AIF%20Report%202015%20ENG.pdf>

<sup>20</sup> Vatican radio, 2016. Promoter of Justice delivers report. *Radio Vaticana* [on line]. February 6, 2016. [Consulted on March 2<sup>nd</sup>, 2017]. [http://en.radiovaticana.va/news/2016/02/06/promoter\\_of\\_justice\\_delivers\\_report/1206533](http://en.radiovaticana.va/news/2016/02/06/promoter_of_justice_delivers_report/1206533)

**Figure 3: Trends of declarations of cross-border cash transportation, annual report 2015 of the AIF**



“Serie1” being the incoming declarations and “Serie2” the outgoing declarations

From this graph, we observe the stabilization of the outgoing declarations from the period of April 2011 to February 2014. This timeframe was one in which the many account holders at the IOR were informed that they may have been in need to conform themselves with the new regulations and the strict application of the policies of the IOR. Five years after the beginning of the reinforcement of the controls, it seems that now the figures represent what is the common and normal amount of transportation of assets.

**Figure 4: Suspicious activities reports, annual report 2015 of the AIF**

Suspicious activities reports	2011	2012	2013	2014	2015
Number of reports	1	6	202	147	544
Supervised subjects	1	5	193	141	537
Authorities of the HS/VCS		1	5	4	6
Other Entities			4	2	1

The number of suspicious reports follows an upward trend, which is a sign that all the efforts made by the AIF are working. It is due to legislative reforms and to the improvement of the information exchange systems that the compliance becomes more effective. The trend does not represent an increase in criminality but rather in awareness of the employees in their duty of report. The “supervised subject” is the IOR, which represent the vast majority of the reports, then the “authorities of the Holy See and the Vatican” (the APSA has still a reporting obligation) filled in six reports and the reports coming from the “other entities” are usually cases of whistleblowing. The analysis of the reports is made at two levels: operational level with the use of documents, data, information available and acquirable to follow the operations and transactions and at the strategic level with the same means but for more general implication related to money laundering or financing of terrorism. The AIF has the power to access to any administrative information to investigate against any signaled subject and any physical or legal person registered in the Vatican City.

**Figure 5: Preventive measures, annual report 2015 of the AIF**

Preventive measures	2014 Number of measure	2014 Total amount	2015 Number of measure	2015 Total amount
Suspension of transactions and operations	3	€ 561,574.89	8	€ 8,262,565.42 \$ 1,714,800
Preventive freezing of accounts, funds and other assets			4	€ 7,051,422.42 \$ 654,800

In 2015, the preventive measures allowed the AIF to suspend 8 transactions for more than 8 million euros and over 1.7 million American dollars. Moreover, the Authority ordered the freezing of assets for a total of 7 million euros and over an half million American dollars. Since 2014, measures are recorded and actions are taken in compliance with the new regulatory framework. The system of preventive measures contains wording to safeguard the interests of good faith third parties.



**Figure 6: Domestic cooperation, annual report 2015 of the AIF**

<b>Domestic cooperation</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Requests to domestic authorities for information	1	2	11	41	108
Reports to the Office of the Promoter of Justice	0	2	8	7	17

The domestic exchange of information continues to grow, enabling the AIF to transmit 17 reports to the Office of the Promoter of Justice in 2015. The number of reports transferred to the Office of the Promoter of Justice follows an upward trend, as with the number of suspicious activities reports. The Promoter of Justice can request the Gendarmeria to carry out part of the analytical process. The largest part is based on suspicion of fraud or fiscal evasion. Some of these situations are complex and structured cases in the financial sector, like the market's manipulation of other countries.

**Figure 7: International cooperation, annual report 2015 of the AIF**

<b>International cooperation</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Request to foreign authorities for information	1	1	28	20	199
Request for information received from foreign authorities	7	3	53	93	181

International cooperation with the financial intelligence authorities from third countries has intensified since 2013, when the AIF became a member of the Egmont Group. This forum allowed the Authority more easily to exchange information and financial intelligence. The figures from 2015 show that the AIF is a proactive authority and does not only collaborate when requested. To prevent the financing of terrorism, the AIF increased its activities internally and externally, especially with European countries suffering from terrorism. According to the annual report of the AIF, internal cooperation with the sovereign Authorities has been quite positive, especially in terms of the quality of information shared.

## Financial and structural reforms

### Reforms 2010-2011

On 1<sup>st</sup> January 2010, the monetary agreement between the European Union and the Vatican City entered into force. The agreement completed the convention between the Vatican and the Republic of Italy established in 2000, in order to enforce all European norms on money laundering, frauds and euro counterfeiting in the Vatican State.

On December 2010, Pope Benedict XVI created the Financial Information Authority (AIF), the first financial regulator, to oversee financial operations and to eliminate risks of money laundering and financing of terrorism.

In 2010, the Roman prosecutor opened a legal case on money laundering against two directors of the IOR; 23 million euros were sequestered. In June 2011, the release of the seized funds was secured upon improvements made by the Vatican, particularly because of the creation of the AIF. The Roman prosecutor interpreted it as a sign of good intention.

On 24<sup>th</sup> February 2011, the Cardinal Secretary of State, Tarcisio Bertone, requested that the Holy See and the Vatican City be subject to an evaluation and followed up by Moneyval.

On 14<sup>th</sup> November, the AIF came up with the regulations number two, three, four and five to address specific issues of money laundering and terrorism financing.

### Reforms 2012

On 28<sup>th</sup> June 2012, the IOR opened its doors for the first time to a group of journalists, during which visit the General Director Paolo Cipriani answered questions.

On 18<sup>th</sup> July 2012, Moneyval came up with a report evaluating the situation of the Holy See and in the Vatican City. The outcomes of this document were encouraging for the AIF because it stated that the Vatican was largely compliant with 9 of the 16 main recommendations, and that many efforts had been made over a relatively short period of time. Moreover, the experts from Moneyval considered that the risk for money laundering and terrorist financing was very low.

In November, the Swiss René Brülhart, who is a recognized expert in the fight against money laundering, was nominated director of the AIF. The AIF released its first annual report in 2012 (published in 2013), stating that the Holy See has made significant efforts during the previous two years.

## Reforms 2013

On 15<sup>th</sup> February 2013, Ernst von Freyberg was hired as President of the IOR. He started to reform the IOR and claimed that he wanted to apply the strictest standards from the sector in terms of transparency and compliance. Mr. Von Freyberg's mission was to "get IOR super-compliant and a respected member of the financial system, and out of the newspapers."<sup>21</sup> In July, the IOR inaugurated its own website from which are available the annual reports. It was the first time that the balance sheet of the Institute was published.

The IOR revised and strengthened its handbook against money laundering by setting a new rating for the risk of the clients and new procedures on the collection of information. They created a full customer risk profile by verifying the identification, the transaction activity and the sources of the funds.

In May 2013, an external company, Promontory, was appointed to check suspicious transactions and to inspect each of the 18'900 opened accounts within the IOR. The goal was to ensure that the account holders were still conforming to the conditions to have an account at the IOR. According to the *Corriere della Sera*, by December the IOR had closed over 1'200 non-compliant accounts.

A three years plan was established to increase the efficiency of the IT system in order to implement the new legal constraints and to monitor better transactions. Regarding the prevention of money laundering, the IOR implemented an application, "Know your customer", based on the customer's data either for the legal or physical persons. In 2013, the system was still in phase of adjustment.

In the same direction, a mandatory course about the risks of money laundering was given to all employees to train them to face those issues and to make sure that the new procedures were followed by the staff.

On 24<sup>th</sup> June, Pope Francis established a Referring Pontifical Commission on the Institute for the Works of Religion (CRIOR) to analyze the juridical position and the activities of the IOR in order to harmonize its functioning with the universal mission of the Church.

The Board of Superintendence of the Institute created a new position of Chief Risk Officer at the directorate level in order to set a focus in the compliance and reporting. Furthermore, the IOR standardized its procedures to reinforce the reporting system.

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<sup>21</sup> DINMORE, Guy, 2013. God's new banker brings Teutonic thoroughness to Vatican. *Financial Times* [on line]. May 30, 2013. [Consulted on March 10, 2017]. <https://www.ft.com/content/8fd4e882-c900-11e2-9d2a-00144feab7de>

On 8<sup>th</sup> August, the Holy Father Francis established the Financial Security Committee (Comitato di Sicurezza Finanziaria, CoSiFi), which has for mission to coordinate the Vatican's and Holy See's authorities combatting money laundering, terrorism financing and the proliferation of weapons of mass destruction. It is also responsible to conduct a domestic risk assessment. The CoSiFi is composed by eight persons such as the President of the AIF, the Promoter of Justice, the Auditor General, an officer from the Swiss guard, etc.

On 12<sup>th</sup> December, Moneyval published a report evaluating the progress made by the Holy See based on their first report of July 2012 in the fight against money laundering and the financing of terrorism. Great efforts have been made and Moneyval encouraged continuing with the inspections of the IOR and the APSA.

## Reforms 2014

In February, the CRIOR and the COSEA gave their recommendations and analysis to the Council of 9 Cardinals, whose task it is to lead the reforms of the Church. Once the mission of the CRIOR was over, the CRIOR got dissolved.

On 24<sup>th</sup> February, Pope Francis created the Office of the Auditor General with the mission to audit all the dicasteries of the Roman Curia, the institutions linked with the Holy See and the administrations of the Governorate of the Vatican City State. The Office enjoys full independence and autonomy responding directly to the Holy Father, who nominates for a five years-term the Auditor General and his two deputy auditors. Annually, the Office of the Auditor General has to submit a report to the Council for the Economy and has to identify the major sources of management and organizational risks. Furthermore, it can perform unplanned audits to ensure cost efficiency and the adequate use of the resources.

According to Ernst von Freyberg, the former president of the IOR, the reforms were going in the good way to reach the high expectations that people have on the financial institution of the Holy See. By December, over 4'600 accounts had been closed.

**Figure 8: Client relationships of the IOR as of 31.12.14, annual report of the IOR 2014**

<i>Overview client relationships</i>	<i>As of 31 December 2014</i>
<i>Client relationships – Existing</i>	<i>15,181</i>
<i>Client relationships ended since May 2013</i>	<i>4,614</i>
<i>of which: Actively terminated – dormant (low balance, inactivity)</i>	<i>2,600</i>
<i>of which: Actively terminated – did not fit client category</i>	<i>554</i>
<i>of which: Closed due to natural attrition</i>	<i>1,460</i>

In July, Ernst von Freyberg tendered his resignation to the Holy Father, who accepted it; the Pope appointed the Frenchman Jean-Baptiste de Franssu to replace him.

Some medias supposed that Pope Francis could have closed the IOR. But on the 7<sup>th</sup> April, he reconfirmed the important role of the Institute for the Works of Religion for the Catholic Church, the Holy See and the Vatican State. The Institute is going to continue to supply financial services to the Church worldwide.

## Reforms 2015

In January, Pope Francis decided to increase from five to six the members of the Supervisory Commission of Cardinals from the IOR. Additionally, the Board of Superintendence strengthened the standards of corporate governance in the Institute.

On 13<sup>th</sup> January, the regulation N°1 from the AIF entered into force and set the institutional and juridical frameworks of the Vatican in line with the highest international standards. The same year, inspections over the Directorate of the IOR have been done to evaluate the compliance with the new requirements.

During the year, the program “risk assessment” for the Holy See and the Vatican State was launched from the Committee for Financial Security according to the methodology and with the support from the World Bank under the supervision of the AIF. Transparency and integrity in the financial sector are the key objectives for the Vatican, and this program aims at evaluating and identifying the risks of money laundering and financing of terrorism.

At the international level, the AIF signed six new Memoranda of Understanding with Albania, Cuba, Luxemburg, Norway, Paraguay and Hungary in order to exchange information. In addition, the AIF has good working relationships with the financial authorities of 27 other countries. The Authority participated in the meetings of the Egmont Group in Berlin and Bridgetown. Moreover, the AIF contributed three times in the meetings of the committee of experts from Moneyval who adopted unanimously the second Progress Report presented by the Holy See.

On 10<sup>th</sup> June, an agreement between the Holy See and the United States of America was ratified to conform and exchange fiscal information in the sense of the Foreign Account Tax Compliance Act (FATCA). The AIF has to ensure that the concerned information is transmitted by its supervised entity.

To comply with the regulation N°1 and the Vatican Law, the IOR had to operate a total segregation between its own assets and the assets entrusted by its customers. It was already the case for the accounting and at the operational level, but the AIF had to monitor that it was now successfully implemented for the assets and for the IT system.

By October, the process of verifying the opened accounts at the IOR reached its end, resulting in the closure of close to 4'800 accounts<sup>22</sup> (approximately 30% of the total) which did not fit with the regulations and the Institute's policies. The process can be broken down in three parts: completing of all the missing information to identify clearly the source of the funds and the owners; verifying that the account's holders still fit within the new legal framework requiring more conditions to hold an account; and the closing of all relations that did not conform to the strengthened laws and regulations.

## Reform 2016

In December, the members of the Board of Superintendence of the IOR passed from six to seven.



For many decades now, Switzerland has been considered as a fiscal paradise, which has come at the expense of getting a questionable reputation in the international community. In fact, there were very few situations in which information could be transmitted to a third country; Swiss bankers were well known for the quality of their services and their discretion. At the beginning of the first decade of the 2000s, discussions on an automatic exchange of information with the EU already started and Switzerland was then forced to conclude a first agreement on savings accounts. Since 1<sup>st</sup> January 2017, Switzerland has gathered data on foreign bank account holders, and from 2018 will transmit a list of these automatically to the foreign account holders' own country, as part of the new global standard: Automatic Exchange of Information (AEOI). Swiss banking secrecy was condemned since 2014, when Switzerland approved the convention to keep its status of financial hub. In 2015, the Swiss Parliament approved the AEOI and the agreement was

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<sup>22</sup> Financial Information Authority, 2015. *Annual report 2015*. [on line]. Page 13. [Consulted on April 5, 2017]. <http://www.aif.va/ENG/pdf/AIF%20Report%202015%20ENG.pdf>

finally ratified in 2016. Initially, the United States of America were part of the list of the countries with which Switzerland was ready to collaborate; however, the US remains the only large developed country which is not part of the AEoI due the use of its own standard (FATCA). On 30<sup>th</sup> June 2014, the US imposed on Switzerland an agreement of information exchange called FATCA Model 2 and that does not offer reciprocity.

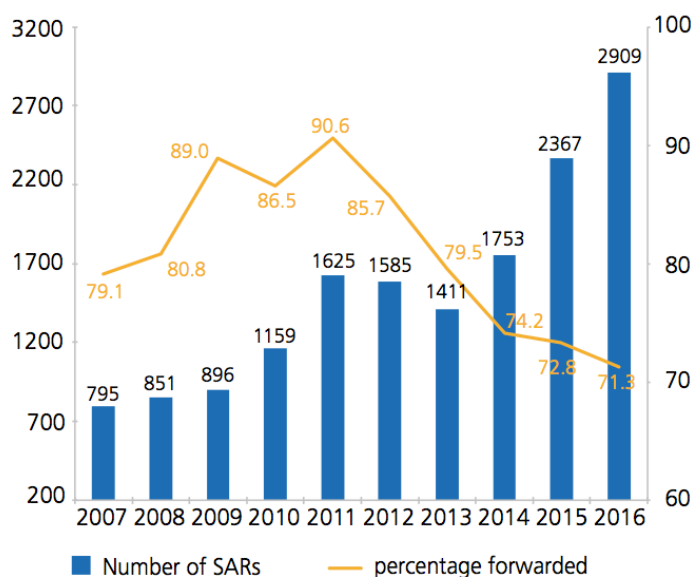
Indeed, this is a unilateral agreement because the information only goes from Switzerland to the US but not the other way around. The Holy See is probably subject to the FATCA Model 1, because normally according to the Vatican Law CLXXXV, the AIF is allowed to exchange information only when there is reciprocity; we can assume, without evidence however, that the FATCA Model 1 was ratified between the US and the Holy See. The US push countries to abide by the OECD norms but at the same do not comply with them. This asymmetry in the American attitude was not appreciated by the Swiss banking and financial sectors, which knew at the same time that not being part of the FATCA would enhance their administrative duties. In the Vatican City State, there is not a so-called “banking secret” because basically there is no bank on its territory, and it is rather an official secret linked to the discretion with which any financial operation has to be treated. The official secret does not limit the access to information by the AIF.

Regarding money laundering and financing of terrorism, the law in Switzerland originates from the Swiss Penal Code (art. 306 ter, 305 bis and 305 ter) and the measures from the Federal Act on Combating Money Laundering and Terrorist Financing (AMLA or LBA in French), which gives the framework to the Authorities to combat terrorism financing and money laundering. The main authority in Switzerland in charge of regulating the financial sector is the FINMA. The Vatican’s homologue is the AIF. The FINMA is assisted by the MROS (Money Laundering Reporting Office Switzerland; a part of Fedpol) and acts as a filter between the financial intermediaries and the law enforcement agencies. In November 2013, the Federal Council created the Interdepartmental Coordination Group on Combating Money Laundering and the Financing of Terrorism (CGMF) to coordinate the Swiss policies against money laundering and terrorism financing, to evaluate the risks for the country linked to those illegal activities, to propose legal improvements and to ensure the consistency of the Swiss policies with the international standards. In the Vatican City, those activities mainly fall under the scope of the CoSiFi that was established in 2013.

According to the graph here appended, it appears that the number of Suspicious Activities Reports (SAR) is on an upward trend in Switzerland. At the same time, the percentage of forwarded reports to the prosecution Authorities is falling since 2011. This fall is mainly due to three factors: first, the revision of the anti-money laundering act in 2013, which now allows the MROS to enjoy more powers to acquire information (which means that it needs less support from prosecutors to look for information and proofs); second, since 2011, the MROS is increasing its work force to examine in greater detail the individual cases; and third, the authority does not have any deadline to analyze the reports brought to it. Now, with a more ample team of experts, it can dedicate more time to investigate in depth every suspicious activity report and set aside cases that cannot be sufficiently documented or proven with a reasonable amount of work. In the Vatican, the number of SARs are increasing over time as the regulations are correctly applied and the number of reports send to the Promoter of Justice have more than doubled between 2014 and 2015.

Figure 9: SAR in CH, annual report 2016 of the MROS

**Proportion of SARs forwarded to the prosecution authorities in comparison to the total number submitted 2007–2016**



Since 1990, Switzerland is part of the FATF (Financial Action Task Force). The FATF published a fourth mutual report in December of 2016. Switzerland obtained generally good results, higher than the average of other monitored countries, and the quality of its system to combat money laundering and financing of terrorism was recognized as more than adequate. The report came up with a few recommendations about the legal framework and its application. Switzerland was considered as compliant or largely compliant for 31 out of the 40 recommendations made by the FATF.

Both the Vatican City State and Switzerland use to face sever reprimands from third countries, which often are not examples themselves in compliance and who tolerate practices on their own territory that they want others to prohibit. Switzerland and the Vatican City have high expectations for their financial entities and want to get rid of their



bad reputation in term of transparency and compliance. In order to be among the most compliant countries in combatting money laundering and terrorism financing, both countries have decided to apply the highest international standards.

## Findings

Since 2010, there is a real desire to establish more transparency, to promote integrity and to strengthen the legal and regulatory framework of the financial institutions of the Vatican. In 2012, the President of the Governorate of the Vatican City promulgated amendments and additions to law CXXVII (from 30 December 2010) concerning money laundering and terrorism financing to implement some recommendations made by the experts of Moneyval after their first inspection in 2011. The purpose is to bring the legal system in accordance with the international standards and it is clear that the Holy See and the Vatican City State are doing everything they can to be as efficient as possible in the modernization process.

According to the FATF guidelines, money laundering has been now completely criminalized. We can see that in 2015, seventeen cases have been brought toward the Promoter of Justice. Moreover, in 2015 the preventative actions (suspensions of transactions and freezing of accounts) accounted for almost 17 million euros. Those results illustrate all the work that has been done and that there are serious efforts being made by the Authority to stop illicit activities.

Often, the issues that faced the IOR happened because there was a lack of information on the customers and no real due diligence was carried out. Since the 20<sup>th</sup> October 2013, with the Law XVIII from the President of the Governorate, measures of customer due diligence (CDD) are legally mandatory and they are part of the Know Your Customer (KYC) procedure. It is the fundamental prerequisite to combat frauds.

In the law CLXVI from the 30<sup>th</sup> December 2010, I remarked that it was unclear if the AIF should have access to registers, books or accounts because it was not expressly stipulated. However, in the law XVIII from the 8<sup>th</sup> October 2013, those elements are clearly formulated in order to provide a clear legal framework for the Authority. It is important that the AIF does not lose time in accessing documents not to face risks of collusion or manipulation.

The supervision of the financial activities carried on a professional basis is now quite well regulated by the AIF and is subject to a close monitoring. There are many institutions in the Vatican that have for mission sustaining people in need wherever they live, including refugees and migrants. Those entities often receive quite large disbursements, which are then sent overseas. They are controlled by the Secretariat for the Economy but I believe that a close relationship between the Secretariat for the Economy and the AIF would be very valuable. Indeed, the AIF is acquiring consequent experience in term of international networks and cases' resolution. The authority has to collaborate with foreign authorities and now has the skills to be effective at this level.

No compromise should be made concerning the independency of the AIF. It is very important that the Sovereign Pontiff himself nominates the President and the four members of the Board of Directors to empower and give more credibility to the Authority. A sign that the AIF is really trusted is that it has the authority to sign international Memoranda of Understanding (MoU) on its own, without the supervision of any member of the clergy. The Secretary of State must then be informed about the signing.

Considering the size of the frauds and the occurrence of them, I do not think that it would be proportionated and profitable that the AIF, in close cooperation with the Gendarmeria, should establish a law enforcement unit to combat more directly money laundering and terrorism financing by tracing back their networks. The experts from Moneyval estimated that the risk of fraud is very low and of modest importance.

In its annual report from 2015, the IOR's risk management department identified a few risks (in collaboration with the AIF) for which they offered mitigation strategies. However, they did not mention a few others that I believe should have been considered such as : country part or not of the FATF, geographic risk and the nature of the transaction (type and frequency). In fact, as part of the CDD process, these risk factors should be taken into account.

To summarize the findings, the differences and similitudes between legal and regulatory frameworks of the Holy See/Vatican and of Switzerland, I created a chart with the principal steps and policies regarding the combat against money laundering and terrorism financing. The Holy See and Switzerland do not have the same evaluation basis for the FATF recommendations, because they were evaluated with two different methodologies; the Holy See with the old one and Switzerland with the new one.

**Table 1: Author's table, Vatican/Holy See vs Switzerland**

Comparison table	Vatican / Holy See	Switzerland
Year of effectiveness of AML laws and regulations	2010	1977
AML/CFT's regulator	AIF	FINMA + MROS
Internal controls and audits required	Yes	Yes
To whom a SAR is addressed	AIF	MROS
KYC policies	Yes	Yes
CDD requirements	Yes	Yes
Reduced CDD in some cases	Yes	Yes
Risk based approach	Yes	Yes
FIU	AIF	MROS
PEP's approach	Yes	Yes
AEoI	No	Yes (2017)
FATCA	Yes (2015)	Yes (2014)
Prohibition of doing business with shell banks	Yes	Yes
Part of FATF	No	Yes (1990)
Compliant with X number of FATF recommendations	22/29 (76%)	31/40 (78%)
Part of Egmont Group	Yes (2013)	Yes (1998)
Part of Moneyval	Yes (2011)	No
Sign bilateral agreements on AML/CFT	Yes	Yes

## Conclusion

According to Mr. René Brülhart, President of the AIF, and the report from Moneyval, the Vatican and the Holy See have already taken major steps to improve the situation and to comply with the highest international standards. The trend to give more responsibilities to laymen within the Church has transformed it into a more professional institution: the lay experts brought in can have brought their expertise and knowledge from their professional experience. It is now universally recognized that organizations need to be more transparent than they have been in the past, especially those for which the public has high expectations. The information flows much faster than ever and the need for accountability is currently greater than before.

The increase in complexity of the daily operations and the augmentation of compliance are globally well managed between the IOR and the AIF. The Institute knows that the new regulations and norms are pieces of a wider puzzle to which every institution linked with the Vatican or the Holy See is part of. It is important to acknowledge that, in the Vatican, everyone has to work in the best interest of the Pope; thus, if the Sovereign Pontiff decides to implement more transparency, more transparency there must be.

Regarding the future of the cross-border cash transportation, the President of the AIF hopes that the amount of cash brought in will decrease, as the aim of the Institute for the Works of Religion is not to maximize the total assets under management. If the flow of money entering the Vatican IOR diminishes, it means as well a decreased level of risk of fraud and scandals for the Church, both of which are highly counter-productive and which have done enormous damage to the Church in recent decades. Concerning small cash withdraws and deposits, current monitoring procedures go too far, in my opinion: people do not benefit from the presumption of innocence, as they have to “justify” themselves if they want to use or make a transaction with their own money (see appendix n°3). It is not an enjoyable procedure for the 99% of persons who are completely abiding by the rules.

Moreover, since 2012 the trend for the net profit of the IOR is downward sloping. Indeed, the investments of the IOR are related to the market and part of the decrease is market correlated. To this is added the direct and indirect restructuring costs, which are reflected also in the net profit of the Institute. Finally, the investment strategy has also changed to an even more conservative and ethical approach. All those factors have an influence on the IOR’s “profit margins”. Still, the Institute generates significant income, and the Pope is fully aware of the importance of having a financial institution to finance

the management of the Church, its evangelization and humanitarian works and to provide financial services in the regions that are excluded from progress and where there is a terrible lack of critical financial and administrative infrastructures.

A challenge for the AIF is to identify all the international connections of its customers. I believe that they must be particularly attentive to the “cash for passport” programs set by some countries to attract capital. Indeed, those programs could facilitate fraud and money laundering by helping people to avoid the Automatic Exchange of Information.

The Holy See is the oldest organization in the world; it has been around for close to two millennia. To survive the many upheavals and challenges from within and from without, the Church has had to be very well organized, disciplined and led by a strong Authority. However, the secondary effect from this very strong hierarchy is that people rarely dared to publicly contest or to question certain dubious acts, because the orders came from above. Things do not move quickly in the Catholic Church; this is, in my opinion, one of the reasons why the Church is still active and present for growing, even after 2'000 years. Still, Ferdinand Porsche's phrase comes to mind: “Change is easy. Improvement is far more difficult”. Thus, while it takes time and effort to change, it can take much more time and exponentially more effort to improve, to carry out reforms and to improve the functioning of this very old and complex Institution. The first anti-money laundering law was promulgated only in 2010; but now, the Vatican has gone a long way to meet the highest expectations regarding the financial side of the Church. The Holy See and the Vatican City State are now modernizing their institutions, regulations and legal framework. Moneyval, during their on-site inspections, has noticed the quality and quantity of the developments and the efforts that have been made to improve the situation. Discretion is a quality well cultivated in the Vatican and in the Holy See: decisions taken there can impact billion of people and every move is now analyzed and criticized by the press. This does not help the Curia to be convinced of the need for and benefits of more transparency. Still, the awareness of the need for more transparency began under the pontificate of Benedict XVI and continues and has even accelerated under Pope Francis. Where there is a culture of secrecy and a lack of transparency, there is more room for problems to go unaddressed, to fester and to grow, thus giving space and for the phantasms – real and imagined – of the mass medias.

To conclude, most States have had financial anti-money laundering and counter terrorism financing measures in place for fifteen or twenty years. Many years of sharing good practices with other countries enables them to have appropriate tools to combat those illegal acts. Now, the Vatican has gone a long way down the same path over a time frame of five years. Considering that before 2010 there was not even a specific law to fight financial crimes other than the penal code covering a few financial crimes, we can affirm that money laundering and terrorism financing have been quite heavily impacted by the new regulations. At the same time, it can be said that there is still room for improvements and updates to the actual menaces, which are continuously evolving.

*“The Vatican has a very strong obligation – a moral obligation – not toward supervisors or shareholders but to 1.2 billion Catholics in the world”* (René Brülhart, Bloomberg, 2015)

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## Appendixes



## Chapter 9. Report of the External Auditors

**Deloitte**

Deloitte & Touche S.p.A.  
 Via della Caracciolo, 588/A  
 00135 Roma  
 Italia  
 Tel: +39 06 367491  
 Fax: +39 06 36749282  
 www.deloitte.it

**INDEPENDENT AUDITOR'S REPORT**

To the Members of the Superintendence Board of  
**ISTITUTO PER LE OPERE DI RELIGIONE**

**Report on the Financial Statements**

We have audited the accompanying financial statements (Chapter 7 of 2015 Annual Report) of Istituto per le Opere di Religione, which comprise the balance sheet as at December 31, 2015, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

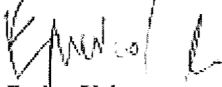
Avviso: Esso Benjamin Bruckner Banca Legali Finanziaria Milano Forasdi Venezia  
 Palermo Porto Alegre Porto Torres Roma Venezia

Sede legale: Via Vittoria 25 - 20144 Milano - Capitale Sociale Euro 10.000.000 i.v.  
 Codice Fiscale/Pecchetto delle Imprese Milanesi n. 0309560165 - R.E.A. Milano n. 1720239  
 Partita IVA n. 0309560165

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Istituto per le Opere di Religione as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

DELOITTE & TOUCHE S.p.A.



Enrico Ciai  
Partner

Rome, Italy  
April 26, 2016

## Appendix 2 : declaration of cross-border cash transportation



### Stato della Città del Vaticano Autorità di Informazione Finanziaria

Dichiarazione di trasferimento di denaro contante, pari o superiore al controvalore di 10.000 euro, da rendersi agli uffici degli enti presso i quali deve effettuarsi una qualsiasi operazione ovvero alla Gendarmeria presso gli ingressi dello Stato.

Dichiarazione resa in entrata  in uscita

#### 1° quadro Dati identificativi del dichiarante:

1) cognome \_\_\_\_\_ 2) nome \_\_\_\_\_ 3) sesso: M  F   
4) dati relativi alla posizione fiscale<sup>1</sup> \_\_\_\_\_ 5) luogo di nascita<sup>2</sup> \_\_\_\_\_  
6) data di nascita \_\_\_\_\_ 7) Stato di nascita \_\_\_\_\_ 8) cittadinanza \_\_\_\_\_  
9) Stato di residenza \_\_\_\_\_ 10) indirizzo \_\_\_\_\_

#### 2° quadro Dati identificativi del proprietario del denaro contante:

11) cognome o ragione sociale \_\_\_\_\_  
12) nome \_\_\_\_\_ 13) Stato e comune di residenza<sup>3</sup> \_\_\_\_\_  
14) dati relativi alla posizione fiscale (ove noti)<sup>4</sup> \_\_\_\_\_ 15) sesso: M  F   
16) luogo di nascita<sup>5</sup> \_\_\_\_\_ 17) cittadinanza \_\_\_\_\_

#### 3° quadro Dati relativi al genere del denaro contante (banconote, assegni emessi al portatore, travellers cheque, ecc.), al suo importo ed alla sua origine:

18) genere \_\_\_\_\_ 19) importo<sup>6</sup> \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
20) origine del denaro contante (risparmi, offerte, proventi di operazioni commerciali, ecc.)  
\_\_\_\_\_

#### 4° quadro Dati identificativi del destinatario del denaro contante:

21) cognome o ragione sociale \_\_\_\_\_  
22) nome \_\_\_\_\_ 23) Stato e comune di residenza \_\_\_\_\_  
\_\_\_\_\_ 24) dati relativi alla posizione fiscale (ove noti) \_\_\_\_\_

#### 5° quadro Dati relativi all'itinerario seguito:

25) paese di partenza \_\_\_\_\_  
eventuali paesi di passaggio \_\_\_\_\_  
paese di destinazione \_\_\_\_\_

26) estremi del documento di identificazione \_\_\_\_\_  
data \_\_\_\_\_ firma \_\_\_\_\_

Riservato all'ufficio ricevente la dichiarazione

Data \_\_\_\_\_ ora \_\_\_\_\_

COPIA PER L'AIF



## Appendix 3 : declaration of deposit/withdrawal at the IOR

Compilare in stampatello / please write in block letters

### DISTINTA DEPOSITO/RITIRO CONTANTI

CASH DEPOSIT/WITHDRAWAL SLIP

DATA / date \_\_\_\_\_

ORDINANTE / Name of ordering person \_\_\_\_\_

ORDINANTE EFFETTIVO (SE DIVERSO DAL CLIENTE)/ Request on behalf of (if different from the customer) \_\_\_\_\_

DEPOSITO  
deposit

RITIRO  
withdrawal

CAMBIO  
exchange

DISTINTA BIGLIETTI / BANK NOTES SLIP

DIVISA currency	N° BANCONOTE n° banknotes	TAGLI denomination	IMPORTO amount	TOTALE total

RITIRO debit	FONDO fund	DEPOSITO credit

ORIGINE DEI FONDI (DEPOSITO) / ORIGIN OF FUNDS (DEPOSIT)

UTILIZZO (RITIRO) / FUNDS UTILISATION (WITHDRAWAL)

Il sottoscritto prende atto che l'Istituto è tenuto a fornire, se richiesto dalle autorità territoriali competenti, dati anagrafici dell'ordinante e/o del beneficiario. Il richiedente solleva l'Istituto da qualunque responsabilità derivante dall'applicazione delle disposizioni vigenti.

The undersigned takes note that the Institute have to provide, as required by the local supervisory authority, personal data about sender and/or beneficiary. The applicant relieves the Institute of any responsibility due to the application of current regulations.

FIRMA \_\_\_\_\_

signature

non scrivete nel riquadro sotto / do not write below this line

	RICEVUTO IN DATA _____ DA _____
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## Appendix 4 : list of persons who threaten peace and international security

### Soggetti individuati come destinatari del congelamento di beni ed altre risorse economiche

Name of Individual or Entity	Additional Information	Listing Information
YANGOUVONDA Francois	Date and place of birth: 14 October 1948 - Mouila, Gabon. Sex: Male. Nationality: N/A. Also Known As: YANGOUVONDA Bozize, born in Mouila (Gabon). Mother's maiden name and forenames: KOFIO Martine. Languages Spoken: N/A. Regions/Countries likely to be visited: N/A. Identity documents: N/A. Addresses: N/A. Engaging in or providing support for acts that undermine the peace, stability or security of CAR. Since the coup d'etat on 24 March 2013, Bozizé provided financial and material support to militiamen who are working to destabilize the ongoing transition and to bring him back to power.	Date of listing: 14 May 2014. The subject of this notice has been designated by the UN Security Council Sanctions Committee established pursuant to resolution 2127 (2013) concerning the Central African Republic as subject to the following sanctions.
NOURREDINE Adam	Forenames: ADAM. Date and place of birth: 1970 - Ndele, Central African Republic. Sex: Male. Nationality: CENTRAL AFRICA. Also Known As: NOURREDINE Adam born on 1971. Nicknames: GENERAL NOURREDINE; NURELDINE ADAM; NOURRELDINE ADAM; NOURREDINE ADAM. Identity documents: N/A. Engaging in or providing support for acts that undermine the peace, stability or security of the Central African Republic (CAR): Nouredine is one of the original leaders of the Seleka.	Reference Number in the List: CFI.002 Date of listing: 09 May 2014
SHEKAU Abubakar Mohammed	Family name : ابو بكر محمد الشكوى Forenames: Abubakar Mohammed. Date and place of birth: 1969 - Shekau village, Yobe State, Nigeria. Sex: Male. Nationality: NIGERIAN (NOT CONFIRMED). Forenames: BT MOHAMMED, ABU MUHAMMED, ABUBAKAR, BIN MOHAMMED, ABU MOHAMMED, ABUBAKAR SHEKAU ABUBAKAR. Nicknames: SHAYKU; SHEKAU; SHEHU; IMAM DARUL TAUHID; IMAM DARUL TAWHEED. Regions/Countries likely to be visited: Nigeria. Identity documents: N/A. Addresses: Nigeria. Member of the Kanuri tribe. Leader of Jama'atu Ahlis Sunna Lidda'Awati Wal- Jihad (Boko Haram) (QE.B.138.14). Under Shekau's leadership, Boko Haram has been responsible for a series of major terrorist attacks.	Reference Number in the List: QI.S.322.14 Date of listing: 26 June 2014.
HAQQANI Yahya	Family name : هادي، ذافى. Forenames: Yahya. Date and place of birth: 1982 Sex: Male. Nationality: AFGHAN (NOT CONFIRMED). Also Known As: Family name Forenames Date of birth HAQQANI YAHYA 1978 HAQQANI YAYA. Nicknames: QARI SAHAB Marital status: Father's family name and forenames: KHAN Hajji Meyawar. Yahya Haqqani is a senior Haqqani Network (HQN) (TE.H.12.12.) member who has been closely involved in the group's military, financial, and propaganda activities. Senior Haqqani Network (HQN) (TE.H.12.12.) member. Closely involved in the group's military, financial, and propaganda activities. Father is deceased.	Reference Number in the List : TI.H.169.14. Date of listing: 3 July 2014.
ZADRAN Muhammad Omar	Family name : محمد عمر زدران. Forenames: Muhammad Omar. Date and place of birth: 1958 - Sultan Kheyl Village, Spera District, Khost Province, Afghanistan Sex: Male. Nationality: N/A. Also Known As: JADRAN Mohammad-Omar. Identity documents: N/A. Muhammad Omar Zdran (Omar) is a Haqqani Network (HQN) (TE.H.12.12.) leader who as of 2013 in command of over 100 militants active in Khost Province, Afghanistan. Omar served as an HQN Shadow District Governor, and as a commander under HQN leader Sirajuddin Jallaloudine Haqqani (TI.H. 144.07.) since 2005, and has planned or been instructed to plan attacks on behalf of the HQN since at least 2006.	Date of listing: 31 July 2014
AL-HABLAIN Ibrahim Suleiman Hamad	Family name: N/A. Forenames: Ibrahim Suleiman Hamad. Date and place of birth: 17 December 1984 - Buraidah, Saudi Arabia Sex: Male. Nationality: SAUDI ARABIAN (NOT CONFIRMED). Also Known As: AL HABLAIN f/ns BARAHIM SULIMAN H. Nicknames: ABU-JABAL; ABU JABAL Occupation: Explosives expert and operative for the Abdallah Azzam Brigades (AAB) (QE.A.144.14). Languages Spoken: Arabic. Identity documents: Saudi Arabian passport No. F80069. Addresses: N/A. Ibrahim Suleiman Hamad al-Hablain is a Saudi Arabian citizen and wanted by the Government of Saudi Arabia for terrorism. AAB has also claimed responsibility for multiple attacks in Lebanon linked to the uprising in Syria, including the November 2013 attack on the Iranian Embassy in Beirut.	Al-Qaida (QE.A.4.01), listed on 6 October 2001 Al-Nusrah Front for the People of the Levant (QE.A.137.14), listed on 14 May 2014 Abdallah Azzam Brigades (AAB) (QE.A.144.14), listed on 23 September 2014

**Soggetti individuati come destinatari del congelamento di beni ed altre risorse economiche**

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SHEKAU Abubakar Mohammed	Family name : ابو بكر محمد النخوي Forenames: Abubakar Mohammed. Date and place of birth: 1969 - Shekau village, Yobe State, Nigeria. Sex: Male. Nationality: NIGERIAN (NOT CONFIRMED). Forenames: BT MOHAMMED, ABU MUHAMMED, ABUBAKAR, BIN MOHAMMED, ABU MOHAMMED, ABUBAKAR SHEKAU ABUBAKAR. Nicknames: SHAYKU; SHEKAU; SHEHU; IMAM DARUL TAUHID; IMAM DARUL TAWHEED. Regions/Countries likely to be visited: Nigeria. Identity documents: N/A. Addresses: Nigeria. Member of the Kanuri tribe. Leader of Jama'atu Ahlis Sunna Lidda'Awati Wal- Jihad (Boko Haram) (QE.B.138.14). Under Shekau's leadership, Boko Haram has been responsible for a series of major terrorist attacks.	Reference Number in the List: QI.S.322.14 Date of listing: 26 June 2014.
HAQQANI Yahya	Family name : ص، ذادی Forenames: Yahya. Date and place of birth: 1982 Sex: Male. Nationality: AFGHAN (NOT CONFIRMED). Also Known As: Family name Forenames Date of birth HAQQANI YAHYA 1978 HAQQANI YAYA. Nicknames: QARI SAHAB Marital status: Father's family name and forenames: KHAN Hajji Meyawar. Yahya Haqqani is a senior Haqqani Network (HQN) (TE.H.12.12.) member who has been closely involved in the group's military, financial, and propaganda activities. Senior Haqqani Network (HQN) (TE.H.12.12.) member. Closely involved in the group's military, financial, and propaganda activities. Father is deceased.	Reference Number in the List : TI.H.169.14. Date of listing: 3 July 2014.
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NOURREDINE Adam	Forenames: ADAM. Date and place of birth: 1970 - Ndele, Central African Republic. Sex: Male. Nationality: CENTRAL AFRICA. Also Known As: NOURREDINE Adam born on 1971. Nicknames: GENERAL NOURREDINE; NURELDINE ADAM; NOURRELDINE ADAM; NOURREDINE ADAM. Identity documents: N/A. Engaging in or providing support: for acts that undermine the peace, stability or security of the Central African Republic (CAR): Nouredine is one of the original leaders of the Seleka.	Reference Number in the List: CFI.002 Date of listing: 09 May 2014
SHEKAU Abubakar Mohammed	Family name : ابو بكر محمد الشوي Forenames: Abubakar Mohammed. Date and place of birth: 1969 - Shekau village, Yobe State, Nigeria. Sex: Male. Nationality: NIGERIAN (NOT CONFIRMED). Forenames: BT MOHAMMED, ABU MUHAMMED, ABUBAKAR, BIN MOHAMMED, ABU MOHAMMED, ABUBAKAR SHEKAU ABUBAKAR. Nicknames: SHAYKU; SHEKAU; SHEHU; IMAM DARUL TAUHID; IMAM DARUL TAWHEED. Regions/Countries likely to be visited: Nigeria. Identity documents: N/A. Addresses: Nigeria. Member of the Kanuri tribe. Leader of Jama'atu Ahlis Sunna Lidda'Awati Wal- Jihad (Boko Haram) (QE.B.138.14). Under Shekau's leadership, Boko Haram has been responsible for a series of major terrorist attacks.	Reference Number in the List: QI.S.322.14 Date of listing: 26 June 2014.
HAQQANI Yahya	Family name : ص، ذادی Forenames: Yahya. Date and place of birth: 1982 Sex: Male. Nationality: AFGHAN (NOT CONFIRMED). Also Known As: Family name Forenames Date of birth HAQQANI YAHYA 1978 HAQQANI YAYA. Nicknames: QARI SAHAB Marital status: Father's family name and forenames: KHAN Hajji Meyawar. Yahya Haqqani is a senior Haqqani Network (HQN) (TE.H.12.12.) member who has been closely involved in the group's military, financial, and propaganda activities. Senior Haqqani Network (HQN) (TE.H.12.12.) member. Closely involved in the group's military, financial, and propaganda activities. Father is deceased.	Reference Number in the List : TI.H.169.14. Date of listing: 3 July 2014.
ZADRAN Muhammad Omar	Family name : محمد عمر خدران Forenames: Muhammad Omar. Date and place of birth: 1958 - Sultan Kheyl Village, Spera District, Khost Province, Afghanistan Sex: Male. Nationality: N/A. Also Known As: JADRAN Mohammad-Omar. Identity documents: N/A. Muhammad Omar Zadrان (Omar) is a Haqqani Network (HQN) (TE.H.12.12.) leader who as of 2013 in command of over 100 militants active in Khost Province, Afghanistan. Omar served as an HQN Shadow District Governor, and as a commander under HQN leader Sirajuddin Jallaloudine Haqqani (TI.H. 144.07.) since 2005, and has planned or been instructed to plan attacks on behalf of the HQN since at least 2006.	Date of listing: 31 July 2014
AL-HABLAIN Ibrahim Suleiman Hamad	Family name: N/A. Forenames: Ibrahim Suleiman Hamad. Date and place of birth: 17 December 1984 - Buraidah, Saudi Arabia Sex: Male. Nationality: SAUDI ARABIAN (NOT CONFIRMED). Also Known As: AL HABLAIN f/ns BARAHIM SULIMAN H. Nicknames: ABU-JABAL; ABU JABAL Occupation: Explosives expert and operative for the Abdallah Azzam Brigades (AAB) (QE.A.144.14). Languages Spoken: Arabic. Identity documents: Saudi Arabian passport No. F80069. Addresses: N/A. Ibrahim Suleiman Hamad al-Hablain is a Saudi Arabian citizen and wanted by the Government of Saudi Arabia for terrorism. AAB has also claimed responsibility for multiple attacks in Lebanon linked to the uprising in Syria, including the November 2013 attack on the Iranian Embassy in Beirut.	Al-Qaida (QE.A.4.01), listed on 6 October 2001 Al-Nusra Front for the People of the Levant (QE.A.137.14), listed on 14 May 2014 Abdallah Azzam Brigades (AAB) (QE.A.144.14), listed on 23 September 2014

**Soggetti individuati come destinatari del congelamento di beni ed altre risorse economiche**

Name of Individual or Entity	Additional Information	Listing Information
YANGOUVONDA Francois	Date and place of birth: 14 October 1948 - Mouila, Gabon. Sex: Male. Nationality: N/A. Also Known As: YANGOUVONDA Bozize, born in Mouila (Gabon). Mother's maiden name and forenames: KOFIO Martine. Languages Spoken: N/A. Regions/Countries likely to be visited: N/A. Identity documents: N/A. Addresses: N/A. Engaging in or providing support for acts that undermine the peace, stability or security of CAR. Since the coup d'etat on 24 March 2013, Bozizé provided financial and material support to militiamen who are working to destabilize the ongoing transition and to bring him back to power.	Date of listing: 14 May 2014. The subject of this notice has been designated by the UN Security Council Sanctions Committee established pursuant to resolution 2127 (2013) concerning the Central African Republic as subject to the following sanctions.
NOURREDINE Adam	Forenames: ADAM. Date and place of birth: 1970 - Ndele, Central African Republic. Sex: Male. Nationality: CENTRAL AFRICA. Also Known As: NOURREDINE Adam born on 1971. Nicknames: GENERAL NOURREDINE; NURELDINE ADAM; NOURRELDINE ADAM; NOURREDINE ADAM. Identity documents: N/A. Engaging in or providing support: for acts that undermine the peace, stability or security of the Central African Republic (CAR): Nouredine is one of the original leaders of the Seleka.	Reference Number in the List: CFI.002 Date of listing: 09 May 2014
SHEKAU Abubakar Mohammed	Family name : ابو بكر محمد النخوي Forenames: Abubakar Mohammed. Date and place of birth: 1969 - Shekau village, Yobe State, Nigeria. Sex: Male. Nationality: NIGERIAN (NOT CONFIRMED). Forenames: BT MOHAMMED, ABU MUHAMMED, ABUBAKAR, BIN MOHAMMED, ABU MOHAMMED, ABUBAKAR SHEKAU ABUBAKAR. Nicknames: SHAYKU; SHEKAU; SHEHU; IMAM DARUL TAUHID; IMAM DARUL TAWHEED. Regions/Countries likely to be visited: Nigeria. Identity documents: N/A. Addresses: Nigeria. Member of the Kanuri tribe. Leader of Jama'atu Ahlis Sunna Lidda'Awati Wal- Jihad (Boko Haram) (QE.B.138.14). Under Shekau's leadership, Boko Haram has been responsible for a series of major terrorist attacks.	Reference Number in the List: QI.S.322.14 Date of listing: 26 June 2014.
HAQQANI Yahya	Family name : ص، ذادی. Forenames: Yahya. Date and place of birth: 1982 Sex: Male. Nationality: AFGHAN (NOT CONFIRMED). Also Known As: Family name Forenames Date of birth HAQQANI YAHYA 1978 HAQQANI YAYA. Nicknames: QARI SAHAB Marital status: Father's family name and forenames: KHAN Hajji Meyawar. Yahya Haqqani is a senior Haqqani Network (HQN) (TE.H.12.12.) member who has been closely involved in the group's military, financial, and propaganda activities. Senior Haqqani Network (HQN) (TE.H.12.12.) member. Closely involved in the group's military, financial, and propaganda activities. Father is deceased.	Reference Number in the List : TI.H.169.14. Date of listing: 3 July 2014.
ZADRAN Muhammad Omar	Family name : محمد عمر خدران. Forenames: Muhammad Omar. Date and place of birth: 1958 - Sultan Kheyl Village, Spera District, Khost Province, Afghanistan Sex: Male. Nationality: N/A. Also Known As: JADRAN Mohammad-Omar. Identity documents: N/A. Muhammad Omar Zadrán (Omar) is a Haqqani Network (HQN) (TE.H.12.12.) leader who as of 2013 in command of over 100 militants active in Khost Province, Afghanistan. Omar served as an HQN Shadow District Governor, and as a commander under HQN leader Sirajuddin Jallalouline Haqqani (TI.H. 144.07.) since 2005, and has planned or been instructed to plan attacks on behalf of the HQN since at least 2006.	Date of listing: 31 July 2014
AL-HABLAIN Ibrahim Suleiman Hamad	Family name: N/A. Forenames: Ibrahim Suleiman Hamad. Date and place of birth: 17 December 1984 - Buraidah, Saudi Arabia Sex: Male. Nationality: SAUDI ARABIAN (NOT CONFIRMED). Also Known As: AL HABLAIN f/ns BARAHIM SULIMAN H. Nicknames: ABU-JABAL; ABU JABAL Occupation: Explosives expert and operative for the Abdallah Azzam Brigades (AAB) (QE.A.144.14). Languages Spoken: Arabic. Identity documents: Saudi Arabian passport No. F80069. Addresses: N/A. Ibrahim Suleiman Hamad al-Hablain is a Saudi Arabian citizen and wanted by the Government of Saudi Arabia for terrorism. AAB has also claimed responsibility for multiple attacks in Lebanon linked to the uprising in Syria, including the November 2013 attack on the Iranian Embassy in Beirut.	Al-Qaida (QE.A.4.01), listed on 6 October 2001 Al-Nusrah Front for the People of the Levant (QE.A.137.14), listed on 14 May 2014 Abdallah Azzam Brigades (AAB) (QE.A.144.14), listed on 23 September 2014