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A pope with no down time and an interview with the Vatican's financial reformer

John L. Allen Jr. | Dec. 20, 2013 All Things Catholic

Not so long ago, the yuletide season at the Vatican meant calm. The pope and the Curia went into semi-hibernation while hearing Advent sermons from the Preacher of the Papal Household while the system was on a basic hiatus, with no real drama rolling out of Rome until well into January.

In the Francis era, however, there's no "off" switch, which makes me very glad I've been in Rome this week.

The pope marked the period around his 77th birthday on Tuesday with a series of decisions and gestures that collectively amounted to another important chapter in the "Francis revolution." A tick-tock of notable developments includes the following.

- On Sunday, the Italian daily newspaper *La Stampa* published [1] another blockbuster interview with Francis, this one featuring comments from the pope on conservative American criticism that his economic ideas are Marxist and a rare definitive papal response to speculation about what he might do, in this case a firm "no" to the idea of women cardinals.
- On Monday, Francis announced an earthquake [2] at the Vatican's all-important Congregation for Bishops, in effect steering the body away from a hard-line position on the culture wars and toward a more centrist stance. For Americans, the most notable change was bringing in Cardinal Donald Wuerl of Washington, D.C., and taking away Cardinal Raymond Burke.
- On Tuesday, his birthday, Francis marked the occasion by inviting homeless men and a dog [3] (whose name, for the record, is Marley, after the reggae icon Bob Marley) to join him for breakfast. Images of the pope laughing with the men made the rounds and became yet another visual expression of his call for a "poor church of the poor."
- On Thursday, the Vatican announced [4] that a commission created by the pope in July to study its economic and administrative structures has awarded contracts to two global consulting firms to move the ball on different aspects of his reform agenda. McKinsey & Company, a management consulting firm based in the States, has been hired to advise the Vatican on a reorganization of its PR operation while KPMG, an auditing firm based in the Netherlands, will advise the Vatican on bringing its accounting procedures into line with global standards.

Three observations about these developments suggest themselves.

First, not all these moves are of equal importance. By far, the most significant is probably the new lineup at the Congregation for Bishops because it shapes the criteria by which future church leaders will be chosen. In general, assuming Francis' appointments represent the kind of bishop he wants in the church, the profile seems to be that of a nonideological pragmatist, close to ordinary people, and committed to the social Gospel.

My analysis of the appointments can be found here [5].

By way of comparison, the hiring of McKinsey and KPMG played to equal parts admiration and derision.

One wag said [6] that on top of the recent hiring of Promontory Financial Group to review accounts at the Vatican bank and the Administration of the Patrimony of the Apostolic See (APSA), as well as the presence of a former executive at Ernst and Young on the commission that hired these firms, there are now more consultants than priests in the Vatican. He jokingly suggested that as of Jan. 1, the Vatican ought to move to New York to cut down on the consultants' travel time.

For sure, the hiring of a consultant is not the same thing as real reform. On the other hand, critics have groused for years that the clerics who run the shop in the Vatican aren't trained in finance, communications, and the other specialties of a complex global institution, and they ought to bring people in who actually know what they're doing. It seems a bit disingenuous to roast them for trying to do precisely that.

Second, it seems a bit comedic to bring in a consultant on Vatican communications now, given that Francis seems to have no need whatsoever of PR advice. His instinct to bring in a group of homeless people to celebrate his birthday is a classic case in point -- that was easily the day's big Vatican story, and it was yet another positive narrative. Before long, there may well be no media outlet left on Earth that hasn't declared Francis its Person of the Year.

Where was McKinsey during the Benedict years, one might ask, when the pope actually needed the help?

In all seriousness, however, the "Francis effect" may actually augment rather than undercut the importance of streamlining the media operation in Rome.

During the John Paul II years, many observers made the mistake of thinking that the Vatican had turned a page in media savvy because the pope himself was such a beguiling figure. In fact, John Paul's charisma largely covered up the reality that the Vatican remained disorganized and underdeveloped in its capacity to engage the media, a point revealed with crystal clarity under Benedict. The same thing could happen under Francis; i.e., missing the point that the pope's individual appeal doesn't necessarily mean the system has changed.

Third, a word to the wise: Down time at the Vatican is a thing of the past. A few days ago, I had a chat with a senior Vatican official who told me he hoped we were entering a period of "tranquility," and of course that proved to be more pious wish than reality.

Under Francis, you just never know when something important is going to break, which makes every day at this place must-see TV.

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Here's a comparison that probably will be comprehensible only to insiders, but I'm going to make it anyway because it captures the point better than anything else I can think of, and then I'll unpack it.

What Bishop Charles Scicluna is to the sex abuse issue, René Bruelhart now is to Vatican finances**.**

For those who've been paying attention, Scicluna is the Elliot Ness of the Catholic church when it comes to child sex abuse. A Maltese priest and canon lawyer, he was the Promoter of Justice in the Congregation for the Doctrine of the Faith who led the case against the late Mexican Fr. Marcial Maciel Degollado, founder of the Legionaries of Christ, finding him guilty of a wide range of sexual misconduct and abuse. That process ended in a May 2006 decision by Benedict XVI to sentence Maciel to a life of prayer and penance.

Scicluna also delivered a memorable set of remarks at a landmark 2012 summit at Rome's Gregorian University

on the abuse crisis, condemning a "culture of *omertà*" in the church -- deliberately using the Italian word for the mafia's code of silence.

Bruelhart now enjoys much the same reputation on the financial front -- the senior Vatican official most identified with a reform position.

Hired last year to spearhead the Vatican's transparency campaign, Bruelhart directs the Financial Information Authority, known by its Italian acronym AIF, which is the financial watchdog agency created under Benedict XVI. Its mandate is primarily to oversee the Vatican bank, making sure it plays by the rules of the international financial system.

His background gave him instant credibility. Bruelhart joined Liechtenstein's financial intelligence unit as deputy director in 2001 and took over the top job in 2004. He also served as vice president of the Egmont Group, a global network of financial intelligence units that coordinate the policing of financial transparency requirements. The Vatican was admitted to the group in July, probably in part due to Bruelhart's reputation.

While working at Egmont, Bruelhart achieved fame in 2003, when he helped return a Falcon 50 business jet worth several million dollars to the new Iraqi government after the fall of Saddam Hussein -- the first case, according to news reports, in which an asset held by Saddam outside Iraq was repatriated.

Since arriving in the Vatican, Bruelhart has earned a profile for both hard work and earnestness. He sat down on Wednesday for an interview with *NCR*, primarily to talk about a recent report on the Vatican from the Council of Europe's anti-money-laundering agency Moneyval, which was largely positive, as well as the broader state of reform efforts under Francis.

One technical point: Bruelhart refers in the interview to the difference between the Institute for the Works of Religion -- the so-called "Vatican bank" -- and the Administration of the Patrimony of the Apostolic See, or APSA. While both are Vatican departments that handle money and make investments, there's a fundamental distinction between the two: The bank invests money on behalf of others, including religious orders, dioceses, movements, and Catholic foundations, while APSA oversees the Vatican's own property and investment portfolio.

Though Bruelhart didn't make the point himself, probably because it's not up to him to do so, by the time the current round of reform is over, APSA likely will no longer offer any services to private clients at all and will be repositioned as the Vatican's central bank -- like the Federal Reserve in the United States, though on an infinitely smaller scale.

As a result, Bruelhart's department wouldn't have any further responsibility for APSA, though it will continue to oversee the Vatican bank, as the lone financial institution in the Vatican that bears a passing resemblance to the commercial banks or investment houses in other countries.

The text of the Bruelhart interview follows.

***Allen*: Overall, the Moneyval report seemed very positive about the Vatican's efforts. Were you pleased?**

Bruelhart: Yes, I think we did our homework. The report was fully approved by the Moneyval plenary assembly, which means the international community appreciates what we're doing. They acknowledged the significant progress that's been made over the past year.

Anything in the report that surprised you?

No, I think it was fair and well-drafted. It was objectively put together based on the clear procedures Moneyval has in place, so there were no surprises.

Moneyval described it as "surprising" that your office hasn't yet done formal inspections of either the Vatican bank or APSA. Why haven't those inspections been done?

There's a clear work plan behind that. There's an initial review process of client information taking place within the IOR. The results of that fall under the supervision of AIF. When they're finished, we'll do the work that has to be done on our end, making sure that the profiles are up to date, reviewing the client base information, and so on. We'll carry out a full on-site inspection to verify that the work was done properly.

Keep in mind that Moneyval is following broad international standards that aren't necessarily applicable to the Vatican. The situation here is a little bit different from other countries, where you have commercial banks and so on. The Vatican doesn't have a financial center. There are no commercial banks, no insurance companies, and no stock exchange. We're fully applying international standards, but to do it, we have to build a tailor-made system.

When will the inspection of IOR happen?

Early next year, so early 2014. It will be an ordinary on-site supervisory inspection.

Presumably you've been following the IOR's internal review, so you won't be starting from scratch.

The process has been carried out with our direction, so we've provided guidance as to what it should look like. I have confidence that the approach they're following is the right approach. However, it's going to be important to have a full-fledged inspection to make sure it was done properly, and that's what we're going to do.

What about APSA?

Without going into details, a similar internal review is going on within APSA. I wouldn't exclude that we'll perform an inspection at some point, but we also have to be clear that APSA is a different case from the IOR.

The difference is this: There's no question that the IOR is a financial institution, meaning an entity that falls under the full supervision of a competent authority. That's not really true with APSA, although over the years, APSA took on some characteristics of a financial institution due to the fact that it holds certain accounts and conducts some financial services. At some point we'll most probably have to deal with that, and I wouldn't rule out an inspection.

Moneyval also said that AIF needs "more trained and experienced staff" and said they should be brought on board "quickly." When can we expect to see that happen?

With the *motu proprio* of Aug. 8, which established the prudential supervisory function for AIF, and the new law of Oct. 8, the kind of work we're doing has obviously expanded. AIF now has two key functions. One is as a financial intelligence unit, where you need operational and strategic analysts. The other work stream is the supervisory role, where you need people with an auditing background.

Financial intelligence units don't normally talk in the media about the exact number of personnel they have, but I can tell you that we're not going to be a big as the SEC! Realistically, it will be a handful or more of people with the right qualities dedicated to doing this work in both a credible and a professional way.

When do you expect to have them on board?

We already have job descriptions and the recruitment process is starting now. We'll do it as quickly as possible.

Given that this is a fairly unique situation, is it hard to find people with the right background?

The Holy See is a global institution, and that's something we're definitely interested in reflecting in the people we hire. The search may take one or two weeks longer than it might elsewhere, but talk to me in a month's time and then we'll see.

Hiring someone for this job isn't exactly like finding someone to work in a financial intelligence unit in, say, France or the United States, correct?

No, partly because the situation in the Holy See is different. As we've already said, there isn't a financial center here. That said, the mechanics of the work, such as how you prepare for an inspection and then execute it, are about the same. Of course the client base is different, and in some cases, the types of transactions are different, but the mechanics at the end of the day are the same.

You'll probably have to do some "Vatican 101" for whomever you hire, won't you? Explaining the difference between a congregation and a council, for instance, or between a cardinal and a monsignor?

Probably. As a rule, it's a good idea to know your clients!

AIF now is both a financial intelligence unit and supervisor. Can you explain the difference?

A financial intelligence unit is primarily concerned with overseeing the reporting obligations of financial institutions. It responds to global standards that oblige a financial institution to screen its business activities and relationships, and if there are reasonable grounds for concern regarding money laundering or terrorism financing, they're required to file a suspicious transaction report to the competent authority, which is the financial intelligence unit.

The unit has to analyze this report and to get an understanding of whether this is more than a suspicion, whether there are concrete hints of some sort of illicit behavior or criminal activity. If that's the case, then these reports have to be forwarded to law enforcement authorities -- in the case of the Vatican, to the Promoter of Justice.

A supervisor ensures that the formal requirements of supervision, reporting and control are in place. It's about making sure the financial institution really is in a position to monitor its client relationships and its business activities. That's what you look for when you do an inspection. The second angle under the supervisory role is ensuring good governance standards, meaning that activities carried out or services provided are in line with the law.

To be clear, when you say "financial institution," in the case of the Vatican, there's really one, which is the IOR, correct? In other words, AIF's principal role will be tracking the IOR?

Yes. It's the only real full-fledged financial institution.

By the end of October, AIF had received 105 suspicious transaction reports, and presumably that number will be higher by the end of the year, which is considerably more than you had last year. What accounts for that?

It shows that the reporting system works, meaning that the financial institutions understand the reporting

obligations and are implementing them. For sure, it's also linked to the internal review process that's going on within the IOR. It's important to state that these are suspicions, or hints that give rise to suspicion, but in itself it doesn't mean that there's criminal activity. That's our job to identify.

How is that work going?

We'll provide figures in our annual report next year, but I can tell you that we're looking into these reports closely.

AIF has signed memoranda of understanding with a number of countries, including the United States, Belgium, Spain, Slovenia, the Netherlands and Italy. What's the significance of those agreements?

They allow you to cooperate on a bilateral level with the relevant countries. It's mainly to foster the exchange of financial information between the competent authorities in the relevant countries.

Are they also a kind of seal of approval from these countries, meaning that the financial authorities there see you as credible?

Clearly, yes. AIF became a member of the Egmont Group in July after a formal and in-depth process. That means we have credibility, because otherwise we wouldn't have become a member. These memoranda of understanding are an additional confirmation as well as a commitment to cooperate with these countries based on the rules that are laid out.

What kind of information might these countries want from you?

It's a two-way street, so the information flows in both directions. Normally, it would work like this: Let's say there's a client in the United States, and FinCEN [The Financial Crimes Enforcement Network, the financial intelligence unit in the United States] receives a report on that client, who also has a transaction record with financial institutions under the Vatican's remit. They might ask us for information about the client and vice versa, in order to verify what's going on in cross-border transactions.

You also have such a memo of understanding with Italy. Given the recent difficulties with Italy, was that an especially important deal?

The Vatican is a global institution, but it's also a neighbor to Italy. As always with neighbors, you want to have a good and constructive relationship. You want to cooperate, and there was a clear commitment from both sides that this is what we want to do. It is a good signal among neighbors.

Speaking of cooperation, a lawyer in the United States charged AIF on Dec. 13 with dodging requests to audit the IOR to identify looted Holocaust-era assets he believes are still there. How do you respond?

It's very simple. I'm happy to work together with the competent authorities, as we're already doing, including the United States.

So if you get a request from FinCEN on this point, you'd be happy to respond?

Sure. We've done that in the past, and we'll do it in the future as far as it is within our mandate.

Pope Francis has captured the world's imagination. Do you find that because of his appeal, people are more willing to give the Vatican the benefit of the doubt? Does it make it easier for you to persuade people that the Vatican really is coming clean?

Honestly, I don't think about things like that. My approach since I started serving here has been built on facts. Ultimately, the facts will speak for themselves. We're doing a job here, building a functioning and sustainable system stone by stone by stone. It's now largely in place and working, and we'll continue to strengthen it. We'll continue to deal in facts, and to me, that's what it's all about. If you want to see those facts, great; if not, that's up to you.

People sometimes like to speculate about an "old guard" in the Vatican that would resist the sort of reform you're trying to achieve. Have you met any such resistance?

My experience is that I've always received a lot of support. I'm here to serve, and I think there's a lot of backing for the work we're doing.

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