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Vatican passes first test against money laundering, finance crimes

Carol Glatz Catholic News Service | Jul. 18, 2012

VATICAN CITY -- As the Vatican continues working to comply with international standards against money laundering and financing terrorism, it still needs to beef up internal inspection and supervisory powers, said a long-awaited report by European finance experts.

Overall, the Vatican met nine out of 16 "key and core" recommendations, thereby passing its first major test in an effort to become more financially transparent and compliant with international norms.

"The Holy See has come a long way in a very short period of time and many of the building blocks" of a system to combat money laundering and the financing of terrorism "are now formally in place," said the first report on the Vatican by Moneyval, the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism.

However, "further important issues still need addressing" to tighten remaining loopholes, fill in legal gaps and guarantee laws are effectively being carried out, it said.

The 240-page report was released to the public Wednesday.

Moneyval said the Vatican needs to expand the legal powers and guarantee the independence of its Financial Information Authority, the Vatican oversight agency charged with monitoring all Vatican agencies that have financial dealings or commercial transactions.

"The legislative basis for supervision and inspection needs strengthening" to ensure the authority is not only independent of the bodies it must supervise, but that it has a clear legal right to conduct onsite inspections and demand access to account records and other information, the report said.

"The FIA does not appear to have adequate powers to carry out its supervisory duties and has no ability to issue sanctions" against the Administration of the Patrimony of the Holy See, the Vatican's investment agency. There also is nothing in place to supervise the financial dealings of the many foundations and nonprofit organizations based within Vatican City State, it said.

Msgr. Ettore Balestrero, Vatican undersecretary for relations with states and head of the Vatican delegation to the Moneyval committee, told reporters Wednesday that the Vatican is taking "both the praise and criticism contained in the report with seriousness."

The report "is not the end, but is rather a milestone in continuing our efforts to marry moral commitments to technical excellence," he said.

Because of its position as a moral voice in the world, the Holy See hopes its concrete efforts "raise maximum awareness about the far too frequent transnational crime of money laundering and the financing of terrorism," he added.

The process of reaching the ultimate goal of making the Organization for Economic Cooperation and Development's "white list" of countries abiding by global financing norms is complicated, he said, and the Vatican is working "step by step to ensure we have a system that is sustainable and solid."

Other recommendations made by the Moneyval investigators included appointing an independent supervisor to oversee the Institute for the Works of Religion, commonly known as the Vatican bank, and involving staff of the Financial Information Authority in the process of licensing senior staff of other Vatican financial institutions.

However, significant steps have been taken since the Moneyval process began, it said, as Vatican authorities "have cooperated closely with evaluators and reacted quickly to remedy a number of deficiencies highlighted during the first onsite visit" in November 2011.

Officials at the Vatican bank have "demonstrated clear commitment and high awareness as regards the accurate implementation of the obligations" spelled out in anti-terrorism and money-laundering laws, it added.

In 2010, the Vatican began a process of drawing up new finance laws, regulations and criminal penalties in an effort to better comply with international standards in the fight against money laundering and against financing criminal and terrorist networks. The Vatican requested the Moneyval evaluation in 2011 to help it on its path of developing tougher laws.

Moneyval's July report looked only at findings gleaned from onsite visits and studies by agency experts through Jan. 25, 2012, and not at any subsequent changes and improvements made by the Vatican after that date, the report said. In fact, the Vatican ratified three U.N. anti-crime conventions in 2012.

Judging the effectiveness of the new laws is difficult, in part because the Vatican's oversight body and court system haven't yet investigated, prosecuted or convicted anyone of a finance-related crime or frozen suspected criminal funds, the report said.

The Vatican presented a unique situation to European experts not only because is it the smallest country in the world, but there are no independent businesses, industries or a market economy, it said.

However, it said the Vatican is still vulnerable to money laundering and terrorist financing in part because of the "high volume of cash transactions and wire transfers," the global reach of its financial activity, especially with countries lacking sound international finance standards, and because of limited information on the nonprofit organizations operating within the Vatican.

The Holy See receives many donations for its charitable activities and to fulfill its universal mission, "and many donations are made in cash," Balestrero said.

"Obviously, there's nothing illicit in this, which is clear given the very nature" of the church. "On the other hand, on the basis of a deeper examination of risk factors, we must avoid any risk that could come up in the use of this cash," he said.

Some measures have already been taken, he said, such as meeting the European standard of banning cash transactions of more than 10,000 euros.

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