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Other News

Remarks by the President of AIF, Mr Carmelo Barbagallo, on the presentation of the Annual Report

The Financial Information Authority is a young institution. Established at the end of 2010 by Pope Benedict XVI, it started operating in 2011, thus less than ten years ago. Since then, it has grown year by year in every branch of activity – regulation, supervision, financial intelligence – thereby gaining a solid reputation as an active player in the fight against money laundering and the financing of terrorism.

The Annual Report being presented today describes in detail the results attained in the past year. In my brief remarks, I will focus not only on 2019, but also on the more recent developments of this year.

At the end of November, I was appointed the new President of AIF by the Holy Father Pope Francis. Upon my appointment, I expressed how honored I was to have been given this responsibility, and that I had no doubts that AIF would continue to provide an important contribution to the Holy See's commitment to the fairness and transparency of its financial transactions. I took it upon myself to assure the fora of financial intelligence units that AIF would offer its full collaboration while abiding by the best international practices.

About six months later, the results attained demonstrate a steadfast dedication to obtaining these goals. This has been possible also thanks to the excellent work of my colleagues at AIF and the effective collaboration of the other authorities of the Holy See. I would like to take this opportunity to express my gratitude towards them.

The work carried out during these months has been aimed at: i) ensuring operations in the realm of international cooperation; ii) consolidating the collaboration with other institutions of the Holy See (HS) and Vatican City State (VCS) in the furtherance of their institutional purposes; iii) intensifying prudential supervision; iv) reinforcing the Authority's governance and staff; and v) reorganizing the Authority.

In this regard, I would now like to describe the key features of these initiatives.

i) International Cooperation

On 13 November 2019 AIF was suspended from the Egmont Group, the forum that gathers the Financial Information Units from around the world.

The suspension was lifted after only two months, once adequate reassurance was provided to Egmont. Crucial to this aim was the Memorandum of Understanding (MoU) signed by AIF and the Promoter of Justice. With this Memorandum, we were able to assure our foreign counterparts that, should the need arise to seize confidential documents and information, the seizure would be carried out in accordance with the confidentiality standards established by the Egmont Group concerning financial intelligence.

ii) Domestic Cooperation

For AIF to discharge effectively its mandate, collaboration with other domestic authorities is no less important than international cooperation. It has been particularly intense and, to this end, between February and June of this year four important MoUs have been signed.

- - The first, signed on 13 February, with the Secretariat of State and the Secretariat for the Economy, concerning the supervision and monitoring of non-profit entities registered in the Vatican City State in the Governorate's registry;
- - the second, signed on 20 February, with the Secretariat for the Economy, concerning the supervision and monitoring of the HS/VCS public authorities;
- - the third, signed on 28 April, with the Promoter of Justice and the Gendarmerie, concerning the exchange of information for intelligence purposes;
- - the fourth, signed on 16 June, with the General Auditor, updating an existing MoU concerning collaboration and the exchange of information for intelligence purposes.

The first two Memoranda make it possible to gain better knowledge, through ad hoc surveys, of the entities that are obliged to report suspicious activities to AIF. The surveys make it possible to classify the supervised entities on the basis of their risk level and to detect areas of improvement. The on-site inspection plan also takes into account the risk level by applying proportionality criteria.

For non-profit entities, the survey results demonstrate that, overall, NPOs have a medium- low level of risk. Specific recommendations were provided to tackle the apparent areas of improvement. A similar activity is planned for the public authorities.

In collaboration with all the authorities of the Holy See and Vatican City State, training sessions have been carried out for both staff and management of non-profit entities and public authorities in order to promote a better understanding of the appropriate procedures for identifying the sources and destinations of funds, so as to strengthen their "antibodies" against the potential money laundering and terrorism financing threats to which they may be exposed, often unknowingly.

The third and the fourth Memoranda formalize existing practices, i.e. the intense collaboration between AIF, the Promoter of Justice and the Gendarmerie, on one side, and between AIF and the Office of the General Auditor, on the other side. The experience of these months has demonstrated the great importance of these relations. We are in constant and fruitful contact.

iii) The intensification of prudential supervision

The supervision of entities that carry out a financial activity on a professional basis, for both anti-money laundering and prudential purposes, was based on AIF's regulations and operational practices.

In order to provide a more precise technical and legal framework for both off-site and on- site supervision, AIF

recently adopted two specific guidelines in both regards, which will soon be available on our website.

In August 2019, AIF initiated its second general on-site inspection of the IOR for money laundering purposes, that assessed the IOR's compliance with the legal framework on the prevention and countering of money laundering and terrorism financing. The inspection also sought to assess the effectiveness of the measures and safeguards that had been implemented. The results of the inspection indicated that the IOR was broadly compliant at the technical level and that its measures and safeguards were sufficiently effective.

The first general on-site inspection of the IOR for prudential purposes was initiated in May 2020. The results of this inspection are expected for the end of July. Previous prudential inspections only targeted specific branches of activity. For instance, in June 2019, a targeted on-site inspection was carried out at the IOR regarding payment services.

iv) The strengthening of AIF's governance and staff

With regard to human resources, the effort to reestablish normal operations was intense. I think it is fair to say that – notwithstanding the difficulties of recent months due to the pandemic – it was fully successful on every front: i.e. the Board of Directors, the Directorate, and staff. To all of AIF's personnel, I extend my most sincere wishes that we work to the best of our abilities towards the success of our mission.

The Holy Father appointed a new member to the Board of Directors to fill one of the vacant seats: Prof. Antonella Sciarrone Alibrandi, a highly respected professional in her field. I am sure that the new Board member, together with the rest of the Board, will provide an important contribution to setting the strategies and guidelines of the Authority in accordance with its mandate.

With regard to AIF's Directorate, on 25 February the Board of Directors approved my proposal to nominate Mr. Giuseppe Schlitzer and Mr. Federico Antellini Russo as AIF's Director and Deputy Director, respectively. The two positions were formalized on 15 April by decree of His Eminence the Secretary of State. Both members of the directorate are highly qualified professionals: the Director has experience in international fora, and the Deputy Director has worked in important Italian institutions and within AIF itself as the head of the supervision and regulation unit.

Concerning personnel, the number of staff doubled in just six months, from 6 to 12 employees. The management of the two units (Supervision and Regulation and Financial Intelligence) was entrusted to two individuals with a proven track record. Once the health emergency is over, we will work towards completing our staff.

The significant progress made on the governance and personnel front, as well as the reorganization of the operational structure, were necessary in order to make it possible for AIF to discharge effectively its institutional activities. AIF's tasks have indeed increased considerably following the MOUs that I previously mentioned, as they foresee – for the purpose of preventing and countering money laundering and the financing terrorism – the engagement of the Authority in the supervision of non-profit entities and public authorities of the Holy See and Vatican City State. Overall, these MoUs cover about a hundred entities.

v) The new Statute and the approval of an internal regulation

To crown the intense work carried out in recent months to strengthen the Authority, we hope to soon issue a new Statute and the first internal regulation.

First and foremost, pursuant to the new Statute, the name of the Authority would change to the Supervisory and Financial Information Authority (SFIA), a name that highlights the Authority's dual nature as intelligence unit and supervisory (and regulatory) authority.

With reference to AIF's governance, the new Statute both confirms the role of the Board of Directors and tasks the President with setting and monitoring the Authority's strategic goals. The new Statute also provides that the role of the Director, supported by the Deputy Director, serves to ensure the Authority's effectiveness and efficiency.

In addition, we are looking into revising our organizational structure so as to improve the functioning of the various units in carrying out their activities.

The new Statute will be coupled by the first internal regulation, which sets out detailed procedures in the furtherance of a healthy and transparent administration.

It is with this rich set of reforms that we will present ourselves to the Moneyval evaluation team, who is expected to begin their inspection of the Holy See and Vatican City State on 29 September 2020. The inspection, which will last about two weeks, was actually scheduled to begin in April but was postponed because of the pandemic. AIF has been tasked with heading the Vatican's delegation.

Several years have gone by since Moneyval's first inspection of the Holy See and Vatican City State, which took place in 2012. During this time span, Moneyval has remotely monitored the many advances made by the jurisdiction in the fight to prevent money laundering and the financing of terrorism. As such, the upcoming inspection is especially important. Its outcome may determine how the jurisdiction is perceived by the financial community.

The Moneyval inspection will be broad-based. It will cover both the legislative framework and its effective implementation. It is crucial to arrive well prepared, to highlight the progress achieved in recent years in the system of controls, and to underscore what has been done in recent months to assure further progress.

CARMELO BARBAGALLO President
