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Report finds Vatican transparency rules need a test

John L. Allen Jr. | Dec. 12, 2013 NCR Today

Europe's top financial transparency experts say that "much work has been done in a short time" under Pope Francis to promote reform, but new rules to bring the Vatican in line with international standards still have to be tested in practice.

Until the new systems are implemented and seen to be working, those experts say, the Vatican still risks being used for money laundering.

In particular, evaluators say it's "surprising" that a new financial watchdog unit created in 2010 under Benedict XVI and strengthened by Francis still has not carried out formal inspections of either the Vatican bank or the other main financial department in the Vatican, the Administration of the Patrimony of the Apostolic See (APSA), though it notes internal reviews of accounts in those two entities are ongoing.

According to evaluators, the watchdog unit, the Financial Information Authority, needs "more trained and experienced staff" to handle its responsibilities of flagging suspect transactions and approving outfits that want to do business in the Vatican.

That office, the report said, needs to recruit "appropriately skilled professionals quickly" in order to be able to exercise real oversight.

Moneyval, the chief anti-money-laundering agency for the Council of Europe, published a 30-page progress report Thursday on the Vatican's reform efforts.

Under Benedict XVI, the Vatican made the decision to open itself for the first time to outside inspection of its financial rules and systems, leading to an initial Moneyval evaluation in 2012. That review found the Vatican deficient in seven of 16 "key and core" areas and made recommendations for changes to its financial legislation and practices.

In particular, the 2012 evaluation called for greater external regulation of the Institute for the Works of Religion, also known as the Vatican bank, and also for strengthened powers for the Financial Information Authority.

The recent progress report applauds new laws adopted under Francis to make the Financial Information Authority the Vatican's "prudential supervisor," meaning that it has the power to inspect entities doing business in the Vatican and to enforce rules designed to ensure there's an adequate paper trail for transactions.

The report applauded "wide-ranging" measures to "rectify deficiencies in all areas."

Among other points, evaluators praised the adoption of tougher transparency rules, the hiring of an external agency to evaluate accounts at the Vatican bank, and the signing of transparency agreements with several nations including the United States.

Renè Bruelhart, director of the Vatican's Financial Information Authority, said the report signifies that "today the Holy See has an efficient system" for tracking money "in line with international standards."

However, the report notes that while the legal structure looks good, it "still needs to be tested in practice."

Both the Vatican bank and APSA are currently conducting detailed reviews of accounts, with the inspection at the bank being handled by the American-based regulatory compliance firm Promontory.

Corriere della Sera reported Dec. 8 that some 1,200 letters had gone out from the bank in September informing clients that their accounts were being closed, representing more than $400 million in assets.

Under standards adopted by the bank's new president, German financier Ernst von Freyberg, only "Catholic institutions, church personnel, current or former Vatican employees who receive salaries and pensions, as well as diplomats accredited to the Holy See" are eligible to hold accounts.

The letters set a deadline of Nov. 30 for the flagged clients to transfer their assets out of the bank.

Prior to the review there were roughly 19,000 accounts at the Vatican bank, meaning that just over 6 percent have been closed.

The Vatican has repeatedly pledged to comply with international best practices for financial transparency, in part for ethical reasons and in part for hard-nosed financial considerations. Entities considered "at-risk" for money laundering generally find it difficult to move funds and are forced to pay higher transaction costs.

A cleanup at both the Vatican bank and APSA is considered an important test of reform under Francis, in part because both have been mired in scandal.

An Italian investigation into allegedly suspect transactions at the Vatican bank is ongoing, and the bank's top two day-to-day officials stepped down in July, though bank officials deny any wrongdoing.

Last year, the Italian central bank forced a shutdown of credit card services in the Vatican related to concerns about controls over money laundering, forcing the Vatican to negotiate a new agreement with a Swiss provider not subject to EU rules.

In June, meanwhile, Msgr. Nunzio Scarano, a former accountant at APSA, was arrested in a $30 million cash smuggling scheme. Italian media reports indicate that in interrogations subsequent to his arrest, Scarano claimed that APSA operates as a sort of "parallel bank," allowing certain lay Italian VIPs to put money into their investment funds in part to avoid paying taxes on the income.

Scarano also reportedly charged that APSA officials routinely accept gifts from banks looking to capture part of the Vatican's assets, including "trips, cruises, five-star hotels, massages, etc."

The new Moneyval report says the Vatican was cooperating with foreign authorities on investigations, saying it had received eight requests for information on suspected financial crimes in the past 18 months and responded "in a timely manner."

The assessment says in 2013, the Vatican's internal financial regulator saw a surge in the filing of reports of possible suspicious transactions. These are expected to reach 150 by the end of this year, compared to only six in 2012.

Moneyval evaluators said that's largely due to enhanced reporting rather than a spike in suspicious activity, and they expect the number of level off in 2014.

The next Moneyval checkup of the Vatican's reform efforts is set for 2015.

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