- Vatican Bank has avoided international banking disclosure requirements
- Financial Information Authority established to prepare for Moneyval evaluation
- Good governance systems are needed, as with any family-owned business

By David Bogoslaw

Vatican Bank: big assets, questionable governance

In the first days of his papacy, Pope Francis declared: 'How I would like to see a church that is poor and is for the poor' – consistent with his modest lifestyle choices as Cardinal of Buenos Aires. It's fair to wonder how that sentiment squares with his assuming stewardship of the Vatican Bank, whose assets were estimated at $8.2 billion in 2011. The bank's real worth, however, is anyone's guess; one reason for this is that, unlike most financial bodies of comparable size, the Vatican Bank has so far avoided the disclosures required under international banking rules.

Pope Francis is said to be considering a 'serious restructuring' of the bank as part of a broader plan to reform the Holy See, as reported by Reuters on April 2.

The most recent financial information provided by the Institute for the Works of Religion, as the Vatican Bank is officially known, concerns procedures it has implemented since 2010 to monitor and prevent money laundering and the financing of terrorists. In November 2011 and January 2012 the Vatican Bank voluntarily opened its doors to Moneyval, the Council of Europe's committee charged with tracking and policing money laundering and terrorist financing. In a report published in July 2012, Moneyval found the bank's procedures to be deficient in seven out of 16 grading areas.

It makes sense for the Vatican Bank to go out of its way to allay any worries about criminal activity in the wake of money-laundering charges in mid-2010 that resulted in the impounding of roughly $30 million in questionable wire transfers (the money was released nine months later) and the ouster in May 2012 of the bank's then president, Ettore Gotti Tedeschi.

Most of the $30 million seized was being transferred from Credito Artigiano, a private Italian bank, to a branch of JPMorgan Chase in Frankfurt, with the rest bound for a second Italian bank, Banca del Fucino. Both the origin and destinations of the funds were accounts under the control of the Vatican Bank, which allegedly had failed to disclose the origin of the money, in violation of Italian law.

The Vatican Bank's supervisory council ordered the removal of Tedeschi, who had previously been a country manager for Banco Santander for Italy, for incompetence. The Vatican Bank president's office remained vacant from May 2012 until February 2013 when, as one of his final acts, Pope Benedict XVI approved the Council of Cardinals' appointment of Ernst von Freyberg, a German lawyer and chairman of the executive board of German shipyard Blohm & Voss, as president of the bank's supervisory board.

'The real problem is that the bank hasn't had oversight,' says Jason Berry, a long-time expert on the Catholic Church's financial structures and author of *Render unto Rome: the secret life of money in the Catholic*

Church. 'Its senior management would not have got rid of Tedeschi and brought in a new man if it hadn't been seriously concerned about repositioning the bank under international banking oversight structures.'

Moneyval findings

To prepare for requesting an evaluation by Moneyval, the pope established the Financial Information Authority (FIA) by papal edict in December 2010. Among its responsibilities is overseeing implementation of the European Monetary Agreement within the state, but the extent of the FIA's larger authority is unclear, according to Moneyval. Although the FIA is permitted to exchange information in the name of international co-operation or with the judicial authorities, it 'does not have the authority to autonomously conclude [memoranda of understanding] with its foreign counterparts, which potentially limits its effectiveness in international co-operation,' Moneyval reported.

Findings from Moneyval's 2012 evaluation include:

- The Vatican revised the original Anti-Money-Laundering and Combating the Financing of Terrorism Law (AML/CFT) it had established earlier that year. Moneyval cited 'a significant number of necessary and welcome changes' but was unable to assess how effectively these had been implemented.
- Although preventive measures that addressed customer due diligence and record keeping were a major step forward for the Vatican, Moneyval said there were still gaps that 'relate mainly to the requirements for appropriate monitoring and scrutiny of business relationships and transactions and the implementation of the risk-based approach established by the AML/CFT.'
- Moneyval recommended amending the definition in the AML/CFT to clarify that the FIA's authority extends to all aspects of AML/CFT, especially the review of policies, procedures, books and records and sample testing.
- The FIA issued guidance on indicators of anomalous transactions, but Moneyval said the rules failed to clearly cover attempted transactions and provisions for reporting terrorist financing.
- Moneyval also said it had found no provision for the Vatican Bank to be prudentially supervised. The committee advised that the bank be supervised in the near future, warning that the lack of independent supervision posed large risks to the stability of the small financial sector of the Vatican City State.

Making progress

The Vatican's progress in appearing to crack down on money laundering and terrorist financing is noteworthy, but good financial governance goes beyond clearly defined criminal activity. For example, it's fair to ask whether Catholic parishioners are entitled to information about how their Sunday donations are spent. Pope John Paul II regularly used funds from the annual Peter's Pence collection, ostensibly intended for poor dioceses, to balance the Vatican's budget to compensate for overspending, according to Charles Zech, director of the Center for the Study of Church Management at Villanova University's School of Business.

While the Vatican is now able to balance its budget without dipping into those funds, the Catholic Church is 'saddled with old structures, and a lot of them are not where they need to be in meeting the needs [of parishioners]', Zech continues. The Vatican has not offered financial support to local dioceses that were forced into bankruptcy by settlements in the ongoing clergy sexual abuse scandal, he adds.

The Vatican Bank needs to have good governance systems in place, just as any family-owned enterprise would, says John Wilcox, chairman of Sodali, a leading consultant in corporate governance and institutional investor relations. 'The fundamental principles would be the same,' he explains. 'You need risk management and good financial practices. We've seen what can go wrong when an institution has not established solid governance structures, including internal controls, independent oversight bodies and multiple checks on transactions to prevent fraud.'

Perhaps the clearest evidence of the Vatican's intention to put its financial scandals behind it is the appointment in October of René Brülhart as executive director of the FIA. Brülhart had previously cleaned up the financial reputation of the tiny state of Liechtenstein, rescuing it from the European Union's so-called black list.

The Vatican's efforts to improve governance at the highest levels may have more relevance to the Church's day-to-day finances than is at first apparent, however. 'Any hint of an association with high-level crime is a sort of burning litmus test for the papacy,' says Berry. 'It hurts fundraising, it hurts the image of the pope – and it hurts the image of the Church.' CS

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