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Pope Francis poses with a group of Italian police officers during his weekly general audience, in St. Peter's Square at the Vatican, Wednesday, Nov. 27, 2019. (AP/Andrew Medichini)

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Pope Francis has tapped a Bank of Italy executive to take over the Vatican's financial intelligence unit following a scandal that resulted in the Vatican being suspended from an international anti-money laundering network.

Carmelo Barbagallo has been head of the Italian central bank's vigilance unit since 2014, and until earlier this year, a consultant.

He replaces Rene Bruehlhart, who was removed following an Oct. 1 raid on the AIF headquarters as part of a corruption investigation by Vatican prosecutors into a London real estate venture. Following the raid and seizure of documents, the Egmont Group of some 160 financial intelligence units suspended the Vatican from its secure communications network because the Vatican could no longer ensure its data would be kept confidential and secure.

The scandal has raised questions once again about the Vatican's murky finances, after it worked for a decade to erase its reputation as a financial pariah and offshore tax haven.

In a statement, Barbagallo said he intends to "reassure the international system of financial information that all cooperation will be given in full respect of the best international standards."

Vatican prosecutors are investigating allegations of corruption in the secretariat of state's 2012 purchase of a stake in a luxury residence in London. The Vatican bought the other investors out at the end of 2018, but then realized it had taken on an onerous mortgage as well as Italian middlemen who were fleecing the Holy See of tens of millions of euros in fees, according to officials familiar with the deal.

The AIF got involved only in March 2019, after the deal was closed, when the No. 2 in the secretariat of state, Monsignor Edgar Pena Parra, filed a suspicious transaction report with the AIF that triggered the start of a five-nation intelligence investigation to trace the financial flows from the deal to try to nab the culprits who had defrauded the Vatican.

It appears Vatican prosecutors didn't realize that the AIF was in the middle of its own international investigation alongside counterparts in Britain, Italy, Switzerland, Luxembourg and Jersey when they raided AIF headquarters, suspended the AIF

director Tommaso di Ruzza and essentially torpedoed the AIF intelligence investigation he had launched, these officials said, speaking on condition of anonymity.

Prosecutors acted after the Vatican bank, which is regulated by AIF, filed a complaint in the summer of 2019 alleging the whole operation looked suspicious after Pena asked it for a 150 million euro loan to extinguish the mortgage.

Francis referred to the scandal in his press conference Tuesday, defending the raid, downplaying the significance of Egmont and saying the in-house reports that triggered the investigation showed that the Vatican's financial reforms are working.

He also said that based on evidence Vatican prosecutors had, it appeared that the AIF had failed in its duty to "exercise control over the crimes of others," apparently referring to the secretariat of state's decision to enter into a real estate deal with shady characters.

However, by statute, the AIF has no supervisory control over the secretariat of state or how it spends its money. And it only got involved after the property was purchased outright and when Pena approached it with concerns that the Vatican had been taken advantage of.

The raid, Bruelhart's removal and the Egmont suspension prompted two of the remaining four members of AIF's board to resign, including Juan Zarate, a former U.S. deputy national security adviser for combatting terrorism and a former assistant Treasury secretary for terror financing and financial crimes.

Zarate told The Associated Press that AIF's authority and independence had been "undermined and compromised" by the raids, and that AIF no longer had the ability to "defend and continue the reforms we had put in place over the last five years."

In U.S. terms, a rough analogy would involve the FBI raiding the Federal Reserve and the Treasury Department's financial crimes unit, seizing all their documentation without any communication with their leadership, based on a complaint lodged by one of the banks under their supervisory and regulatory enforcement control.

"You would never see this in a properly functioning country or banking center," Zarate said.

Barbagallo, the new AIF president, is the second high-profile Italian layman to be named to a sensitive position in recent months, following the appointment of a former top anti-Mafia prosecutor to head the Vatican's criminal tribunal.

The appointments suggest that amid a turbulent moment in Francis' papacy, history's first Latin American pope is turning to the Italian establishment to try to wrestle the heavily Italian Vatican bureaucracy into line.

Paradoxically, it was Barbagallo and di Ruzza who co-signed the 2016 memorandum of understanding between AIF and the Bank of Italy to share financial information, an agreement that ended years of Italian distrust of the Vatican's financial system.

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