

Financial rules applicable to the general budget of the Union. Financial Regulation

2010/0395(COD) - 23/10/2012 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 524 votes to 25, with 32 abstentions, a legislative resolution on the proposal for a Regulation of the European Parliament and of the Council on the financial rules applicable to the annual budget of the Union. The report had been referred back to the parliamentary committee during the 26 October 2011 session.

Parliament adopted its position at first reading in accordance with the ordinary legislative procedure. The amendments adopted in plenary are the result of a compromise reached between the European Parliament and the Council. They relate to the following points:

- due to the specific nature and tasks of the **European Central Bank (ECB)**, in particular its independence as regards the management of its finances, it should be excluded from the scope of this Regulation except where otherwise provides for in this Regulation;
- in order to ensure transparency, the budget should record **guarantees for borrowing-and-lending operations entered into by the Union**, including the European Financial Stability Mechanism and Balance of Payment Facility operations;
- the rules regarding **provisional twelfths** should be clarified with regard to both the number of additional twelfths that may be requested, and the cases where the European Parliament decides to reduce the amount of the additional expenditure in excess of the provisional twelfths adopted by the Council;
- it is important to increase the **flexibility for end-of-the-year transfer of payment appropriations**, in particular for Structural Funds;
- as regards **sound financial management**, the authorising officer by delegation should take account of the expected level of risk of error and cost and benefits of controls when preparing legislative proposals and when setting up the respective management and control systems. The authorising officer by delegation should report on the results of controls, and their costs and benefits in the annual activity report;
- with **transparency** in mind, citizens should be able to know where, and for what purpose, funds are spent by the Union. Such objectives should be achieved by the publication, preferably using modern communication tools, of relevant information concerning final contractors and beneficiaries of Union funds which takes into account such contractors' and beneficiaries' legitimate interests of confidentiality and security and, as far as natural persons are concerned, their right to privacy and the protection of their personal data;
- a **clear distinction** should be made between situations in which the budget is implemented directly, by the Commission or its executive agencies, situations in which the budget is implemented by Member States under shared management and situations in which the budget is implemented indirectly through third parties. As part of the supervision tasks of the Commission, it is also necessary to provide for a set of control and audit obligations, including the examination and acceptance of accounts, for all methods of implementation;

- this Regulation should foster the objective of **e-Government**, and in particular the use of electronic data in the exchange of information between the institutions and third parties;
- the requirement for contractors to lodge **guarantees** should no longer be automatic, but should be based on a risk analysis;
- for reasons of legal certainty, the **scope of grants and financial instruments should be clarified** with a view to maximising the impact of these two types of financial support;
- the conditions for using **simplified forms of grants** determined on the basis of lump sums, unit costs and flat rates should be made more flexible;
- grant rules should take account of the **specific remuneration schemes applied by small and medium-sized enterprises** ('SMEs');
- the **definition of profit** should focus on eligible costs and the receipts specifically financing those costs, in order to simplify reporting by beneficiaries and to encourage them to diversify their sources of funding. The degressivity requirement applicable to operating grants should be removed;
- access to Union funding for entities with limited administrative resources should be facilitated by further simplifying procedures applicable to **low value grants**;
- for the sake of transparency and in order to take account of the planning constraints specific to them, grant applicants should be informed in the **call for proposals** of the expected time it will take for grant agreements to be signed or grant decisions to be notified to them;
- **financial instruments** should only be implemented under strict conditions, so that there are no budgetary risks for the budget and no risk of market distortion which is inconsistent with state aid rules;
- within the framework of the annual appropriations authorised by the European Parliament and the Council for a given programme, financial instruments should be used on a complementary basis, on the basis of an *ex ante* **evaluation** demonstrating that they are more effective for the achievement of the Union's policy objectives than other forms of Union funding, including grants;
- the definition of **risk-sharing instruments** should allow for the inclusion of credit enhancements for project bonds, covering the debt service risk of a project and mitigating the credit risk of bond holders through credit enhancements in the form of a loan or a guarantee;
- annual repayments, including capital repayments, guarantees released and repayments of the principal of loans should constitute **internal assigned revenue**;
- **pension liability**, together with other employee benefits liabilities, should be recorded in the Union accounts, separately disclosed on the face of the Union balance sheet and explained further in the notes to the financial statements;
- this Regulation should establish general conditions under which budget support may be used as an **instrument in external action**. Such conditions should relate to ensuring a sufficiently

transparent, reliable and effective management of public finances. It provides for a differentiated approach for when the Union is required to respond to humanitarian emergencies, international crises or the needs of third countries undergoing a process of democratic transition;

- institutions should inform the European Parliament and the Council in advance of their **future building projects** and at the different stages of those projects. The approval rather than just the opinion of the European Parliament and the Council should be required for building projects which have a significant impact on the budget;
- lastly, this Regulation should only apply following the adoption of the delegated acts, containing the rules of application, which are expected to enter into force in December 2012.

In terms of a **joint statement on multiannual financial framework-related issues**, the European Parliament, the Council and the Commission agree that the Financial Regulation would be revised in order to include amendments made necessary by the outcome of the negotiations on the multiannual financial framework for the years 2014-2020, including on the following issues:

- the carry-over rules for the Emergency Aid Reserve and for projects financed under the Connecting Europe Facility;
- the carry-over of unused appropriations and of the budgetary balance, as well as the related proposal to enter these in a reserve for payments and commitments;
- the possible inclusion of the European Development Fund in the Union budget;
- the treatment of funds resulting from the agreements on the fight against the illegal traffic in tobacco products.