Basic information

2010/0395(COD) COD - Ordinary legislative procedure (ex-codecision procedure) Regulation	Procedure completed
Financial rules applicable to the general budget of the Union. Financial Regulation Repealing Regulation (EC, Euratom) No 1605/2002 2000/0203(CNS) Repealed by 2016/0282A(COD) Amended by 2012/0336(COD) Amended by 2013/0313(COD) Amended by 2014/0180(COD) **Subject** 8.70.02 Financial regulations	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
BUDG Budgets	GRÄSSLE Ingeborg (PPE) RIVELLINI Crescenzio (PPE)	19/01/2011 19/01/2011
	Shadow rapporteur GEIER Jens (S&D) MULDER Jan (ALDE)	

Committee for opinion	Rapporteur for opinion	Appointed
AFET Foreign Affairs	BRANTNER Franziska Katharina (Verts/ALE)	11/05/2011
CONT Budgetary Control	The committee decided not to give an opinion.	03/03/2011 03/03/2011
ITRE Industry, Research and Energy	KALFIN Ivailo (S&D)	27/01/2011
REGI Regional Development	OLBRYCHT Jan (PPE)	27/01/2011
JURI Legal Affairs	The committee decided not to give an opinion.	

Council of the European Union	
European Commission	Commission DG: Budget — Commissioner: LEWANDOWSKI Janusz

Key events

Date	Event	Reference	Summary
22/12/2010	Legislative proposal published	COM(2010)0815	Summary
03/02/2011	Committee referral announced in Parliament, 1st reading		
26/09/2011	Vote in committee, 1st reading		Summary
05/10/2011	Committee report tabled for plenary, 1st reading	A7-0325/2011	
26/10/2011	Decision by Parliament, 1st reading	T7-0465/2011	Summary
26/10/2011	Results of vote in Parliament		
26/10/2011	Debate in Parliament		
23/10/2012	Decision by Parliament, 1st reading	T7-0362/2012	Summary
25/10/2012	Act adopted by Council after Parliament's 1st reading		
25/10/2012	Final act signed		
25/10/2012	End of procedure in Parliament		
26/10/2012	Final act published in Official Journal		

Technical information

Procedure reference	2010/0395(COD)
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)
Procedure subtype	Legislation
Legislative instrument	Regulation
Amendments and repeals	Repealing Regulation (EC, Euratom) No 1605/2002 2000/0203(CNS) Repealed by 2016/0282A(COD) Amended by 2012/0336(COD) Amended by 2013/0313(COD) Amended by 2014/0180(COD)
Legal basis	Euratom Treaty A 106a-pa Rules of Procedure EP 59 Treaty on the Functioning of the European Union TFEU 322-p1
Other legal basis	Rules of Procedure EP 165
Stage reached in procedure	Procedure completed
Committee dossier	BUDG/7/04994

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE460.942	09/05/2011	
Committee opinion	ITRE	PE460.955	30/05/2011	
Amendments tabled in committee		PE467.051	17/06/2011	
Committee opinion	AFET	PE466.996	24/06/2011	
Committee opinion	REGI	PE464.804	27/06/2011	
Amendments tabled in committee		PE472.015	13/09/2011	
Committee report tabled for plenary, 1st reading/single reading		A7-0325/2011	05/10/2011	
Text adopted by Parliament, partial vote at 1st reading /single reading		T7-0465/2011	26/10/2011	Summary
Text adopted by Parliament, 1st reading/single reading		T7-0362/2012	23/10/2012	Summary

Council of the EU

Document type	Reference	Date	Summary
Draft final act	00045/2012/LEX	25/10/2012	

European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2010)0815	22/12/2010	Summary
Commission response to text adopted in plenary	SP(2012)767	15/11/2012	
Follow-up document	COM(2013)0936	06/01/2014	Summary
Follow-up document	COM(2019)0484	23/10/2019	Summary
Follow-up document	SWD(2019)0379	24/10/2019	

Additional information

Source	Document	Date
National parliaments	IPEX	
European Commission	EUR-Lex	
European Commission	EUR-Lex	

Final act
Corrigendum to final act 32012R0966R(02) OJ L 188 16.07.2015, p. 0055 Regulation 2012/0966 OJ L 298 26.10.2012, p. 0001 Summary

Delegated acts	
Reference	**Subject**
2013/2863(DEA)	Examination of delegated act
2013/2864(DEA)	Examination of delegated act
2015/2939(DEA)	Examination of delegated act
2015/2940(DEA)	Examination of delegated act

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

2010/0395(COD) - 22/12/2010 - Legislative proposal

PURPOSE: revision of the financial rules applicable to the annual budget of the Union.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

BACKGROUND: the present proposal takes into account recent legislative and political developments regarding the Financial Regulation (FR).

For the sake of legal clarity and in order to facilitate the negotiations of the European Parliament and the Council, it **merges and replaces two earlier Commission proposals on the revision of the FR** in a single text and under a standard legislative format (no recast). These two earlier proposals concerned on the one hand, the triennial revision of the Financial Regulation and, on the other hand, the revision of the FR to align it with the Lisbon Treaty, including the obligations of Member States concerning internal control and audit and their resulting responsibilities in shared management. Therefore, these two earlier proposals are withdrawn.

Additionally, the proposal also incorporates the changes to the FR due to the adoption of the Regulation No 1081/2010 regarding the creation of the European External Action Service ('EEAS').

LEGAL BASE AND PROCEDURE: since the entry into force of the Lisbon Treaty, the FR is to be revised in accordance with the ordinary legislative procedure in Article 322 TFEU. In order to allow the legislative authority to have a global view of the proposed modifications, the Implementing Rules of the

Financial Regulation (IR) are presented, in a Commission Staff working document, together with the FR in a single package. The IR, which contains more detailed provisions complementing the FR, will be adopted under the delegated powers of the Commission according to Article 290 TFEU.

The present proposal does not contain any change of substance compared to the two earlier proposals, which are: (i) proposal for a Regulation of the European Parliament and of the Council on the Financial Regulation applicable to the general budget of the European Union; (ii) proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities. As a consequence, the working document of the Commission services concerning the Implementing Rules to the FR, which has been put forward by the Commission together with the triennial revision, remains entirely valid.

CONTENT: in 2011 more than **EUR 126 billion** is planned for allocation to EU policies benefiting the Union and its citizens. In the current economic context it is even more important that the delivery mechanisms of the budget operate in the most efficient way and facilitate the implementation of EU policies, while securing sound treatment of European taxpayers' money. In particular, it is important that these mechanisms are: (i) **simple and transparent** (especially to final recipients of EU funds); (ii) provide the possibility for leverage of **non-EU budget resources** and at the same time (iii) strengthen the **Commission's accountability** for implementation of the budget.

(1) Need for a reform: reform is necessary with a view to adapting the financial rules to the new requirements of budget implementation (co-financing with other donors, specific financial instruments, PPPs) or where the basic principles create disproportionate workload (interests on pre-financing) or may unduly impede efficiency (prohibition of budget implementation through private sector bodies). The award of small grants and contracts also needs to be facilitated.

Furthermore, the new procedure applicable to the IR, as set out in the Lisbon Treaty, should lead to a new articulation between the FR and the IR, imposing a complete review of the whole set of financial rules.

In this context, the Commission has based its proposal on the following objectives:

- to introduce more flexibility in the application of budgetary principles, which should better suit operational needs and alleviate unnecessary administrative burden for recipients of Union funds;
- to streamline relations with implementing partners to which the Commission entrusts the management of programmes or part of programming actions (projects), in particular taking account of the nature of the implementing partner (Member States, agencies, EIB, public and private operators, etc.) and the financial risks entailed (proportionality);
- to shift the regime of grants from a real-cost based management (inputs) towards a performance-based scheme (outputs), in order to better target policy objectives and achieve significant simplification of procedural and documentary requirements for the benefit of beneficiaries, and facilitate the use of lump sums;
- to ensure sound financial management while leaving significant room for manoeuvre for Authorising Officers so that they can adapt the means to their operational constraints and the financial risks they are faced with;
- to modernise the system of risk management and control measures so as to make them more proportional to the probability of errors and to the cost involved.

(2) Alignment with the Lisbon Treaty: the Treaty on the Functioning of the European Union – (TFEU), which entered into force on December 1, 2009, makes important changes concerning budgetary and financial issues. These changes should be translated in the Financial Regulation and concern in particular:

- the introduction of the multiannual financial framework in the Treaty, and its link to annual budgetary procedure: in this regard, as a consequence of the introduction of the multiannual financial framework in the TFEU, some provisions of the Interinstitutional Agreement (IIA) on budgetary discipline and sound financial management should be introduced in the Financial Regulation;
- the new annual budgetary procedure and the abolition of the distinction between compulsory and non-compulsory expenditure, which have an impact on the provisions relating to transfers and the provisional twelfths;
- the new provisions introduced in Article 317 TFEU concerning the control and audit obligations of the Member States in the implementation of the budget, together with Point 44 of the Interinstitutional Agreement (IIA) on budgetary discipline and sound financial management.

The proposal also allows for the streamlining of the Financial Regulation in line with the Lisbon Treaty, through both technical adaptations and the deletion of obsolete provisions.

TIMETABLE: the present revision of the FR occurs while preparation for the post-2013 programmes is also under way. It is important that all the actors concerned in the legislative process maintain an **ambitious timetable** for the present revision. They should aim at an agreement on the package (Financial Regulation and Implementing Rules) so that it could **enter into application on 1 January 2012**.

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

2010/0395(COD) - 26/10/2011 - Text adopted by Parliament, partial vote at 1st reading/single reading

The European Parliament amended 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 vote on the legislative resolution was postponed until a later plenary session.

Definitions: Members clarified that the term '**institution'** refers to the European Parliament, the European Council and the Council, the European Commission, the Court of Justice of the European Union and the European Court of Auditors, the European Economic and Social Committee, the Committee of the Regions, the European Ombudsman, the European Data Protection Supervisor and the European External Action Service ('EEAS').

The European Central Bank shall not be considered as an institution of the Union.

Any reference to the 'Union' shall be understood as a reference to the European Union and the European Atomic Energy Community.

Revenue and expenditure: Parliament wants to stress that **all revenue and expenditure have to be included in the budget** and its annexes, including, for each financial year, forecasts and all authorised revenue and expenditure considered necessary for the Union. The expenditure of the Union shall include:

1. administrative expenditure, including expenditure occasioned for the institutions by the provisions of the Treaty on European Union relating to the Common Foreign and Security Policy and the operating expenditure occasioned by implementation of those provisions where this is charged to the budget; and
2. the operational expenditure, occasioned by implementation of those provisions where this is charged to the budget, including related support expenditure.

Furthermore, the budget shall record the guarantee for borrowing-and-lending operations entered into by the Union in the management of the European Financial Stability Facility (EFSF) and the European Financial Stability Mechanism (EFSM) and payments to the Guarantee Fund for external actions.

Protection of personal data: this Regulation is without prejudice to the requirements of Directive 95/46/EC of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data and on the free movement of such data and of Regulation (EC) No 45/2001 of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data by the Community institutions and bodies and on the free movement of such data.

Of the changes suggested by Members, those relating to the following aspects should be mentioned in particular:

- underlining the **increased role** of the European Parliament;
- the **financial rules governing the establishment and implementation of the general budget**, must ensure sound and effective management, control and protection of the financial interests of the Union, as well as increasing transparency;
- as regards the Union's **research framework programmes**, further simplification and harmonisation of rules and procedures should be introduced;
- the obligation to generate **interest on pre-financing** and to recover such interest should be lifted immediately;
- certain provisions of the **interinstitutional agreement on budgetary discipline** and sound financial management need to be integrated in the Regulation;
- **revenue received by non-state third parties** in the pursuit of the Union's legitimate aims such as the fight against smuggling and counterfeiting of cigarettes (e.g. the 'Phillip Morris' agreement) should be treated as assigned revenue, in particular where these are the results of agreements concluded in the process of alternative dispute resolution;
- in order to **assess the risk of error**, taking account of the principle of sound financial management and appropriate controls, and to react accordingly, a management tool showing the risk of error should be used;
- in the interest of **transparency,** citizens should be able to know where and for what purpose funds are spent by the Union. This objective should be achieved by the publication of relevant information concerning final contractors and final beneficiaries of Union funds. This publication should take into account their legitimate interests of confidentiality and security and, as far as natural persons are concerned, their rights to respect for their private lives and the protection of their personal data;
- for **very low and low-value grants**, simplified procedures in accounting and authorisation should be applied in order to create a beneficiary-driven approach;
- grants should also be able to be authorised in the field of **basic research**, where no outcome or result can be presented in consequence of the research activity;
- given the **basic control and audit obligations** of Member States where they implement the budget indirectly in shared management should be introduced in this Regulation, it is necessary to include provisions, setting out a coherent framework for all policy areas concerned, on a harmonised administrative structure at national level to allow the Member States to accredit bodies entrusted with the implementation of Union funds. The Member States should have the competence to determine the entity or organisation carrying out the functions of the accrediting authority;
- it is necessary to create a coherent legislative framework which also improves the **overall legal certainty** and the efficiency of controls and remedial actions as well as the protection of the Union's financial interests;
- all draft proposals submitted to the legislative authority should be suitable for the application of user-friendly information technologies ('**egovernment**') and the interoperability of data processed in the management of the budget should be ensured, which should improve efficiency. Uniform data transmission standards for data available in electronic format should be foreseen. A transitional period of two years from the entry into force of this Regulation should be granted for the attainment of these targets;
- **lump sums and flat rates** should be used on a voluntary basis and only applied where appropriate. The terminology in use on flat rates and lump sums should be clarified;
- a further clarification or a **reasonable definition of eligible costs** should be proposed, as it would enhance compliance with the full cost principle, namely direct and indirect costs, upstream and downstream of research;
- in order to close the **discharge procedure** during the year following the year being audited, a working group will be set up to make proposals aimed at shortening the time taken by the procedure. In the context of discharge, the evaluation report on the Union's finances based on the results achieved should include in particular elements on the achievements in the field of gender aspects of staff policy;
- as regards the specific provisions relating to the **implementation of external actions**, it is necessary to propose a differentiated approach when the European Union is required to respond to humanitarian emergencies, international crises or third countries undergoing a process of democratic transition;
- it is of particular importance that the Commission carry out **appropriate consultations** during its preparatory work for **delegated acts**, including at expert level.

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

2010/0395(COD) - 23/10/2019 - Follow-up document

The Commission presents its report on guarantees covered by the general budget - situation at 31 December 2018.

The main objective of this report is to monitor the credit risks borne by the EU budget resulting from the guarantees given for lending operations implemented directly by the European Union or indirectly through the guarantee granted for EIB financing projects outside the Union.

Operations guaranteed by the EU budget and crisis mechanisms of the Euro-Area not covered by the EU budget

The risks covered by the EU budget derive from a variety of lending and guarantee operations which can be divided into four categories:

Loans granted by the European Union with macroeconomic objectives

Such loans comprise (a) Macro-Financial Assistance (MFA) loans to third countries, (b) Balance-of-Payments (BOP) loans granting support to non-euro Member States experiencing balance-of-payments difficulties and (c) loans under the European Financial Stabilisation Mechanism (EFSM) granting support to all Member States experiencing or seriously threatened with a severe economic financial disturbance caused by exceptional occurrences beyond their control. They are activated in conjunction with financial support by the International Monetary Fund (IMF).

Loans with microeconomic objectives

This heading refers to Euratom loans. The Euratom loan facility may be used: (i) in Member States: investments in nuclear power stations and in industrial installations in the nuclear fuel cycle 8 and; (ii) in certain non-member countries: investments to improve the safety and efficiency of nuclear power stations that exist or are under construction, as well as decommissioning projects.

European Investment Bank (EIB) financing of operations in non-Member States (EIB external financing) covered by EU guarantees

Under the External Lending Mandate (ELM), the EU provides a guarantee from the EU budget to enable the EIB to increase its lending outside the EU in support of EU policies. The ELM supports EIB activity in the pre-accession countries, the Eastern and Southern Neighbourhood, Asia, Latin America and South Africa.

Under the EIB ELM mandate covering the period 2014-2020, a total amount of EUR 17.64 billion had been signed at 31 December 2018, of which only EUR 5.77 billion was disbursed at that date, leaving the outstanding capital at EUR 5.41 billion. Defaults on interest payments and loan repayments from the Syrian Government continued in 2018. The EIB has called on the Guarantee Fund to cover those defaults.

On 14 March 2018, the European Parliament and the Council adopted the Decision (EU) 2018/412 amending Decision No 466/2014/EU in the context of the mid-term review of the ELM notably increasing the maximum ceiling for the current ELM from EUR 27 billion to EUR 32.3 billion. This review adds a new objective of the long-term economic resilience of refugees, migrants, host and transit communities, and communities of origin as a strategic response to addressing root causes of migration.

Guarantee Fund for External Actions

The guaranteed EIB external financing, MFA and Euratom loans to third countries have since 1994 been covered by the Guarantee Fund for External Actions, while BOP, EFSM and Euratom loans to Member States are directly covered by the EU budget.

In accordance with the Regulation establishing the Guarantee Fund for External Actions ("the Guarantee Fund Regulation"), the appropriate level (target amount) is set at 9% of the total outstanding capital liabilities arising from each operation, plus accrued interest. A provisioning mechanism is in place to ensure the target amount is met.

On the basis of the provisioning mechanism, the EU budget paid EUR 137.8 million to the Fund in February 2018, while in February 2019 the respective payment amounted to EUR 103.2 million.

European Investment Bank (EIB) and European Investment Fund (EIF) financing of operations in Member States covered by EU guarantees - The European Fund for Strategic Investments (EFSI)

The European Fund for Strategic Investments (EFSI) is the core of the investment plan for Europe, aimed at boosting long-term economic growth and competitiveness in the European Union. The EU Guarantee covers financing and investment operations signed by the EIB under the main part of the Infrastructure and Innovation Window (IIW), and by the EIF under the SME Window (SMEW) and the SME / MidCap fund investment sub-window of IIW.

As of 31 December 2018, total cumulated signatures under EFSI amounted to EUR 53.6 billion covering 28 Member States, of which EUR 39.1 billion were signed under the Innovation Window (IIW) (407 operations) and EUR 14.5 billion were signed under the SME window (SMEW) (470 operations). Overall, this represents a significant increase compared to 2017, at the end of which total signatures amounted to EUR 37.4 billion.

As of 31 December 2018, the overall outstanding disbursed exposure covered by the EU Guarantee amounted to nearly EUR 15.8 billion, up from EUR 10.1 billion in 2017.

The European Fund for Sustainable Development (EFSD)

The European Commission proposed on 14 September 2016 an External Investment Plan (EIP) to encourage investment in the EU's partner countries in Africa and the EU Neighbourhood region, to strengthen partnerships and contribute to achieving Sustainable Development Goals, helping to address some root causes of migration.

Part of the External Investment Plan (EIP) is the new European Fund for Sustainable Development (EFSD) as an integrated financing mechanism to support investments by public financial institutions and the private sector.

The guarantee is designed to mobilise private investment worth EUR 1.54 billion. This amount has been allocated to 28 proposed investment programmes, expected to leverage up to EUR 17.5 billion of sustainable investment in partner countries (much of it from private sources).

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.

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

2010/0395(COD) - 25/10/2012 - Final act

PURPOSE: to establish the financial rules applicable to the general budget of the European Union.

LEGISLATIVE ACT: Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002.

CONTENT: following a first-reading agreement with the European Parliament, the Council adopted new rules aimed at **equipping the EU budget with simpler financial rules** while securing sound treatment of European taxpayers' money. The Netherlands' delegation abstained.

Regulation (EC, Euratom) No 1605/2002 of the Council on the financial regulation applicable to the general budget of the European Communities has been the subject of several substantial changes. As further changes need to be made, including taking into account the entry into force of the Lisbon Treaty, Regulation (EC, Euratom) No 1605/2002 is repealed and replaced by this regulation, in the interests of clarity.

The main objectives of the revised financial regulation are **to cut red tape, increase the leverage effect of limited EU funds and assure more accountability for the EU taxpayer.**

It maintains and strengthens the essential elements of financial rules at the same time: the role of the financial actors, the integration of the controls at the level of operational services, the internal auditors, the

preparation of the budget by activity, the modernisation of rules and accounting principles as well as the principles applicable to grants.

The adoption of the financial regulation paves the way for the adoption of around 70 proposals for sector specific legislative acts covering areas such as agriculture, cohesion policy, research, environment, transport, energy and external aid. The main focus of the new regulation are as follows:

Access to EU funds: the regime of grants will be shifted from a **real-cost based management (inputs) towards a performance-based scheme (outputs)**. This move is expected to simplify significantly the procedural and documentary requirements for the benefit of beneficiaries. As an example of simplification, beneficiaries of EU funds will no longer be obliged to open a separate bank account to receive an upfront payment at the start of a project and to return to the Commission any interest yielded by this money while it stays on this account.

Support for employment and growth: in order to increase the leverage limited resources by the EU in support of the creation of jobs and growth, the revised financial regulation includes provisions to **facilitate the use of new financial instruments such as loans, guarantees, catches of participation or other instruments of sharing risk**. These instruments should comply with the principle of sound financial management.

EU trust funds: the new rules authorise the Commission to set up and manage multi donor EU trust funds for external actions, which would intervene in emergency, post-emergency crisis operations or for thematic actions. These funds would pool the contribution from the EU budget with funds from other donors and are expected to improve the delivery and visibility of EU aid.

Public and private partnerships: the revised financial regulation facilitates the pooling of EU resources with private funds via public and private partnerships, notably in the research field.

Greater accountability: where member states have been delegated the implementation of the budget by the Commission, ("shared management") they will have to **designate and supervise bodies responsible forthe management and control of EU funds**. These bodies will have to set up and ensure thef unctioning of an effective internal control system. Once a year they will have to providethe Commission with their accounts and with a management declaration confirming that the money has been spent for the intended purpose and that the control systems works properly.

Grants: 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). Access to Union funding for entities with limited administrative resources should be facilitated by further simplifying procedures applicable to **low value grants**.

External action: 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;

Building projects: 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.

ENTRY INTO FORCE: 27/10/2012.

APPLICATION: starting from 01/01/2013 (with the exception of certain provisions which shall apply from 27/10/2012, or from 01/01/2014).

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

2010/0395(COD) - 06/01/2014 - Follow-up document

The European External Action Service (EEAS) was established in 2010, by the Council decision 2010/427. The decision provides that unnecessary duplication of tasks, functions and resources with other services of the EEAS and the European Commission should be avoided. Against this background, the accounting officer and the internal auditor of the Commission have acted, respectively, as accounting officer and internal auditor of the EEAS.

This report aims to determine whether the duplication of tasks exists and if solutions exist to prevent this from occurring.

This report shows that the system under which the accounting officer and the internal auditor of the Commission have acted, respectively, as accounting officer and internal auditor of the EEAS, has functioned effectively while allowing significant **economies of scale**.

In summary, **to set-up a stand-alone accounting department in the EEAS would unnecessarily increase the number of staff employed in the two entities** since each of the key tasks above would require multiple new posts in the EEAS, while they have been already absorbed with minimum extra resources by the Commission.

In the Commission’s view, cooperation should therefore be continued. **No changes to the current arrangements are deemed necessary**.

The same conclusions were drawn as regards the tasks of the internal auditor’s service.

The Commission will keep the European Parliament and the Council informed about any significant developments regarding the functioning of this system in the context of the synthesis report.