

POLICY DEPARTMENT D
BUDGETARY AFFAIRS

MID-TERM REVISION OF THE FINANCIAL REGULATION:

Improvement of Direct Management and Outlook on the Commission Proposal



DATE
11 July 2016

TIME
16:00 - 18:30

ROOM
József Antall
4Q2

**Committee on Budgets
and Committee on
Budgetary Control**

CHAIRS:
Jean ARTHUIS and
Ingeborg GRÄBLE

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WORKSHOP PROGRAMME



WORKSHOP ON MID-TERM REVISION OF THE FINANCIAL REGULATION

IMPROVEMENT OF DIRECT MANAGEMENT & OUTLOOK ON THE COMMISSION PROPOSAL

Organised by the Policy Department D on Budgetary Affairs

Monday, 11 July 2016, 16:00 - 18:30

**European Parliament, Brussels
József Antall Building (JAN), Room 4Q2**

WORKSHOP PROGRAMME

16:00 - 16:07 Welcome and introduction

16:00 - 16:05 **Mr Jean Arthuis MEP**

Chair of the Committee on Budgets

16:05 - 16:07 **Dr Inge Gräßle MEP**

Chair of the Committee on Budgetary Control
and rapporteur for the event

* * *

16:07 - 17:20 Presentations

The institutions' views

16:07 - 16:25: **The European Commission's evaluation of the public consultation and outlook on its proposal**

Mr Olivier Waelbroeck, *European Commission, DG Budget, Director Central Financial Service*

16:25 - 16:35 **The European Court of Auditors' requests for the next reform of the Financial Regulation**

Mr Lazaros S. Lazarou, *Dean of Chamber V Financing and administering the Union*

The stakeholders' views: the case of research funding

16:35 - 16:50 **European Association of Research and Technology Organisations (EARTO)**

Ms Muriel Attané, *EARTO Secretary General*
Mr Wolfgang Suttner, *Fraunhofer-Gesellschaft, Chair of the EARTO working group on financial issues*

16:50 - 17:00: **European University Association (EUA)**

Mr Thomas Estermann, *EUA Director Governance, Funding and Public Policy Development*

17:00 - 17:10: **Firalis, a French biotechnology company**

Prof. Hüseyin Firat, *President and CEO of Firalis*

17:10 - 17:20: **Max-Planck-Gesellschaft (MPG), Germany**

Dr Ludwig Kronthaler, *MPG Secretary General*

17:20 - 17:35 Preliminary conclusions

- 17:20 - 17:30 **Mr Patrick Child**
European Commission, Deputy Director-General DG Research and Innovation
- 17:30 - 17:35 **Dr Christian Ehler MEP**
Member of the Committee on Industry, Research and Energy and rapporteur for the rules for participation in Horizon 2020

* * *

17:35 - 18:30 Debate and conclusions

- 17:35 - 18:20 **Q&A and general debate**
- 18:20 - 18:25 **Concluding remarks by Dr Inge Gräßle MEP**
Chair of the Committee on Budgetary Control and rapporteur for the event
- 18:25 - 18:30 **Closing remarks by Mr Jean Arthuis MEP**
Chair of the Committee on Budgets

BACKGROUND BRIEFING

Financial Regulation: the reference for the EU budget

The Financial Regulation contains provisions applicable to the general budget: principles, establishment, structure, implementation and auditing of the accounts. It also defines the rules for public procurement, the award of grants and prizes and the general rules governing financial instruments. It is thus the main point of reference for the procedures governing the establishment and implementation of the EU budget.

The first Financial Regulation was originally adopted on 21 December 1977. The last revised [Financial Regulation](#) was adopted in 2012¹ after a legislative procedure initiated by the European Commission in 2010 and which was preceded by a public consultation in 2009. It was then amended in May 2014² and in October 2015³.

Article 211 of the Financial Regulation states that the Regulation shall be reviewed whenever it proves necessary to do so and in any case at the latest two years before the end of the first post-2013 multiannual financial framework. Such review shall cover, inter alia, the implementation of the provisions of Title VIII (i.e. Financial Instruments) and the deadlines set out in Article 163(1), i.e. deadlines linked to the Special reports of the Court of Auditors.

Issue at stake today

Today, after three years of implementation of the current rules, the European Commission considers that it is necessary to revise those rules in order to:

- simplify the regulatory and financial architecture,
- promote synergies and flexibility in the implementation of the budget and
- promote a clear accountability framework.

The main issue is the need to reduce complexity of the financial rules and administrative burden. This concerns the financial and regulatory architecture, rules on grants, provisions governing indirect management, rules on financial instruments, shared management, reporting obligations and the management of administrative appropriations.

According to the European Commission, the revision of the Financial Regulation will contribute to the implementation of the Better Regulation initiative. It is also an integral part of the initiative "Budget Focused On Results" (BFOR).

¹ Regulation (EU, Euratom) [No 966/2012](#) of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002

² Regulation (EU, Euratom) [No 547/2014](#) of the European Parliament and of the Council of 15 May 2014 amending Regulation (EU, Euratom) No 966/2012 on the financial rules applicable to the general budget of the Union

³ Regulation (EU, Euratom) [No 2015/1929](#) of the European Parliament and of the Council of 28 October 2015 amending Regulation (EU, Euratom) No 966/2012 on the financial rules applicable to the general budget of the Union

European Commission stakeholders consultation

From March 04 2016 to May 27 2016, the European Commission asked stakeholders views of a revision of the financial rules applicable to the EU budget. This consultation focused on the financial rules for:

- Financial Instruments (e.g. guarantees)
- Indirect management (using partner organisations for managing EU funds)
- Financing decisions (multiannual duration, essential elements)
- Simplification for beneficiaries including simplified cost options
- Prevention of conflicts of interests
- Creation of a "Single rule book"
- Convergence of rules for various types of expenditure (e.g. grants and financial instruments)

A synopsis report covering the substance of the replies is expected within 3 months after the closure of the consultation, in other words likely in September 2016. Individual feedback or direct talks are not envisaged with the respondents.

European Commission Awareness Raising Event on the Financial Regulation Revision 2016

A [high-level event](#) hosted by Vice President Georgieva took place on 6 April 2016 in Brussels. Important stakeholders were invited for a panel discussion on the subject: "Making the Financial Regulation simpler and more flexible". It was the opportunity for the panelists to discuss the challenges facing their organisations, including their ideas for the future on direct and indirect management.

In her welcome speech, Vice President Georgieva pinpointed the lack of flexibility to respond adequately to the challenges facing us. She highlighted the contradiction between unpaid bill piled up on the Commission desk and the exceptional resources from fines imposed following a number of rulings made by EU judges, which cannot be used to foot the bills.

European Parliament representative (MEP Ines Ayala-Sender replacing rapporteur MEP Inge Gräßle) reminded the need to have a more flexible multiannual budget to address crises and the challenge on transparency and accountability to citizens. She stressed the European Parliament was always asking for a cycle of five year and not seven. In her views, rules for beneficiaries should be grouped in one book.

Stakeholders raised flat rates and lump sums should not be generalised, too many rules at the EU and at the Member State level exist and some are contradictory. In addition, simplification should target beneficiaries and not only the Commission work. They also mentioned the Commission should not only launch a consultation but also start a dialogue.

Disclaimer

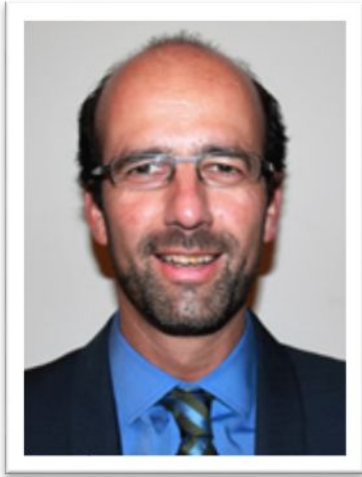
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BIOGRAPHIES OF SPEAKERS



Mr Olivier Waelbroeck
Director, Central Finance Service
DG Budget, European Commission

Olivier holds Master in International Business Law (LLM) from the London School of Economics (Foreign and Commonwealth Scholarship) and is a law graduate from the Université Libre de Bruxelles.

After spending several years at the Court of Justice of the EU (Cabinet of a judge and later of the President), he joined the European Commission in 2005 first as part of the Secretariat General and later of the Directorate-General for Budget, where he was appointed assistant to Director General (2009), Head of Unit "Financial Regulations" (2011) and Director of the Central Financial Service (2015).



Mr Lazaros S. LAZAROU
Dean of Chamber V Financing and administering the Union

Professional experience:

Born in Liopetri-Famagusta, Cyprus, in 1958

- | | |
|-----------------|---|
| From 11/2010 | Member of the European Court of Auditors. |
| From 06/2016 | Dean of Chamber V “Financing and administering the Union” and Member for the Annual Report. |
| 02/2014-05/2016 | Permanent Member of CEAD Chamber “Coordination, Evaluation, Assurance and Development” and Member responsible for the statement of assurance. |
| 01/2011-01/2014 | Non-permanent Member of CEAD Chamber representing at first Chamber I and subsequently Chamber II. |
| 05/2012-01/2014 | Member of Chamber II “Structural policies, transport and energy”. |
| 11/2010-04/2012 | Member of Chamber I “Preservation and management of natural resources”. |
| 2000-2010 | Accountant General of the Republic of Cyprus. |
| 1989-1999 | Inland Revenue Department of the Republic of Cyprus. |
| 1982-1989 | Professional accountant/auditor with audit firms in the UK and Cyprus. |

Professional and Academic background:

Member of the Association of Chartered Certified Accountants (ACCA).

Master’s degree in Public Administration from the Kennedy School of Government, Harvard University.

International Tax Program Certificate from Harvard Law School.

Bachelor of Science in Economics from Hull University, UK.



Ms. Muriel ATTANÉ
EARTO Secretary General

European Association of Research and Technology Organisation (EARTO) Secretary General since July 2013.

Before joining EARTO, she was Secretary General of EARPA, the European association of automotive R&D organisations for seven years.

In parallel, she worked as EU affairs manager for more than 10 years for TNO (Netherlands Organisation for Applied Scientific Research), the largest Dutch RTO. There, she gained extensive hands-on experience on EU Research & Innovation Policies & Funding Programmes.

Expertise

- Senior EU public affairs professional with 15 years of significant experience in EU public relations, public affairs, business/legal advising, consultancy and communications.
- EU Lobbyist with strong track record in strategic programming of EU RTD policy.
- Secretary General with 10 years of experience managing international non-profit organizations.
- Large & multidisciplinary European networks manager (>350 members).
- EU Research & Innovation policy & programmes specialist with large experience in EU fundraising (subsidies & B2B).
- Account manager in a large public RTO.
- Team leader having set-up & managed effective, multi-cultural & multi-background teams.

Currently Member of

- The European Commission DG R&I European Research Area (ERA) Stakeholders Platform
- The European Commission DG REGIO Structured Dialogue Platform with Stakeholders
- The European Commission DG JRC RIS3 Mirror Group
- The European Institute of Innovation & Technology (EIT) Awards Jury
- Board Member of Research & Development Corporation of Newfoundland and Labrador (RDC NL) in Canada



Mr Wolfgang SUTTNER
Fraunhofer-Gesellschaft,
Chair of the EARTO working group on financial issues

Mr. Suttner is Head of Business Administration at Fraunhofer headquarters in Munich. Fraunhofer is Europe's largest application-oriented research organization with a staff of 24,000 and an annual research budget totaling more than 2 billion euros.

His responsibilities include managing the cost accounting and risk management systems.

A special focus has been system optimization to ensure compliance with changing European rules and regulations (framework programs, structural funds, state aid R&D&I, et al.).

At EARTO level, he currently chairs the working group financial experts.

Prior to Fraunhofer, Mr. Suttner was head of strategic planning and controlling at a start-up company focusing on financial information. He holds a master's degree in International Business and Culture studies.

The European Association of Research and Technology Organisation (EARTO)

The European Association of Research and Technology Organisation (EARTO) is a non-profit international association established in Brussels, where it maintains a permanent secretariat.

EARTO Vision: a European research and innovation system without borders in which RTOs occupy nodal positions and possess the necessary resources and independence to make a major contribution to a competitive European economy and high quality of life through beneficial cooperation with all stakeholders.

EARTO Mission: to promote and defend the interests of Research and Technology Organisations (RTO) in Europe by reinforcing their profile and position as a key player in the minds of EU decision-makers and by seeking to ensure that European R&D and innovation programmes are best attuned to their interests; to provide added-value services to EARTO members to help them to improve their operational practices and business performance as well as to provide them with information and advice to help them make the best use of European R&D and innovation programme funding opportunities.

The Association represents the interests of about 350 RTOs from across the European Union and "FP-associated" countries (91 direct members, some of which are associations regrouping several RTOs).



Mr Thomas ESTERMANN

EUA Director Governance, Funding and Public Policy Development

Thomas Estermann is Director for Governance, Funding and Public Policy Development with responsibilities for EUA's work aimed at strengthening universities' autonomy, governance, management and their financial sustainability.

Before joining the **European University Association (EUA)** in July 2007, Thomas Estermann was Deputy Head of Strategic Development and Deputy Head of Administration at the University of Music and Performing Arts, Vienna, a member of the universities' senate and involved in the last two reforms in higher education in Austria. Before entering the University in 1997, he pursued a career as a lawyer.

Thomas Estermann was previously member of the Executive Committee of HUMANE (Heads of University Management & Administration Network in Europe) and founding chairman of WSAN, a network of senior university managers in Europe. He is also a member of the editorial board of the UK-based journal 'Perspectives', which focuses on policy and practice in Higher Education.

He holds a Master's degree in law from the University of Vienna.

The European University Association (EUA)

With 850 members across 47 countries, **the European University Association (EUA)** is the largest and most comprehensive organisation representing universities in Europe. 17 million students are enrolled at EUA member universities. As the voice of Europe's universities EUA supports and takes forward the interests of individual institutions and the higher education sector as a whole.

EUA provides unrivalled opportunities for members to share best practice by participating in projects, events and other mutual learning activities involving a wide range of universities. EUA's website, briefings and newsletters keep members well-informed about these activities and European developments which impact on their activities.

Above all, EUA provides members with unique opportunities to influence and shape future European policy and initiatives affecting higher education and research. Through its work and contacts with the European Commission, Parliament and other key decision-makers, EUA ensures universities' interests and concerns are taken up with all key stakeholders.



Prof. Hüseyin FIRAT
President and CEO of Firalis

Hüseyin Firat (MD, PhD) is the founder President of the Firalis group companies. After his specialisation in paediatrics, Assistant professor specialized in hemato-immunology at Paris Hospitals, and his PhD of immunology at Pasteur Institute, Prof. Firat was also accredited as research director, responsible of the immunology laboratory at Généthon.

In 2002, he joined the Biomarker department of Novartis Pharma where he headed global biomarker sections worldwide, and was a member of Novartis innovation team.

In 2007, he created Firalis and launched the first-funded IMI-JU project SAFE-T.

He coordinated (or contributed to as partner) numbers of European initiatives to develop biomarkers (Rabiopred, BeTheCURE, MITOCARE, IMAGINT, BRAINVECTORS, Fibrotarget, Cardiosave and Co-SAVE, Fibrotarget, ADDIA, MIPROG, ...

Firalis

Firalis is a biotechnology company with a mission to create novel values via biomarker discovery, development and regulatory qualification that ultimately lead to biomarker-based diagnostics. With a comprehensive expertise in the field, Firalis develops biomarkers and biomarker-based diagnostic kits to improve disease outcomes, patient comfort and therapeutic decisions; finally to generate remarkable savings in healthcare, which is the principal goal of biomarker services offered by Firalis.

Firalis is involved in several large scale project for the qualification of biomarker in various clinical applications and plays a central role as well in the EU Innovative Medicines Initiative-Joint Undertaking (IMI JU) Safer and Faster Evidence-based Translation of biomarkers, IMI SAFE-T consortium.



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Dr iur. Ludwig Markus KRONTHALER **MPG Secretary General**

Secretary General of the Max-Planck-Gesellschaft e.V. After training in an intermediate capacity with the Bavarian tax authorities, Dr. Kronthaler went on to study law at the University of Augsburg.

Having passed his second state examination and obtaining a doctorate in law, he worked as a senior civil servant at the Augsburg tax office and the Bavarian Ministry of Finance and held various management posts with the Bavarian tax authorities and the Bavarian State representative office in Bonn.

As Chancellor of TU München, he introduced a nationwide concept of university accounting and appropriate taxation of universities.

His appointment as a judge at the Federal Fiscal Court was followed by a secondment as Director of Resource Management and Industrial Affairs of the ESA (European Space Agency) to Paris. Having resigned as a Federal judge, he has been Secretary General of the Max Planck Society since October 2010.

Numerous publications in the area of civil law, labour law, university and tax law, and university management; member of various university councils, examination boards for legal experts and tax consultants.

Max-Planck-Gesellschaft e.V. (MPG)

The Max Planck Society is Germany's most successful research organization. Since its establishment in 1948, no fewer than 18 Nobel laureates have emerged from the ranks of its scientists, putting it on a par with the best and most prestigious research institutions worldwide. The more than 15,000 publications each year in internationally renowned scientific journals are proof of the outstanding research work conducted at Max Planck Institutes – and many of those articles are among the most-cited publications in the relevant field.

The scientific attractiveness of the Max Planck Society is based on its understanding of research: Max Planck Institutes are built up solely around the world's leading researchers. They themselves define their research subjects and are given the best working conditions, as well as free reign in selecting their staff. This is the core of the Harnack principle, which dates back to Adolph von Harnack, the first president of the Kaiser Wilhelm Society, which was established in 1911. This principle has been successfully applied for nearly one hundred years. The Max Planck Society continues the tradition of its predecessor institution with this structural principle of the person-centered research organization.

The currently 83 Max Planck Institutes and facilities conduct basic research in the service of the general public in the natural sciences, life sciences, social sciences, and the humanities.

Source : <https://www.mpg.de/short-portrait>



Mr Patrick CHILD
European Commission, Deputy Director-General
DG Research and Innovation

Until April 2016, Patrick Child was Managing Director of the European External Service with responsibility for administration and finance, covering human resources policy, security and the budget.

Before he took up this post in 2011, he was director in the External Relations Directorate General in the European Commission responsible for the management of the network of Commission delegations. He has previously served as head of cabinet for External Relations Commissioners Benita Ferrero-Waldner and before that Chris Patten from 1999-2004. With a background in the UK Finance Ministry, he joined the European Commission in 1994, where he started in the Economic and Monetary affairs Directorate General before becoming Commission press spokesman for economic and monetary union from 1995-2004. Mr Child studied mathematics at Cambridge University. He is married with two children.

PRESENTATIONS

First intervention:

Presentation by Mr Olivier WAELBROECK,
Director, Central Financial Service, DG Budget, European Commission



Revision of the Financial Regulation



11 July 2016

Olivier Waelbroeck

Director
Central Financial Service
Directorate-General for the BUDGET



CONTEXT

AS AN INTEGRAL PART OF THE INITIATIVE "**BUDGET FOCUSED ON RESULTS**", THE REVISION OF THE FINANCIAL REGULATION WILL AIM AT:

- INCREASED FLEXIBILITY IN THE BUDGET
- FURTHER SIMPLIFICATION OF RULES



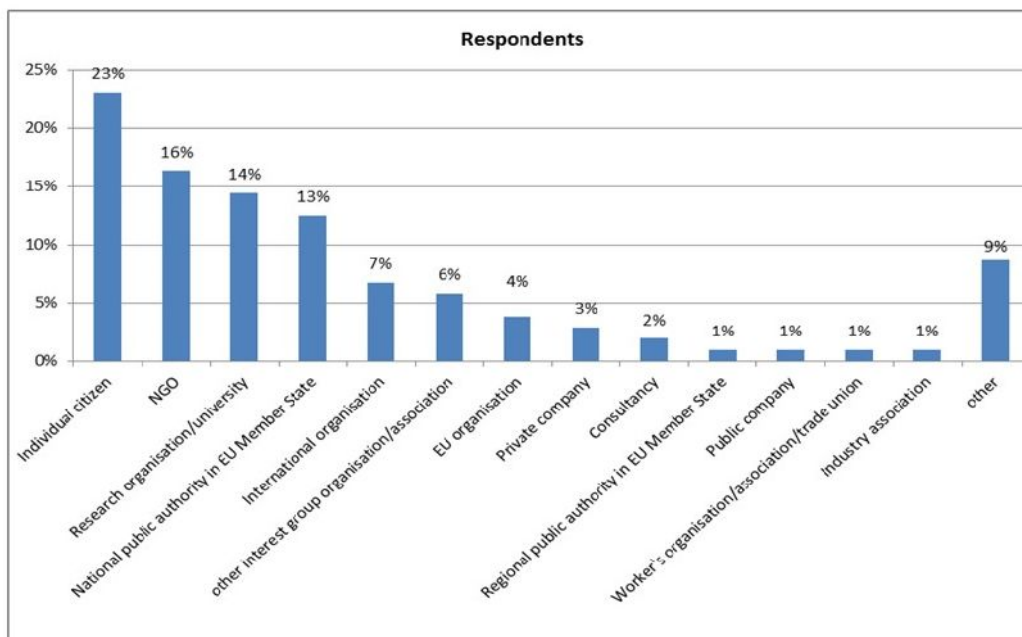
OPTIMISE SPENDING AND IMPACT OF THE MFF 2014-2020



PROCESS

1. IDENTIFICATION OF KEY ISSUES DURING THE LAST THREE YEARS OF IMPLEMENTATION OF CURRENT RULES
2. AWARENESS RAISING EVENT WITH STAKEHOLDERS TO HEAR THEIR CONCERNS / SUGGESTIONS –
6th APRIL 2016
3. ONLINE PUBLIC CONSULTATION
4th MARCH –> 27th MAY 2016

3

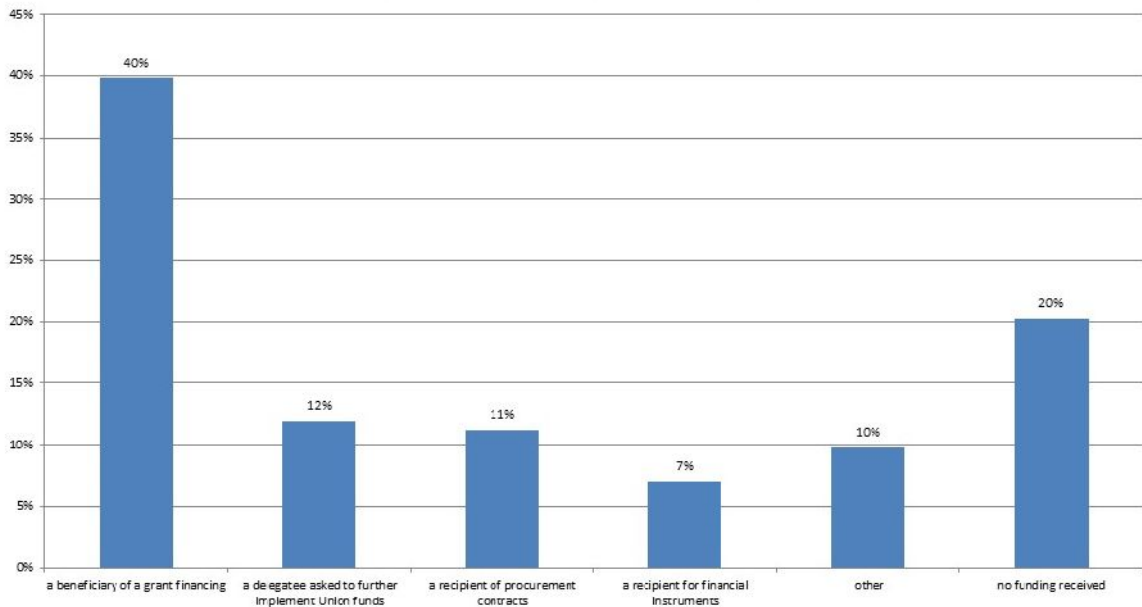


4



European Commission

Have you received financing from the EU budget as ...

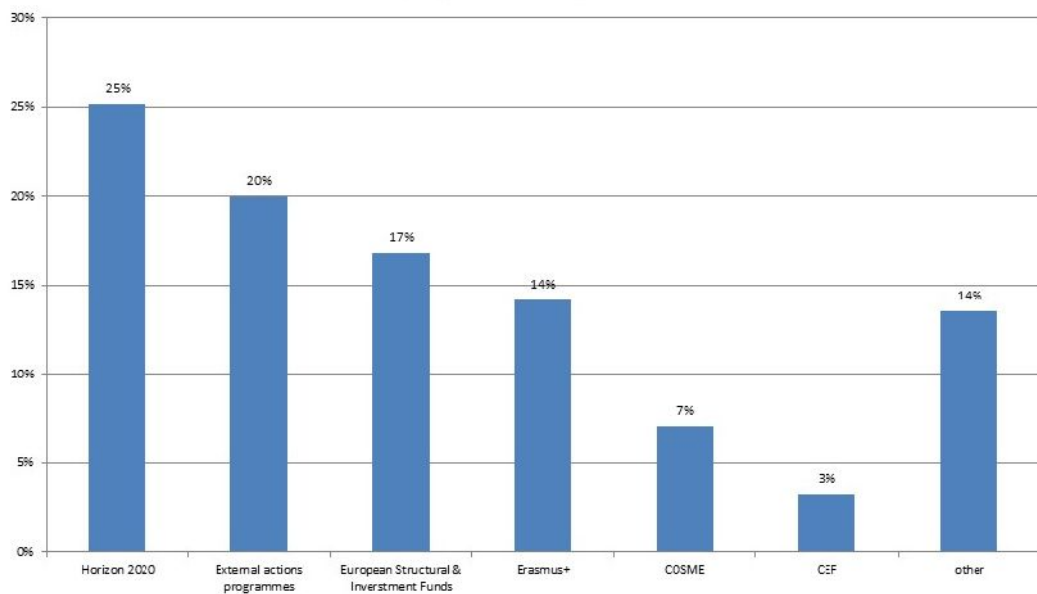


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European Commission

From which programme have you been financed?



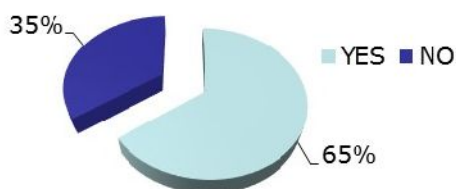
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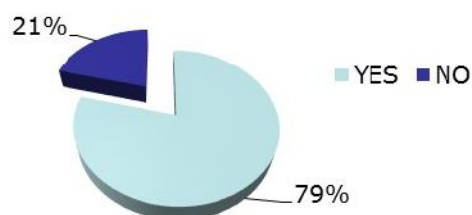
RESULTS OF PUBLIC CONSULTATION

OVERALL SUPPORT RECEIVED FROM STAKEHOLDERS

Support to simplification measures



Support to flexibility measures



7



General questions addressed to all stakeholders

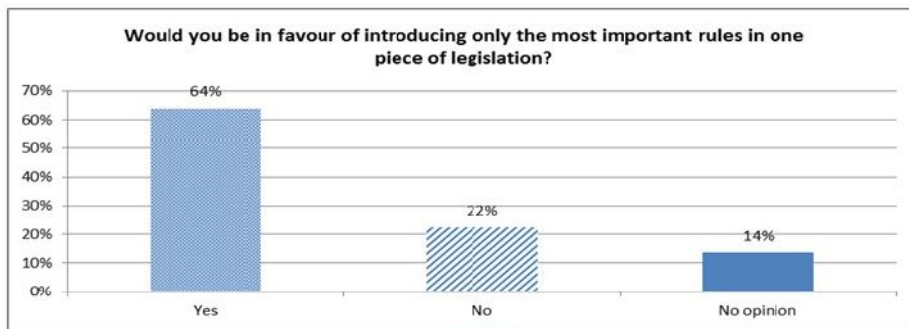
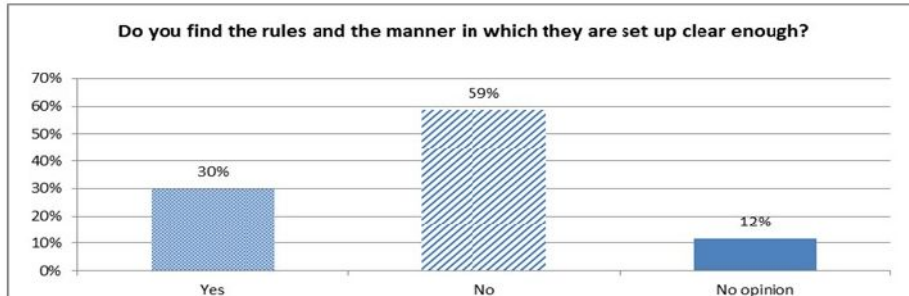
1. Fewer rules and more clarity – a single rule book
2. Preventing conflict of interests
3. Flexibility/crisis management – use of trust funds in internal policies for funding actions within the European Union
4. Information on EU financing available in work programmes
5. Increased convergence of rules
6. Use of grants: simplified forms of cost reimbursement (unit costs, lump sums and flat-rates)
7. Simplified rules on indirect management
8. Simplified rules for Financial Instruments

8



European Commission

Fewer rules and more clarity – a single rule book



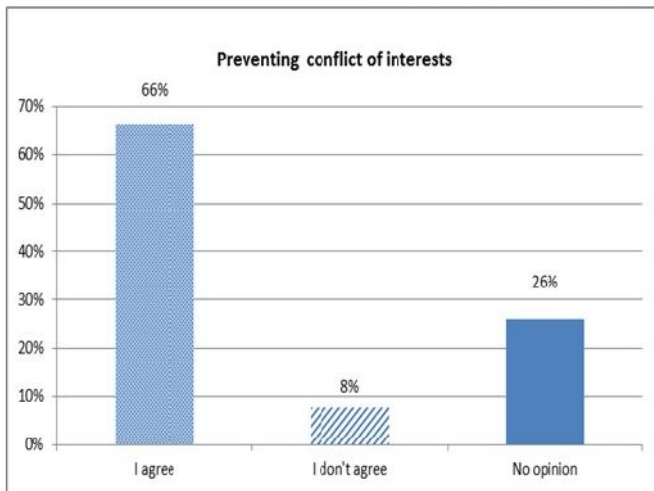
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European Commission

Preventing conflict of interests



Respondents underline need to:

Define concept of conflict of interest; if extended to everyone would become unmanageable

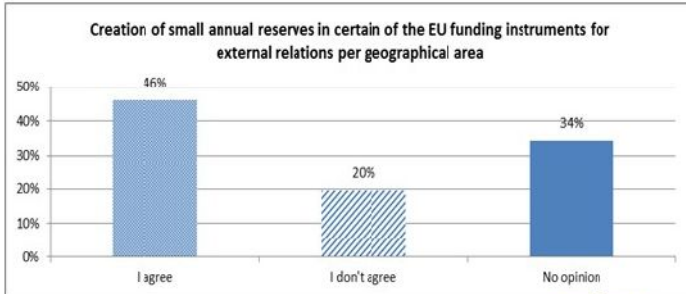
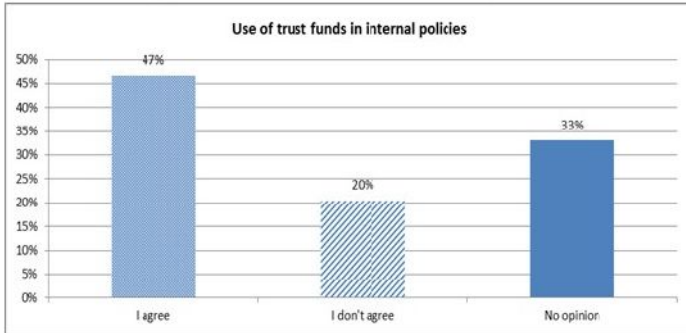
In indirect implementation:

- rules should be included in the delegation agreement **or**
- EU could use ex-ante pillar assessment to verify that delegatee's rules on conflict of interest meet EU standards.

10



Flexibility – use of trust funds in internal policies for funding of actions in the European Union – flexibility in case of crisis

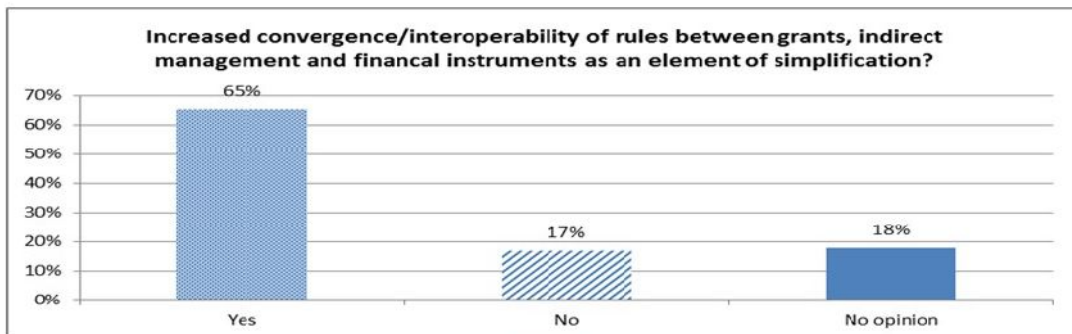
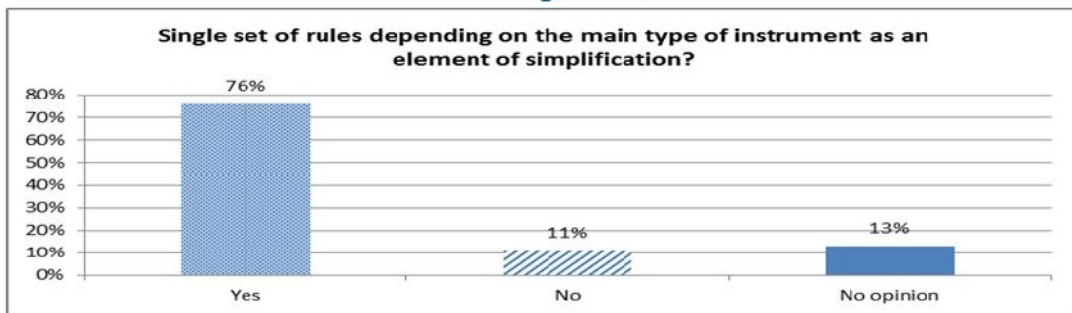


Respondents insist on:

- transparent reporting at all stages of EU Trust Funds
- proven additionnality, complementarity and better coordination with other instruments/programmes
- a common set of rules applicable to all donors, including the EU.

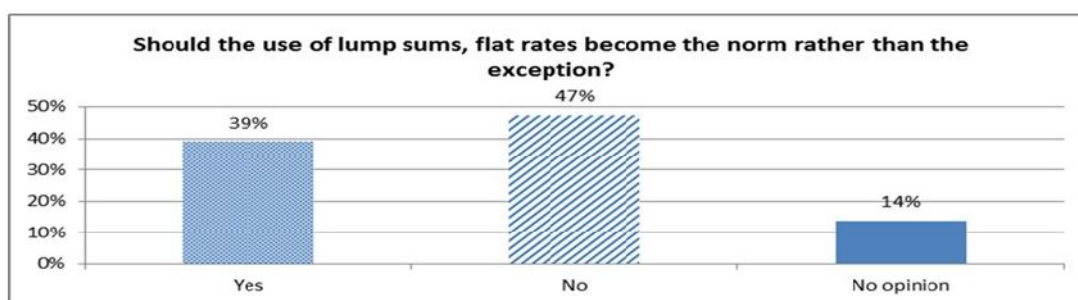
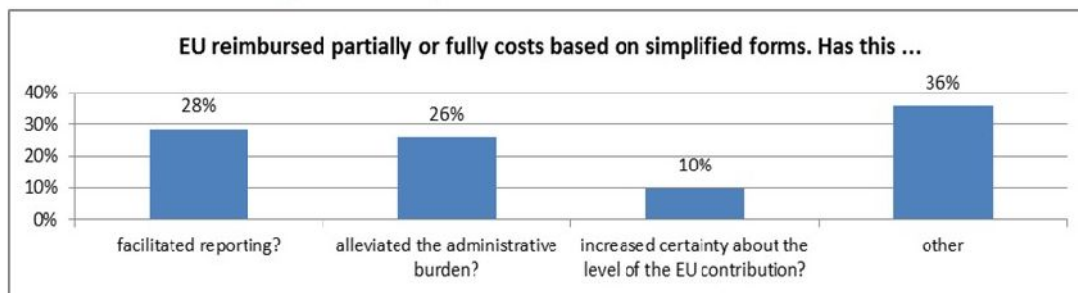


Increased convergence of rules





Use of grants: simplified forms of cost reimbursement



13



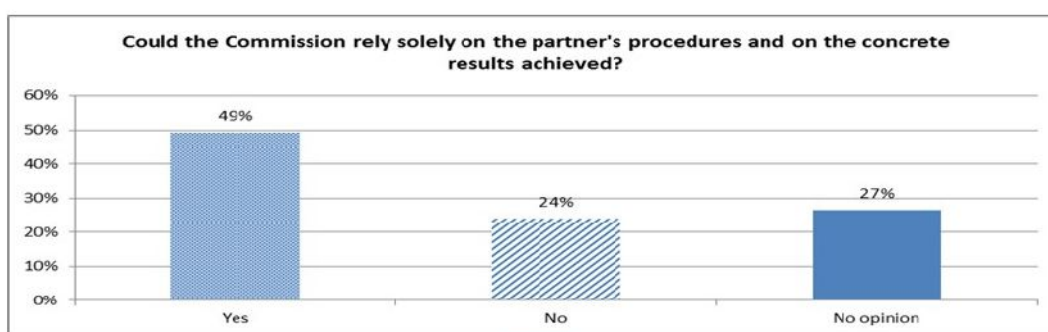
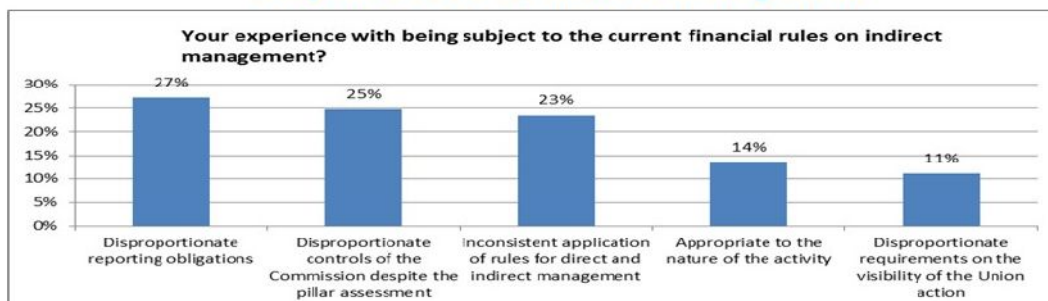
Simplified forms of grants – reimbursement based on results

- Positive aspects: allows to focus more on the action and less on the administration; facilitates reporting, alleviates administrative burden and increases legal certainty; but nuanced results for
 - Research community and NGOs: 62% continue to prefer reimbursement of actual costs as compared to simplified reimbursement through unit costs, lump sums or flat rates (seen as complex and not covering real costs).
 - NGOs remain opposed to reimbursement based on concrete objectives/results: difficult to measure impact; risk of adverse effects; need for testing new approaches. More positive if based on output.
 - Positive views on condition that it remains an option.

14



Simplified rules on indirect management



15



Simplified rules on indirect management

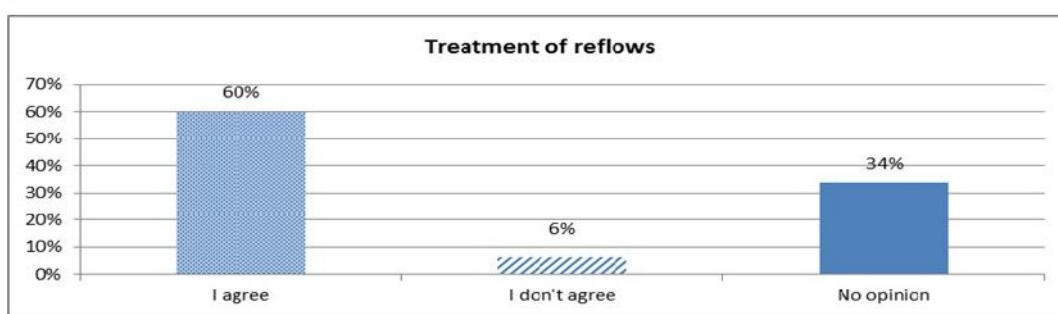
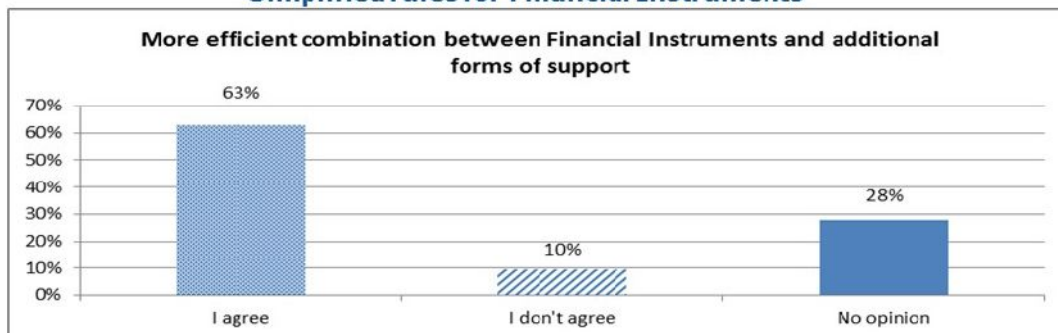
Respondents argue:

- Commission does not sufficiently rely on rules and procedures of its partners: pillar assessed organisations should not be requested to provide additional audit opinions besides those foreseen by their own rules; redundant controls should be avoided.
- Current level of indirect costs accepted by the EU Commission is insufficient: a new model should be explored for full cost recovery of overhead costs
- D+3 contracting deadline is perceived as being too restrictive (current Financial Regulation obliges partners to conclude all individual contracts and grant agreements which implement the action within 3 years following the date of conclusion of the financing agreement).

16



Simplified rules for Financial Instruments



17



Treatment of reflows of Financial Instruments

Reinjection of reflows into the instrument which produced them

- A vast majority of respondents: favourable.
- 2 Member States are not. Any reflow should be returned to EU budget. The reinjection into the same instrument would:
 - circumvent the limits of amounts approved by budgetary authority for each instrument;
 - be problematic in particular in cohesion policy.

18



Commission working on 7 main areas for the FR revision

1. Simplification for recipients of EU funds (simplified forms of grants)
2. From multiple layers of controls to cross reliance on audit, assessment or authorisation, and harmonisation of reporting requirements.
3. Allowing the application of only one set of rules to hybrid actions or in the case of combination of measures or instruments
4. More effective use of financial instruments
5. More flexible budget management
6. Focus on results and streamlining of reporting
7. Simpler and leaner EU administration

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TENTATIVE CALENDAR OF THE FR REVISION

ADOPTION OF COMMISSION PROPOSAL – AUTUMN 2016

NEGOTIATION BY EP AND COUNCIL – MID-2017

TARGET DATE FOR ENTRY INTO FORCE – 1st JANUARY 2018

20



**Thank you
for your attention**

Second intervention:

Presentation by Mr Lazaros S. LAZAROU

*Dean of Chamber V Financing and administering the Union,
European Court of Auditors*

**WORKSHOP ON THE MID-TERM REVISION OF THE FINANCIAL REGULATION:
IMPROVEMENT OF DIRECT MANAGEMENT AND
OUTLOOK ON THE COMMISSION PROPOSAL**

Monday 11 July 2016, 16:00-18:30

European Parliament, BUDG and CONT committees

József Antall Building (JAN), Room 4Q2, Brussels

**THE EUROPEAN COURT OF AUDITORS' VIEW FOR THE REVISION OF THE FINANCIAL
REGULATION**

Introduction

Mme Gräßle and Mr Arthuis, Chairs of the CONT and BUDG committees, Honourable Members of the European Parliament, esteemed speakers, ladies and gentlemen,

The financial regulation sets the scene for good financial management of EU funds. Spending EU money in the best possible way and accounting for it in a transparent and timely manner are main elements that form a basis for such a management.

My presentation includes personal reflections. The previous speaker has provided us with an outlook on the Commission proposal. In accordance with the Treaty we will provide our opinion on it once it is available.

Today we can reflect and discuss what the financial regulation could look like and where the financial regulation can be improved, addressing some practical matters from our day-to-day experience.

I start my presentation with some general remarks on the elements of principle that form the financial regulation. I will then address some points that may need attention.

In principle

One could argue that good practice does not necessarily need strict regulation.

The Commission and other Institutions should effectively manage EU spending so that it is legal and regular. Actions of management are the key for improvement, a regulatory framework is there to support this.

This spending should not be subject to misuse, and should provide the best results at the lowest costs. This should be done in the simplest way possible.

And it should be accounted for in a transparent and timely manner. The financial regulation sets the scene for good management:

- who does what, when; and how; and
- how the actions taken (and not taken) are accounted for.

This last element is of particular interest to the European Court of Auditors. The financial regulation should describe what the expected outcome and results should be, and only if necessary describe in detail how this is done.

Governance at the Commission

We are currently at the final stage of assessing governance at the Commission. We focus on financial management, audit and control. I am the reporting Member for this task which is expected to be published in the autumn as a special report.

This work, with management and accountability as main elements, will provide further input for the update of the financial regulation.

As Mr Arthuis indicated in April 2016 at the Commission's awareness raising event on the financial regulation, common sense needs to play an important role.

I take the liberty to translate this into adhering to best practice or explaining when this would not be best for the Commission, in other words: 'comply or explain'.

Best practice would include requirements set out by the EU for public interest bodies, the Commission's public internal control network and other respected bodies.

What may need attention

There are some points that we addressed in the past which could still be taken up.

Outstanding commitments are expected to be once again very high during the current multi-annual period.

Do the commitments still serve the purpose of good planning of payments? Do they prevent overspending?

The financial regulation should reflect the long term aspects of budget planning, in line with our 2014 annual report recommendation for a long-term cash-flow forecast.

Are financial instruments adequately monitored by the Commission? Is information available in a timely manner and can the Commission assess whether financial instruments deliver the expected results?

On revenue, an unnecessary high amount of possible internal assigned revenue exists. The update of the financial regulation should address this.

For example, in agriculture the budget for direct aid to farmers is reduced by several hundred million euro.

This planning is so, because it anticipates assigned revenue from conformity decisions of the same amount. Let the financial corrections be part of the general budget revenue.

Plan the gross expenditure from the start as intended. But, there are other issues that need to be taken up.

The EU budget is there to get EU policy implemented with the aim to achieve the best results possible.

The financial regulation could provide for some steps in the implementation of a budget focussed on results. How will the update of the financial regulation further assist the Commission and the budgetary and discharge authority in assessing performance?

How will it ensure that reporting on performance is consistent and reliable? The financial regulation should address the budget planning for performance, its implementation and accountability.

Improving the quality of EU spending requires simplification. Complex legislation is unlikely to produce the improved performance sought by all EU stakeholders.

This should be done in such a way that the particular College of Commissioners that spends the budget is also accountable for its results both in terms of performance and regularity. This implies that the budget should be more flexible and able to address unforeseen issues and shorter term priorities.

Deadlines

Deadlines are a necessary component of the financial regulation. Timely reporting is essential and adds value. Providing reports earlier is demanding on all parties in the process; to us in choosing the right topics and scope, to the auditee in replying and providing the answers.

Not all stages in this process have deadlines. Nevertheless, a deadline should not be the date on which by definition work is presented.

A good example is the earlier adoption of the 2015 EU consolidated accounts. This will assist us to adopt and publish our annual report on 13 October, about one month earlier than in previous years. Bringing forward the effective dates could expedite the discharge procedure.

It should however include all relevant documents for the discharge, allowing us to continue to audit the accounts and check consistency with the other documents of the discharge package or discharge report.

It is unfortunate that the practice on other deadlines goes in the opposite direction. In particular on activities that involve receipt of data from authorities in Member States. Currently deadlines are spread around in sectorial regulations.

The financial regulation should include harmonised deadlines for all funds.

Closing remarks

A last thought: not all what is in the current financial regulation needs revision, but rather implementation. An example of this is our observation that activities with persistently high levels of error need to be assessed. Article 32(5) of the financial regulation provides for this and the Commission needs to take action.

Concluding, in my view the financial regulation update needs to:

- Be principle based and only detailed where this is needed;
- Address the long term budget needs and rethink the role of commitments;
- Prepare for a budget focussed on results;
- Facilitate a smooth, modern auditor/auditee relationship allowing for timely reporting;
- Keep what is already good and have it applied; and
- Do without unnecessary features, such as internal assigned revenue.

Thanking you for the opportunity to present our views, we now look forward to the Commission's proposal.

Lazaros S. Lazarou
ECA Member for the Annual Report
Dean of Chamber V
11 July 2016

Third intervention:

Presentation by Ms Muriel ATTANÉ

EARTO Secretary General

and Mr Wolfgang SUTTNER

Chair of the EARTO working group on financial issues

EARTO Response to EC Consultation on the Revision of the EU Financial Regulation - How to Improve Impact of EU Spending to Foster Innovation-Driven Growth

27 May 2016

In view of the revision of the EU Financial Regulation, the European Commission (EC) has launched a public consultation. This paper complements the EARTO response to the consultation survey.

In order to encourage innovation-driven growth and jobs, Europe needs a clear and sound EU financial framework. On behalf of its 350 European Research & Technology Organisations (RTOs), EARTO would like to congratulate the EC for its goals to simplify the EU Financial Regulation to improve the impact of EU spending and therefore foster innovation. EARTO members extensive experience in benefiting from EU funds, such as the EU Framework Programmes for Research and Innovation – where they have received in average one third of the funding – and the European Investment and Structural Funds (ESIF), allows them to have an overview of the financial rules needed to further improve EU spending.

Accordingly, EARTO members would like to put forward comments on the following issues:

1. **Increased use of financial instruments such as loans:** As already previously stated by EARTO (1), when looking at research & innovation, lending tools can only work as complements to grants. Loans alone will not answer the need of R&I activities which have to be partly publicly supported. European leaders should realise that the EU R&I model based on having grant programmes like Horizon2020 supporting cooperation among various R&I stakeholders, including RTOs, is being considered very seriously by Canada (2) and the United States (3). Our model fits Europe today: our challenge is to ensure coherence and complementarity between different policies and their funding mechanisms to ensure maximum impact of policies and instruments. This is a challenge that RTOs are picking up today.
2. **Increased use of lump sums, flat rates and unit costs:** Those should not be generalized to research & innovation related programmes. Research actors such as RTOs and universities rely on actual cost calculation methodologies. Simplified forms of cost reimbursement as used today do not provide sufficient funding for R&I activities (see EARTO comments on the 2010 revision of the Financial Regulation (9)) and is not producing the expected results as the burden to justify direct cost is increasing significantly.
3. **Simplification of auditing and reporting rules:** EARTO welcomes the willingness to simplify auditing and reporting rules for direct beneficiaries and authorities under shared-management of the EU budget, such as regions. As previously stated by EARTO in its paper on EU Auditing Approach (4) discussed with the European Court of Auditors, auditing of EU funded projects can be over-burdensome. In addition, EARTO has recently published a paper on ESIF Simplification to boost regional spending (5) bringing forward some issues within ESIF which could be taken into account for the revision of EU Financial Regulation. Finally, EARTO has also provided various comments on Horizon2020 simplification efforts (6).
4. **Increased convergence of rules:** As explained in a paper (7), EARTO believes that the next funding period should focus on reaching better synergies of funds as a means to create more impact from EU R&I funds. However, we must be careful that synergies do not drive future research and innovation policies, but rather support such policies. Synergy should not be a goal in itself but a means to an end. In this context, convergence of rules are key and should aim at making procedures simple and transparent for “end users”. Synergies efforts should not mean funding one project using various EU funding sources at the same time as implied by question 5.2 of the consultation.
5. **Information on EU financing available in work programmes:** For Horizon2020’s work programmes, the question seems to be: how to manage contents & their level of description in such a way as to avoid oversubscription (amount of elements vs precision of the request). For EU tenders, the issue would be more on how to make sure that the elements required allow the right amount of quality (ratio price vs quality, so far favouring price). On the date of publication, one has to look at the timing between publication of the work programme

versus the deadline of the calls attached to this work programme, allowing for a reasonable delay between the two dates rather than to focus solely on a fix date of publication for the work programme.

6. **Flexibility in case of crisis:** EARTO welcomes more flexibility to answer crisis using the trust funds. However, this should not entail the possibility to sabotage one existing and well-functioning fund to create a completely new fund with different purposes as we have recently seen with the new Juncker Plan and Horizon2020. EARTO and other key R&I stakeholder organisations in the EC ERA Stakeholder Platform have published several papers on this issue (8).
7. **Outputs-based controls:** Moving towards output-based monitoring is attractive in principle and, indeed, corresponds to practice in certain funding programmes within Europe and elsewhere. However without much more information on what the plans would be (many questions raising on what outputs would be for R&I programmes and would failure be accepted as one possible outputs for e.g.) and if supported by Court of Auditors and European Parliament, we prefer to reserve our position at present. Should there be a cross-institutional consensus on this issue, it will be crucial to implement the new control mechanisms in a uniform way across Commission services, to maintain a certain level of legal certainty.

EARTO members welcome the EC's willingness to improve the EU budget implementation. However, care must be taken not to undermine research & innovation programmes which would have a negative impact in jobs & growth creation. We remain open for discussion with the EC, European Parliament, Member States and European Court of Auditors on the above-mentioned points.

***EARTO** is a non-profit international association established in Brussels, where it maintains a permanent secretariat. The Association represents the interests of about 350 Research and Technology Organisations (RTOs) from across the European Union and "FP-associated" countries.*

Contact: Muriel Attané, EARTO Secretary General, +32 502 86 98, attane@earto.eu, www.earto.eu

References:

1. [EARTO Open Letter on EFSI - April 2015](#)
2. [Canada sets up its first RTO following EU RTOs model which is driven by innovation, committed to providing leading-edge support and dedicated to building economic competitiveness](#)
3. [Obama will unveil \\$1-billion national manufacturing innovation network initiative based on Germany's Fraunhofer Institutes](#)
4. [EARTO Feedback on EU Audit & Control Approach – March 2015](#)
5. [EARTO Paper on ESIF Simplification – April 2016](#)
6. [EARTO & IGLO Members Joint Feedback on the 1st Horizon 2020 Programme Calls for Proposals - September 2014](#)
7. [ERRIN & EARTO Comments to the Commission Staff Working Document "Enabling synergies between European Structural and Investment Funds, Horizon 2020 and other research, innovation and competitiveness-related Union programmes" - July 2014](#)
8. [CESAER, EARTO, EUA, LERU, Science Europe Joint Statement on Juncker Investment Fund - January 2015](#)
9. [EARTO Comments on the Triennial Revision of the Financial Regulation - December 2010](#)

Fourth intervention:

Presentation by Mr Thomas ESTERMANN
EUA Director Governance, Funding and Public Policy Development



About EUA

- Largest Non-governmental organisation representing universities
- Over 800 individual university members from 47 countries
- 33 National Rectors' Conferences (Collective members)
- Independent voice for the university sector at European and international level
- Support of universities and policy makers through:
 - ✓ Comparative data, studies and consultations
 - ✓ Evidence-based policy positions
 - ✓ Tools for benchmarking and good practice examples
 - ✓ Focus on EHEA, ERA and framework conditions



www.eua.be/activities-services/eua-campaigns/EUAconsultation-Horizon2020-Erasmus

...2...



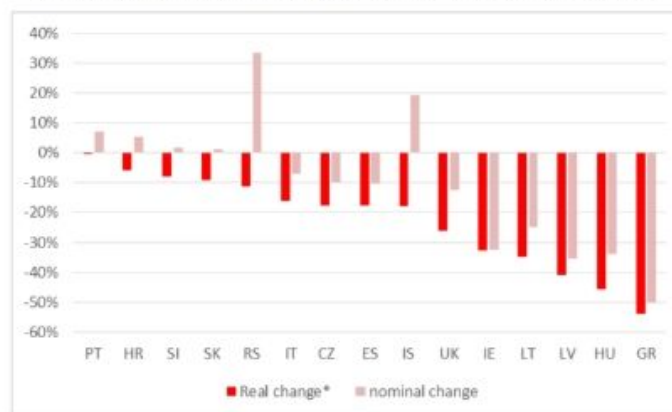
Brussels, 27 May 2016

EUA statement: www.eua.be/activities-services/news/newsitem/2016/05/26/eua-provides-input-to-eu-financial-regulation-review



The challenge of simplification and sustainability

European countries with declining public funding to universities over 2008-2014



* real change = adjusted for inflation

Source: EUA Public Funding Observatory - November 2015 Report
www.eua.be/activities-services/projects/eua-online-tools/public-funding-observatory-tool.aspx



Recommendation 1

Provide a coherent funding framework, taking into account the specificities of sectors and beneficiaries

- Single rule book, however, not “one-size-fits-all” approach towards sectors and beneficiaries.
- Different rules might be required for different forms of funding (grants, loans, financial instruments etc.) and different sectors and beneficiaries.
- New regulations should continue to allow adoption of rules for specific funding programmes, such as Horizon 2020 and Erasmus + to accommodate specific nature of academic research and education.



Recommendation 2

Balance between result-oriented budgeting & cost-based funding

- Measuring impact & results in research is challenging. “No result” can be an important discovery.
- Funding based on the *costs of activity* is key to ensure financial sustainability of the beneficiary institution and higher education system.
- Use of lump sums, flat rates and unit costs should be considered but need to ensure sufficient cost coverage and specificities of different sectors & beneficiaries.

Recommendation 3

Speed up administrative processes, but give adequate time to beneficiaries

- Currently, 6 months for proposal evaluation and 3 months for agreement between Commission and the beneficiary; though article 128 provides flexibility in certain cases.
- Reduction of *time-to-grant* to foster quicker implementation is good, however,
- Adequate flexibility should be given to large consortia to accommodate processes for signature of complex partnership agreements.

Recommendation 4

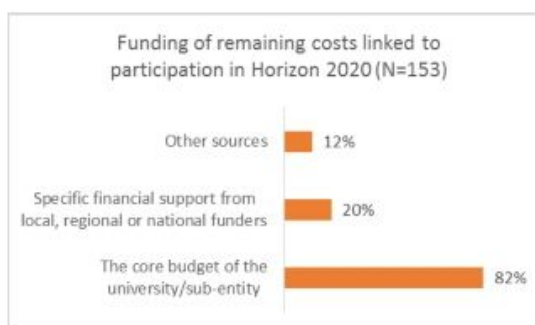
Provide different options for reimbursement of costs

- Financial Regulation allows different options for reimbursement of costs in case of grants, but,
- It should allow the beneficiary to choose amongst the different reporting and costing models: Actual costs versus flat rates, etc.
- This would allow them to use their existing management and accounting procedures.



Recommendation 5 Improve the compatibility of different funding instruments at European and national levels

- Co-funding principle forces beneficiaries to look for other sources of funding at national level to cover their full costs.
- Combination of different funding instruments from EU, national, or local levels should be allowed and made easier.



Source: EUA member consultation on Horizon 2020



Recommendation 6 Accept nationally recognized institutional accounting practices

- Financial Regulation foresees acceptance of usual national level management and accounting practices.
- Making acceptance of usual national management and accounting practices obligatory would lead to simplification and reduction of administrative burden.
- 2/3 of respondents to EUA member consultation on Horizon 2020 indicated that they have to set-up parallel management and accounting system for Horizon 2020.

Recommendation 7
Develop a trust-based approach towards beneficiaries

- Auditing procedures should be made more efficient.
- Double auditing of projects should be avoided.
- National Audit certificates should be accepted.

Recommendation 8
Strike a balance between consistency and change

- Regular revision of Financial Regulation seems to be necessary to align it with changing needs and context.
- However, revisions should be balanced with certain level of predictability and stability in rules.
- Current revision should be holistic and should envision as far as possible the future needs of MFF and EU funding programmes.



Recommendation 9 Prevent the extensive use of financial instrument to fund academic research and education

- New financial instruments, such as European Fund for Strategic Investment (EFSI) were introduced at EU level to solve arising challenges.
- These instruments should not be used to shift money from successful grant-based funding, esp. in the areas of research, innovation and education.
- Universities in a majority of European countries are not able to work with these financial instruments.



www.eua.be/activities-services/eua-campaigns/eu-funding-for-universities Brussels, 16 June 2016



Recommendation 10 Focus on efficient and effective implementation

- In spite of revision and simplifications of previous rules for flexibility, there is still a need to focus on efficiency and effectiveness.



 **EUA**
European University Association

THANK YOU!
More information, data and studies:
www.eua.be

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@euatweets

Total Funding in EUR
Change between 2006 and 2014



The EUA Public Funding Observatory

EUA FUNDING FORUM
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Fifth intervention:

Presentation by Prof. Hüseyin FIRAT
President and CEO of Firalis



FIRALIS GROUP
Biomarker Development & Personalized Medicine

Prof. Hüseyin FIRAT, President & CEO
17 rue du Fort, 68330 Huningue, FRANCE
Phone: +33 (0) 389 911 320

European Parliament - Policy Department for Budgetary Affairs

Workshop on mid-term revision of the Financial Regulation :
Improvement of direct management

11 July 2016 / Brussels

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Group overview



Created in 2008

Domain: Biomarkers-based *In Vitro* Diagnostic (IVD) tools for “Precision Medicine”

Fully integrated business model:

>1600sqm of Shared platform for Service, R&D and Industrial activities


Proprietary products for 3 high impact pathologies

- Heart Failure
- Alzheimer’s Disease
- Rheumatoid Arthritis

Four acquisitions since the inception


About 70 people located in Paris, Strasbourg and Huningue / FRANCE

Key managers FIRALIS




CEO
Hüseyin Fırat

- Pediatrician, associate professor in Paris University hospitals
- PhD at Pasteur Institut, responsible of the Immunology lab at Généthon
- Head of worldwide biomarker sections at Novartis
- Founder of Firalis S.A.S
- CEO and President of Firalis and 4 affiliates




CEO Paris Affiliates
François Vallet

- "Ecole Polytechnique de Saclay", PhD in fundamental Physics at CEA
- CEO of Genewave, Theravectys, Vaxon-Biotech, Mablife & Mitricares




Firalis Group Histogram & Staff


| Year | Staff Count |
|------|-------------|
| 2009 | 5 |
| 2010 | 10 |
| 2011 | 13 |
| 2012 | 21 |
| 2013 | 30 |
| 2014 | 37 |
| 2015 | 60 |
| 2016 | 68 |




Business Advisor
Jörg Staeheli




Chief Medical Officer
Gilles Feutren




Regulatory Affairs and IP Officer
Béatrice Molac



Chief Business Officer
Tony Yaacoub



Chief Scientific Officer
Saliha Moussaoui



Chief Technical Officer
Xavier Preville

H. Fırat, Proprietary of Firalis S.A. European Parliament, July 11th, 2016 3

Selected European Grants obtained FIRALIS

| FRAMEWORKS | Project | Start | Funding | Coaching | Focus | Overall |
|--------------|-------------|-------|----------|----------|-------|---------|
| IMI | SAFE-T | 2009 | 75 + 20% | | | 6/10 |
| | BT-Cure | 2013 | | | | |
| FP-7 | Imagint | 2011 | 75 + 60% | | | 8/10 |
| | Mitocare | 2011 | | | | |
| | Fibrotarget | 2013 | | | | |
| HORIZON-2020 | RABIOPRED | 2015 | 100+25% | X | X | 9.5/10 |
| | ADDIA | 2015 | | X | X | |

SME POINT-OF-VIEW

With Horizon-2020 program, "innovative ideas" and "SMEs" are correctly privileged. SMEs are empowered to lead the "outcome oriented", high market value projects with potential strong societal impact.

IMI projects - Budget Management

<http://btcure.eu/>



<http://www.imi-safe-t.eu/>



- | | |
|--|--|
| <ul style="list-style-type: none"> - Beneficiaries Budget control by the Applicant Consortium Coordinator - Coordination and budgetary issues are handled <u>smoothly</u>. | <ul style="list-style-type: none"> - Coordination & Budget control by the EFPIA Consortium - Significant budget management issues - Final reporting done in Sept 2015 - Final payment ~300k €* still pending <i>* an important issue for an SME!</i> |
|--|--|

SME POINT-OF-VIEW

SME facts are better known by the Applicant Consortium, which handles project grant management with more sensibility and attention towards SMEs.

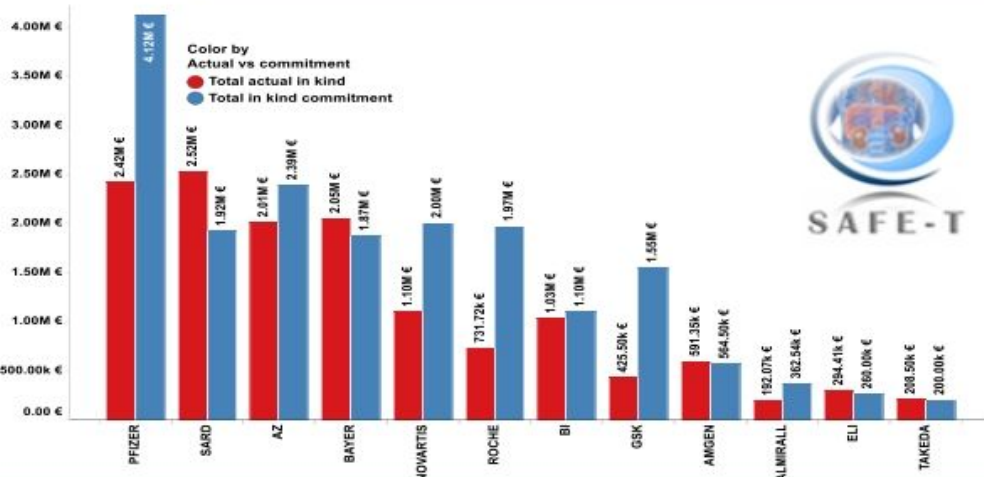
H. Firat, Proprietary of Firalis S.A.

European Parliament, July 11th, 2016

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Three IMI Projects, Lessons learned

EFPIA in-kind contribution is often significantly below target



- EFPIA in-kind contributions to be specified in more detail from the start of projects and the initial commitment shall be respected
- Need realistic commitment, EFPIA partners must have IMI within their objectives

H. Firat, Proprietary of Firalis S.A.

European Parliament, July 11th, 2016

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H-2020, SME-Instrument

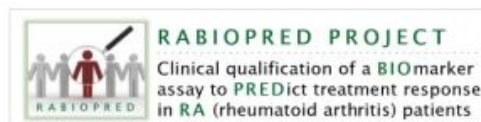


Experience from 2 ongoing projects

Amoneta Diagnostics SAS



Tc Land Expression SA



Today both projects are 1 y-old already, some feedbacks;

- **Direct coordination by empowered SMEs** : Accelerating the speed of project realization ensuring timely execution of projects.
- **Direct budgetary control** by SMEs : Subcontractors are better managed and « best value for money » is better guaranteed. Negotiations are better handled as SMEs care more financials.

Digitalization of European Commission



How it affects SME lives & projects



Removal of paper-wise communication

- Faster reporting
- More compact management tool for Coordinator
- Open communication door 7/24

Introduction of continuous reporting tool

- SMEs can manage easily the project execution and timely coordination
- Focus on innovation much less distracted
- Lesser management outsourcing = EU-wide savings

Thanks to European Grants

- Fully Integrated Biomarker platforms for precision medicine products
- Networks of academics, clinical centers of excellence, and big industrials



H. Firat, Proprietary of Firalis S.A.

European Parliament, July 11th, 2016

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Thank you

FIRALIS GROUP
www.firalis.com

Prof. Hüseyin FIRAT, MD, PhD
 President & CEO of Firalis S.A.
hf@firalis.com



Sixth intervention:

Presentation by Dr Ludwig KRONTHALER

Max-Planck-Gesellschaft Secretary General

Max-Planck-Gesellschaft zur Förderung der Wissenschaften e.V. (MPG) (Max Planck Society for the Advancement of Science)

Workshop on “Mid-term revision of the Financial Regulation: Improvement of direct management & outlook on the commission proposal”, 11 July 2016

Speaker:

Dr. Ludwig Kronthaler
Secretary General

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80539 München
Tel.: +4989/21081280
Internet: www.mpg.de

Max-Planck-Gesellschaft – Founded in 1948



**„Insight must
precede application.“**

Max Planck, 1858-1947

Founder of quantum theory,
Nobel Prize in 1918

EU Funding of the Max-Planck-Gesellschaft 1995 – 2015: € 883m; 2,089 Projects



| Funding programme | Funded projects | Granted (m€) | Per year (m€) |
|--------------------------|-----------------|--------------|---------------|
| Horizon 2020 (2014-2015) | 166 | 134 | 67,0 |
| FP7 (2007-2013) | 754 | 465 | 66,4 |
| FP6 (2003-2006) | 430 | 147 | 36,8 |
| FP5 (1999-2002) | 382 | 83 | 20,8 |
| FP4 (1995-1998) | 357 | 54 | 13,5 |

Calculation: Granted funds on the basis of the data provided by the Participant Portal.

MAX-PLANCK-GESELLSCHAFT | Brussels, July 2016 | PAGE 3

Optimization of Funding - Appropriate Flat-Rate -



***The flat-rate overhead rates
provide for simple accounting.
They should be retained.***

**Our actual indirect cost flat rate is around 50%.
Horizon 2020 currently funds 25%.**

**The amount must be closer to
the actual costs.**

MAX-PLANCK-GESELLSCHAFT | Brussels, July 2016 | PAGE 4

Optimization of Funding Fewer Instruments



Horizon 2020 is complex and suffers from its multitude of instruments.

- Research & Innovation Action
- Innovation Action
- Coordination & Support Action
- Pre-Commercial Procurement
- Expert Contracts
- Public Procurement
- Inducement Prize
- Grant to identified beneficiary
- Framework Partnership agreement
- **+ other and mixed types of action**

MAX-PLANCK-GESELLSCHAFT | Brussels, July 2016 | PAGE 5

Optimization of Funding Fewer Instruments



Loans and similar financial instruments shall not be intensified !

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No Misuse of Funds



The budget allocated to EU programmes should be used for these programmes only and ought not to be used by other political priorities.

MAX-PLANCK-GESELLSCHAFT | Brussels, July 2016 | PAGE 7

Less Rules and More Clarity - Single Rule Book -



Complexity restrains transparency.

- **All the crucial rules should be incorporated in the body of the law itself.**
- **No particular guidance notes, footnotes, annotated texts etc. for the sake of legal certainty**

MAX-PLANCK-GESELLSCHAFT | Brussels, July 2016 | PAGE 8

Excellence is the Main Important Criterion



***Output-based funding
is the coffin nail
for the
assertion of innovation.***



MAX-PLANCK-GESELLSCHAFT | Brussels, July 2016 | PAGE 9

Great Chance



***The revision of the budget
regulations provides the chance to
further improve simplification,
which can broaden and enhance
the appeal of the EU.***

MAX-PLANCK-GESELLSCHAFT | Brussels, July 2016 | PAGE 10

Use Your Chance!



The ball lies on the penalty spot!

