

Vice-President Kallas

Joint hearing COBU-COCOB

COBU/COCOB

26 June 2008

**hearing
on effects of the revision of the
Financial Regulation**

Effects of the Revision of the Financial Regulation – a core legislation affecting
all EU policies and procedures

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Mr Chairman Böge

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Honourable Members,

I would like first of all to thank you for inviting me to take part in the discussion on the Financial Regulation. As all of you already know, Mrs Graessle played a key role in the last revision of the Financial Regulation. The Commission has not forgotten her support in the difficult negotiations it had with the Council, on key issues such as transparency, simplification and increased accountability for the Member States in the management of EU funds.

The title of the hearing accurately describes the Financial Regulation. It is of paramount importance for all actors involved in EU budgetary affairs, whom we can group into 4 main categories: the Budget and Discharge Authorities; the financial actors; the bodies implementing the budget and various organisations who apply for and then manage EU funds:

- The Budget and Discharge Authorities, namely Parliament and Council have an obvious interest in the definition of provisions, for example, on the rules applicable to transfers or carry-overs of appropriations in the budget, on the shape & content of the documents that the "spending authorities" have to provide at the end of the financial year etc.

- The financial actors are the European officials involved in the selection, management and control of EU projects and supply contracts.
- The authorities and bodies participating in the implementation of the budget. They can be Member States, national agencies, international organisations and third countries
- and, last but not least, the thousands of organisations who respond to calls for proposals and tenders and then carry out EU projects, either on their own or with other partner organisations.

I understand that today's discussion will focus on the provisions which apply directly to the "EU budget recipients" in order to see whether the changes made in the recent reform proved to be useful or even successful and whether there is still room for improvement.

Reforming the Financial Regulation is a challenging exercise. It involves various actors who have different and sometimes divergent views. The Parliament supports increased simplification. The Council is more reluctant to change than the Parliament. The Court of Auditors' concern is to guarantee stability and comprehensibility of the rules. The Commission steers a path somewhere in the middle, trying to accommodate all these requirements.

Reform of our financial rules is also a very time-consuming exercise. It took 2 years to carry out the last reform, starting in May 2005 with the adoption of the Commission's initial proposal and ending in May 2007, with the full entry into force of the revised Regulation and its implementing Rules. More than 100 articles of the Financial Regulation were modified, some changes being more significant than others. In our view, the most significant changes were on (1) **transparency** and (2) the **cutting of red tape**.

- (1) On Transparency, we, the Parliament and the Commission, successfully convinced the Council to extend the principle of compulsory disclosure of the names of beneficiaries of all beneficiaries to the Agricultural and Regional policies.

- (2) **Cutting red** tape was at the heart of the Reform. Many procedures have indeed been simplified: for example, proportionality was introduced in the management of grants; lump sums are now a normal way to manage grants; and it is now easier to outsource minor tasks to private bodies.

Not all of the Commission's proposals were successful and we have, as in every negotiation, many 'left-overs'. For example, the proposal to include the concept of "**tolerable risk**" of errors in our financial rules was rejected by the Council. Here, the Commission will press forward and will present, in November, proposals on how the political authorities can position themselves on this issue.

One year after the entry into force of the Reform, it is time to ask ourselves whether we have gone too far or if we could have gone further.

In the Commission's view, this reform is the best that we could have achieved, given the overall context in which it was negotiated. Remember, this reform took place at the same time as the discussions on the 2007-2013 Financial Framework and the 2007 Budget.

Should the next revision be a **reform** or a **revolution**? **Our** past common experience has shown that the Financial Regulation can adapt to new realities, sometimes radically. It has also shown that a fair degree of continuity is needed in financial rules.

The guiding principle for the future revision remains the same, namely to find the right balance between risk and control, while ensuring more effectiveness and a high level of protection of the financial interests of the EU.

When is the next review planned? 2010, that is 3 years after the previous one, as foreseen in the Financial Regulation itself.

Final question: is there still room for other kinds of improvement? The Commission is of course more than happy to listen to the opinion of all stakeholders. This hearing provides us with such an occasion.

THANK YOU VERY MUCH.