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***Rules to ensure consistent verification of the existence and legal status of participants, as well as their operational and financial capacities, in indirect actions supported through the form of a grant under the Seventh Framework Programme of the European Community for research, technological development and demonstration activities (2007-2013) and under the Seventh Framework Programme of the European Atomic Energy Community (Euratom) for nuclear research and training activities (2007-2011)***

***Commission Decision C(2007)/2466 – 13/06/2007***

***Applicable from 01/01/2007***

***Rules to ensure consistent verification of the existence and legal status of participants, as well as their operational and financial capacities, in FP7 indirect actions supported through the form of a grant***

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# Introduction

## ➤ Origins:

- mentioned in the Commission staff working document on **“Simplification in the 7th Framework Programme”** *[COM(2005)119final SEC(2005)431 – adopted by the Commission on the 6<sup>th</sup> of April 2006]*
- ***“the Commission shall adopt and publish rules to ensure consistent verification of the existence and legal status of participants in indirect actions as well as their financial capacity. The Commission shall refrain from renewing such verification unless the situation of the participant concerned has changed”*** *[EC FP7 RP – Article 16.4 and EURATOM FP7 RP – Article 15.4]*
- Inter Research DG working Group (RTD, INFISO, TREN and ENTR)
- Adoption following an Inter-Service Consultation involving more than 20 DGs including notably BUDG, ECFIN, OLAF, IAS and LS.

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# Introduction

## ➤ Objectives:

- Attribution of a grant requires certain preliminary checks respecting the sound financial management of public funds and protecting the Community's financial interests.
- The Rules aim at striking a balance between these principles and the need to **allow for accessibility** of the Seventh Framework Programmes and to **reduce the duration of procedures**. They will:
  - ✓ **make it easier for organisations to participate;**
  - ✓ **reduce time to contract;**
  - ✓ **provide a clear and transparent framework that supports equal treatment and ensure homogeneity**

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## ➤ Guiding principles:

- **Only information that is strictly required** by the F7 RP and/or the FR and/or its IR or for the provision of essential statistics (Commission Annual Activity Report – cf Article 173 of the Treaty) will be requested from the applicants/beneficiaries.
- As soon as it will enter into force, the **Unique Registration Facility** (URF) will facilitate the participation of legal entities in subsequent FP7 proposals. In particular through the URF legal entities will have to **provide their basic data and official documents only once**. However, they will be obliged to inform the Commission of any modifications.
- Any information will be **requested at the time when verification/validation can be/has to be done**.
- Standard procedures in place within the Commission – see e.g. for the validation of legal entities – will, as far as possible, be used.

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# Introduction

## ➤ Guiding principles:

- The verification will **as much as possible rely on the self-declaration and auto-verification by participants**. For this to happen the Commission will ensure that participants have access to clear information/instructions and any tools (e.g. to assess themselves their financial viability) they need.
- Due to the introduction of a **Participants' Guarantee Fund (PGF)**, **no additional guarantee or security will be requested from participants or imposed on them**, such as reduction of pre-financing for a particular participant (beneficiary), trust accounts, blocked accounts, financial guarantees, etc. **The Commission services will however strengthen ex-post controls** to ensure the good implementation of FP7 indirect actions and protect the financial interests of the beneficiaries and of the Community.

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# Introduction

## ➤ Structure:

- 4 main parts:
  - ✓ verification of the existence of the legal entity
  - ✓ verification of the legal status of the legal entity
  - ✓ verification of the operational capacity
  - ✓ verification of the financial capacity of the legal entity
- For each part, **Principles** and **Implementation**
- For any subsequent versions, a **change history** and a **comparison to the previous version(s)** will be provided in order to identify the modifications/updates and ease the understanding.

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## I- Verification of the existence

### ➤ Principles:

- In compliance with the FP7 RP and with the FR and its IR, **a grant can only be awarded to an existing legal entity** (a natural person or a legal person) who:
  - ✓ has submitted an eligible proposal using the procedure defined by the Commission; and
  - ✓ is not in one of the situations mentioned in articles 93(1), 94 and 96(2)(a) of the FR.

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## I- Verification of the existence

### ➤ Implementation:

#### • Proposal Stage

- ✓ In **PSF** any legal entity shall provide its **basic administrative and legal data** (such as organisation's legal name, legal address, legal registration number, VAT number, etc), except those who already have provided them previously for another proposal and provided their data have not been modified.
- ✓ At this stage **no supporting documents** (see infra) will be requested and no verification of the data by the Commission will be carried out, other than for eligibility of the proposal purposes.



## I- Verification of the existence

### ➤ Implementation:

#### • Negotiation Stage

- ✓ At this stage, the authorised representative of the legal entity must:
  - **Verify** that the **basic administrative and legal data** provided in the **GPF** for its organisation are **correct**; and, if not, to correct them accordingly; and
  - **Declare on his/her honour** that all the information provided in the GPF regarding his/her organisation is correct, and declare that it is not in one of the situations mentioned in articles 93(1), 94 and 96(2)(a) of the FR.
- ✓ A signature certifying the above will be requested in the GPF. *[Supporting documents regarding the legal representatives of the legal persons mentioned in this section may be requested by the Commission services.]*



# I- Verification of the existence

## ➤ Implementation:

### • Negotiation Stage

✓ In addition, applicants, depending on their legal type, shall provide to the Commission services the following documents (except if previously provided and no changes have since taken place):

#### ▪ For natural persons:

- o A legible photocopy of the valid identity card or passport;
- o If applicable, an official VAT document.

#### ▪ For public bodies:

- o A copy of the resolution, law, decree or decision establishing the entity in question; or, failing that, any other official document attesting to the establishment of the entity as a public body;
- o If applicable, an official VAT document.

#### ▪ For other legal entities:

- o A copy of any official document (e.g. official gazette, register of companies, etc) showing the participant's legal name and address and the registration number given to it by the national authorities ;
- o A copy of the VAT registration document, if any, and only if the VAT number does not appear on the official document referred to above.

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## I- Verification of the existence

### ➤ Implementation:

#### • Negotiation Stage

- ✓ On the basis of these data and documents, and taking also into consideration the information provided in the Early Warning System tool, the Commission services in charge will validate the existence of the legal entity.
- ✓ A **"Legal Entity Fiche"** will be created (or, if relevant, updated). Once the URF has been created, a validated URF registration number ("**Participant Identity Code**") will be provided in order to facilitate participation in subsequent FP7 proposals. Entities which have no been validated will be notified that they cannot participate.

*[The same procedure and documents will be used/requested for legal entities joining an indirect action or for any modification of the legal personality of a beneficiary during the implementation of this indirect action.]*

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## II- Verification of the legal status

### ➤ Principles:

- Both the FP7 RP and the FR and its IR (as well as, in certain cases, the Work Programme and the call for proposals) define **different categories of legal entities**. These differences are mainly **based on the legal status and/or characteristics of the legal entity**.
- According to the category(ies) of legal entities to which it belongs, a legal entity may have **different rights and obligations**, such as:
  - ✓ rights in terms of the EC financial contribution to a participant;
  - ✓ whether or not a financial capacity check of a legal entity will be mandatory;
  - ✓ whether or not a competent public officer is allowed to certify the financial statement(s);
  - ✓ implementation modalities of the Participants' Guarantee Fund; ...



## II- Verification of the legal status

### ➤ Implementation:

- The **Commission services shall categorize each legal entity participating in an FP7 indirect action.** To this end, additional information (data and/or documents) will – when necessary – be requested either at submission stage, at negotiation stage and/or during the project implementation/finalisation.
- The **information** will be **collected through the PSF** [Submission Stage] and/or **GPF** [Negotiation Stage] and/or **during the project implementation/finalisation**, and will be **stored in the Unique Registration Facility.**
- The data will be verified and validated by the relevant Commission services **mainly during the negotiation stage**, allowing the Commission services to provide each legal entity with a validated URF registration number ("Participant Identity Code").

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## II- Verification of the legal status

### Implementation:

- The **main categories** of legal entities that shall be identified are summarized and explained in the following table:

				Automatic right to be funded				Maximum level of EC financial contribution for RTD activities = 75% <sup>(1)</sup>	Verification of the financial capacity	Possibility to use a competent public officer to establish a certificate on financial statement(s)	Possibility of deduction on the return amount initially paid to the Participants' Guarantee Fund <sup>(5)</sup>	
				MS	AC	ICPC	Other					
<b>Natural person</b>												
<b>Legal person</b>	<b>Public body</b>			Yes if the minimum participation of MS and/or AC is reached	No, except particular cases <sup>(7)</sup>	No	No <sup>(2)</sup> / Yes <sup>(3)</sup>	No	Yes	Yes		
		Profit	Non profit public body			Yes	Yes	Yes / No	No	Yes	No	
			Profit public body			Yes	Yes	No	No	Yes	No	
		International organisation	Of European interest			Yes	Yes	No	No	Yes	No	
			Other			Yes	Yes	Yes	No	Yes	No	
	<b>Secondary and higher education establishment</b>							Yes	No	Yes	No	
	<b>Research organisation<sup>(6)</sup></b>							Yes	No <sup>(4)</sup> / Yes <sup>(3)</sup>	Yes	Yes	
	<b>Enterprises</b>	SME				Yes if the minimum participation of MS and/or AC is reached	No, except particular cases <sup>(7)</sup>	Yes	No <sup>(4)</sup> / Yes <sup>(3)</sup>	No	Yes	Yes
		Non-SME						Yes	Yes	No <sup>(4)</sup> / Yes <sup>(3)</sup>	No	Yes
	<b>Legal entity guaranteed by a Member State or an Associated Country</b>							No	No	No	No	No
<b>Other</b>					No	No <sup>(4)</sup> / Yes <sup>(3)</sup>	No	No	Yes			

(1)- For security-related research and technological development activities, it may reach a maximum of 75 % for any type of legal entities (natural and legal persons) in the case of the development of capabilities in domains with very limited market size and a risk of "market failure" and for accelerated equipment development in response to new threats.

(2)- If it is in receipt of a scholarship ; or if it applies for a Community financial contribution in the relating FP7 indirect action inferior or equal EUR 500,000, and it is not the coordinator, and according to information already available to the Commission services, there are not justified grounds to doubt the financial capacity of this participant.

(3)- If it applies for a Community financial contribution in the relating FP7 indirect action superior to EUR 500,000; or if it is the coordinator ; or, in exceptional circumstances, if, according to information already available to the Commission services, there are justified grounds to doubt the financial capacity of this participant.

(4)- If it applies for a Community financial contribution in the relating FP7 indirect action inferior or equal EUR 500,000, and it is not the coordinator, and according to information already available to the Commission services, there are not justified grounds to doubt the financial capacity of this participant.

(5)- Provided the amount of eligible costs and relating EC contribution is sufficient.

(6)- "Research organisation" means a legal entity established as a non-profit organisation which carries out research or technological development as one of its main objectives.

(7)- In the case of a participating international organisation, other than an international European interest organisation, or a legal entity established in a third country other than an associated country or international cooperation partner country, a Community financial contribution may be granted provided that at least one of the following conditions is satisfied:

(a) provision is made to that effect in the specific programmes or in the relevant work programme;

(b) the contribution is essential for carrying out the indirect action;

(c) such funding is provided for in a bilateral scientific and technological agreement or any other arrangement between the Community and the country in which the legal entity is established.



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## II- Verification of the legal status

### ➤ Implementation:

- The verification of the **specific participation conditions** that are introduced in specific funding schemes and/or in specific calls for proposals (eligibility criteria) will **also be part** of this categorization exercise.
- As a general rule, **if a legal entity may be categorized in different categories the Commission services shall consider the most favourable one** for this legal entity in terms of rights and/or obligations.

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## III- Verification of the operational capacity

### ➤ Principles:

- In compliance with the FR and its IR, the **operational capacity of a participant must be assessed in order to ensure the applicant's ability to complete the proposed action or work programme.**
- Since most of the FP7 indirect actions are implemented by a consortium of several legal entities, **two levels of operational capacity** are distinguished:
  - ✓ The consortium's operational capacity;
  - ✓ Each participant's operational capacity;
- The purpose of the verification is therefore to **assess whether the participants (collectively and individually) have or will have in due time the professional competencies and qualifications required to complete the indirect action.**

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## III- Verification of the operational capacity

### ➤ Implementation:

#### • Proposal Stage

- ✓ The **operational capacity of the consortium** will be addressed at the Evaluation Stage by the independent external evaluators when assessing the **evaluation criterion "Implementation"**. An above-threshold score will indicate a positive assessment.
- ✓ The independent external evaluators will provide comments to the Commission (cf Evaluation Summary Report) for any legal entity for which they consider that the necessary operational capacity to perform its foreseen tasks is obviously insufficient or not enough demonstrated (cf. **operational capacity of a legal entity**)

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## III- Verification of the operational capacity

### ➤ Implementation:

#### • Negotiation Stage

- ✓ **As a general rule, the Commission services will follow the recommendations of the independent external evaluators regarding operational capacity** *(including the possibility to exclude a participant from a positively evaluated proposal because of its operational incapacity)*, except if the Commission services are aware of any additional information that may impinge on the judgement of the independent external evaluators.
- ✓ If different from the recommendations of the independent external evaluators, the Commission services may decide to exclude a legal entity and/or not to select a proposal for EC financial contribution, but **on the basis of a strong and well-supported argumentation.**

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## III- Verification of the operational capacity

### ➤ Implementation:

- Negotiation Stage

✓ Each participant shall provide to the Commission services a declaration on its honour that it has, or will have in the time required, the necessary resources for the implementation of their work in the relating FP7 indirect action (cf **GPF**).

✓ In the particular case of a legal entity joining the consortium during the negotiation or during the implementation of the indirect action, the assessment of its operational capacity will be based on the **same principles**.

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## IV- Verification of the financial capacity

### ➤ Principles:

- The verification of the financial capacity is an **integral part of the negotiation stage** and needs to be completed before the signature of the grant agreement.
- The assessment of the financial capacity of a legal entity is composed of:
  - ✓ A **financial viability** check;
  - ✓ A **co-financing capacity's** check (if relevant).

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## IV- Verification of the financial capacity

### ➤ Implementation:

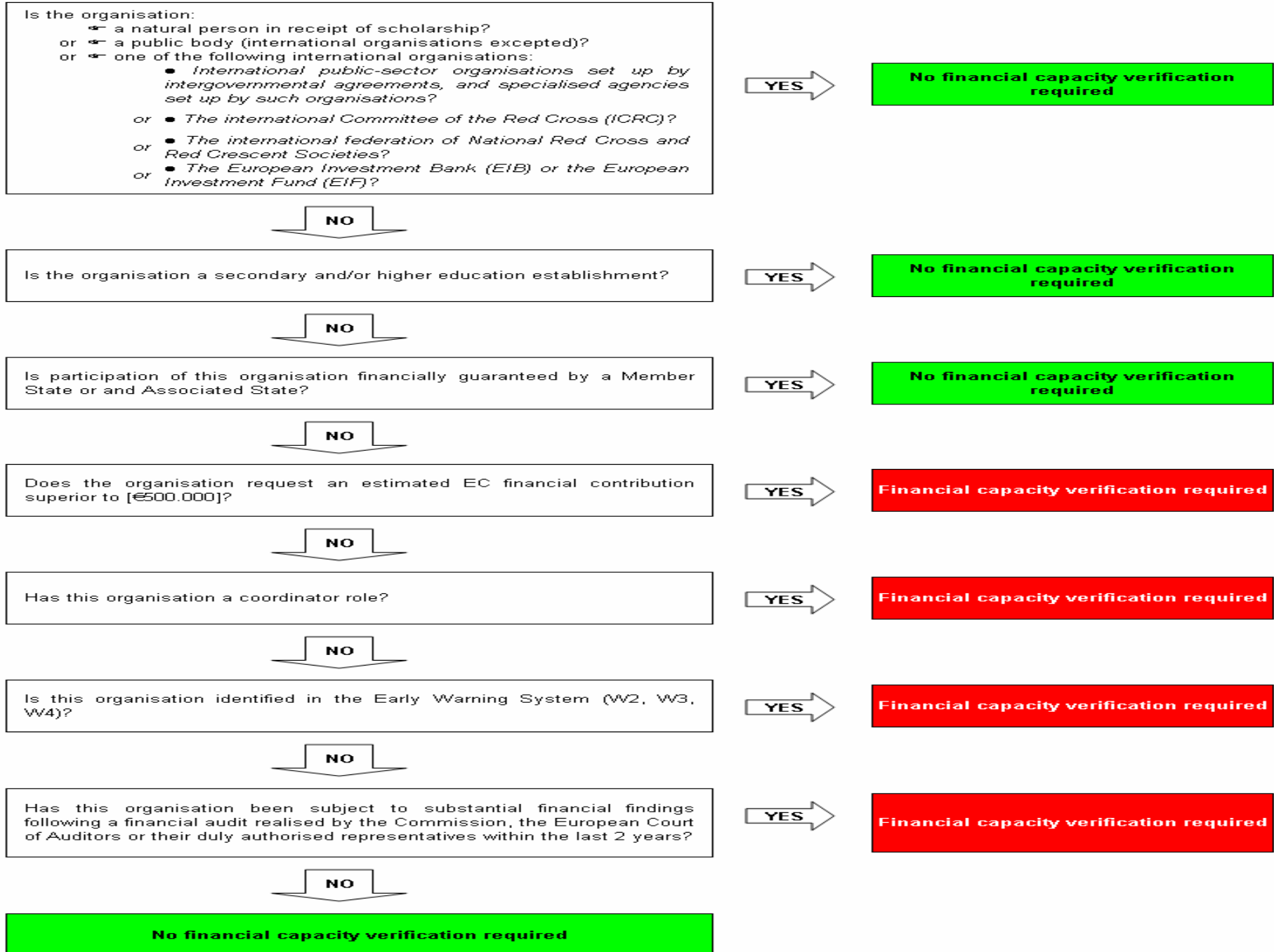
- The verification of the financial capacity of a participant essentially proceeds in four steps:
  - ✓ As a first step, legal entities subject to a mandatory verification of their financial capacity are identified in accordance with FP7 RP, the FR and its IR;
  - ✓ In a second step, these legal entities provide – if not already available – their financial information and relevant supporting documents covering the last closed financial year;
  - ✓ In a third step, on the basis of the above, the Commission services will proceed with a concise financial analysis on the last closed financial year (financial viability + co-financing capacity);
  - ✓ Finally, in a fourth step, on the basis of the above, the authorising officer will take the appropriate measures, including, if necessary, a more in-depth financial analysis.

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## Decision tree on Financial Capacity Verification





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## IV- Verification of the financial capacity

### ➤ Implementation:

#### • Requested data and documents

##### ✓ For legal persons

- each legal person subject to a verification of its financial capacity shall provide to the Commission services for the last financial year for which the accounts are closed:
  - o Balance sheet;
  - o Profit and loss account;
  - o Statutory audit report on the 2 above financial statements (if available)
- each legal person subject to a verification of its financial capacity requesting an estimated EC financial contribution exceeding €500.000 shall provide to the Commission services an audit report certifying the accounts of the last available financial year.

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## IV- Verification of the financial capacity

### ➤ Implementation:

#### • Requested data and documents

##### ✓ For natural persons

- At the negotiation stage, and in compliance with FP7 RP and with the IR of the FR, each natural person subject to a verification of its financial capacity shall provide to the Commission services:
  - o its last income tax declaration;
  - o a certified declaration of its current patrimony;
  - o an exhaustive list (with relevant dates and figures) of its debts, broken-down in short-term debts (maximum one year) and medium/long term debts (more than one year), as certified by its creditors;
  - o an audit report if requesting an estimated EC financial contribution exceeding €500.000.

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## IV- Verification of the financial capacity

### ➤ Implementation:

#### • Requested data and documents

- ✓ As a general rule, **no prospective financial data** should be used, except in the case of "young" legal entities (such as start up companies) with no closed accounts. For these legal entities, a Business Plan will be required (cf especially "young" SMEs) or (a) similar relevant document(s) of prospective activities, if available.
- ✓ Once the URF is available, all this information will be stored in the URF, relieving the legal entity from the obligation to submit the same information several times.
- ✓ A legal entity that does not provide its requested data and documents in due time will be excluded from the FP7 indirect action in question.

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# IV- Verification of the financial capacity

## ➤ Implementation:

### • Financial viability check (concise analysis)

✓ For legal persons

#### ▪ **Used ratios and noteworthy value**

Purpose	Indicators	Ratios	Concise Analysis
Liquidity	Quick ratio	$\frac{\text{Current assets} - \text{Stocks} - \text{Debtors} > 1 \text{ year}}{\text{Short-term debt (bank and non-bank)}}$	●
Profitability	Profitability (1)	$\frac{\text{GOP}}{\text{Turnover}}$	●
Solvency	Solvency	$\frac{\text{Total debt}}{\text{Equity(*)}}$	●

(\*) Equity = Capital and reserves - 50% of intangible assets

In addition, a noteworthy value based on equity is used as a complementary data (Flag).

The Equity flag will be considered "positive" if the indicator "Total debt / Equity" is superior or equal to 0 and inferior or equal to 10.

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# IV- Verification of the financial capacity

## ➤ Implementation:

### • Financial viability check (concise analysis)

✓ For legal persons

#### ▪ **Thresholds**

Purpose	Indicators	Weak	Acceptable	Good
		0	1	2
Liquidity	Quick ratio	$i < 0,5$	$0,5 \leq i \leq 1$	$i > 1$
Profitability	Profitability (1)	$i < 0,05$	$0,05 \leq i \leq 0,15$	$i > 0,15$
Solvency	Solvency	$i > 6,00$ or $< 0$	$6,00 \geq i \geq 4,00$	$i < 4,00$ and $\geq 0$

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# IV- Verification of the financial capacity

## ➤ Implementation:

### • Financial viability check (concise analysis)

#### ✓ For natural persons

#### ▪ **Used ratios**

Purpose	Indicators	Ratios
Liquidity	Quick ratio	$\frac{\text{Current patrimony (*) + annual revenues(**)}}{\text{Short-term debt (bank and non-bank) (***)}}$
Solvency	Solvency	$\frac{\text{Total of debts (***)}}{\text{Patrimony (*)}}$

(\*) as indicated in the declaration of patrimony

(\*\*) as indicated in the income tax declaration

(\*\*\*) as indicated in the list(s) of debts certified by creditors

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## IV- Verification of the financial capacity

### ➤ Implementation:

- Financial viability check (concise analysis)

- ✓ For natural persons

- **Thresholds**

Purpose	Indicators	Weak	Acceptable	Good
		0	1,5	3
Liquidity	Quick ratio	$i < 2$	$2 \leq i \leq 3$	$i > 3$
Solvency	Solvency	$i > 1$	$1 \geq i \geq 0,5$	$i < 0,5$

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# IV- Verification of the financial capacity

## ➤ Implementation:

### • Co-financing capacity check

✓ For legal persons

#### ▪ **Used ratios and noteworthy value**

Purpose	Indicators	Ratios
Co-financing capacity	Cash Flow Indicator	$\frac{\text{Cash Flow (CFE}_1) \times \text{duration of the project in days (DP}_0)}{\text{Project eligible costs - EC contribution (CP)}}$
	Net Operating Profit Indicator	$\frac{\text{NOP (NOP}_1) \times \text{duration of the project in days (DP}_0)}{\text{Project eligible costs - EC contribution (CP)}}$

CFE<sub>1</sub>: Estimated Cash Flow for 1 year

NOP<sub>1</sub>: Estimated Net Operation Profit for 1 year

DP<sub>0</sub>: Total duration of the project in days

CP : Costs and EC contribution of all projects of the participant with EC

Cash flow = (gross operating profit + financial income) – (interest paid + similar charges)

**In addition, and for coordinators only, a noteworthy value based on the project total pre-financing and its turnover is used as complementary data (Flag). The Financial Exposure Flag will be considered "positive" if the indicator " project total pre-financing / turnover" is equal or inferior to 0,5 .**

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## IV- Verification of the financial capacity

### ➤ Implementation:

#### • Co-financing capacity check

✓ For legal persons

#### ▪ **Thresholds**

Purpose	Indicators	Weak	Good
		0	1
Co-financing capacity	Cash Flow Indicator	<1	$\geq 1$
	Net Operating Profit Indicator	<1	$\geq 1$

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## IV- Verification of the financial capacity

### ➤ Implementation:

#### • Co-financing capacity check

✓ For natural persons

#### ▪ **Used ratios**

Purpose	Indicators	Ratios
Co-financing capacity	Short Term	$\frac{\text{Current patrimony (*) + annual revenues(**)}}{[\text{Project eligible costs - EC contribution (CP)(***)] \text{ in average per year}}$
	Medium/Long Term	$\frac{\text{Patrimony (*)}}{\text{Project eligible costs - EC contribution (CP)(***)}}$

(\*) as indicated in the declaration of patrimony

(\*\*) as indicated in the income tax declaration

(\*\*\*) CP : Costs and EC contribution of all projects of the participant with EC

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## IV- Verification of the financial capacity

### ➤ Implementation:

- Co-financing capacity check

- ✓ For natural persons

- **Thresholds**

Purpose	Indicators	Weak	Good
		0	1
Co-financing capacity	Short Term	<1	>=1
	Medium/Long Term	<1	>=1

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# IV- Verification of the financial capacity

## ➤ Implementation:

### • Assessment of the result of the concise analysis

✓ As a general rule, any legal entity subject to a verification of its financial capacity which obtains under a concise analysis a minimum of:

- 3 points as a result of its financial viability check;
- 1 point as a result of its co-financing capacity check (*if relevant*);

will be considered to have a "positive" financial capacity.

Concise Analysis			
	Weak	Acceptable	Good
Result of financial viability check	0-2	3	4-6
Result of co-financing check	0	1	2

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## IV- Verification of the financial capacity

### ➤ Implementation:

#### • Assessment of the result of the concise analysis

- ✓ Despite of the abovementioned results, the financial capacity of a legal entity will in any case be considered as "weak", if:
  - an audit report of the accounts has been issued with serious qualification (not only on co-financing capacity);
  - the result(s) obtained through Equity Flag or Financial Exposure Flag (if relevant) is(are) "weak";
  - the legal entity has been subject to substantial financial findings relating to its financial capacity following a financial audit carried out by the Commission (including OLAF), the European Court of Auditors or their duly authorised representatives within the last 2 years.

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## IV- Verification of the financial capacity

### ➤ Implementation:

- Assessment of the result of the concise analysis

- ✓ If the result of the concise financial viability check is "weak", the authorising officer in charge will have first of all to conduct a more in-depth financial analysis.
- ✓ Note that a legal entity subject to a warning code W2, W3 or W4 in the EWS database who obtained a "positive" result under a concise financial analysis will also be considered as having a "weak" financial capacity but will not be subject to a more in-depth financial analysis.

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# IV- Verification of the financial capacity

## ➤ Implementation:

- More in-depth financial analysis

- ✓ For legal persons

- **Used ratios**

Purpose	Indicators	Ratios	More in depth analysis
Liquidity	Quick ratio	$\frac{\text{Current assets} - \text{Stocks} - \text{Debtors} > 1 \text{ year}}{\text{Short-term debt (bank and non-bank)}}$	●
Financial autonomy	Gross Operating Profit Ratio	$\frac{\text{Interest}}{\text{GOP}}$	●
Profitability	Profitability (1)	$\frac{\text{GOP}}{\text{Turnover}}$	●
	Profitability (2)	$\frac{\text{NOP}}{\text{Turnover}}$	●
Solvency	Solvency	$\frac{\text{Total debt}}{\text{Equity(*)}}$	●

(\*) Equity = Capital and reserves - 50% of intangible assets

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# IV- Verification of the financial capacity

## ➤ Implementation:

- More in-depth financial analysis

- ✓ For legal persons

- **Thresholds**

Purpose	Indicators	Weak & Unsufficient	Acceptable	Good
		0	1	2
Liquidity	Quick ratio	$i < 0,5$	$0,5 \leq i \leq 1$	$i > 1$
Financial autonomy	Gross Operating Profit Ratio	$i > 0,40$ or $< 0$	$0,40 \geq i \geq 0,30$	$0 \leq i < 0,30$
Profitability	Profitability (1)	$i < 0,05$	$0,05 \leq i \leq 0,15$	$i > 0,15$
	Profitability (2)	$i < 0,02$	$0,02 \leq i \leq 0,04$	$i > 0,04$
Solvency	Solvency	$i > 6,00$ or $< 0$	$6,00 \geq i \geq 4,00$	$0 \leq i < 4,00$

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## IV- Verification of the financial capacity

### ➤ Implementation:

- More in-depth financial analysis

- ✓ For natural persons

- ✓ There will be no more in-depth financial analysis for a natural person.

However, if the result of the concise financial analysis has shown:

- Either a quick ratio (liquidity) inferior to 1,5;
    - Or a solvency ratio superior to 1,2.

the financial capacity will be considered as "**insufficient**" and, as consequence, **the participant can not participate** to the indirect action, **except** if duly justified reasons are provided by the authorising officer according to its own risk assessment.

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# IV- Verification of the financial capacity

## ➤ Implementation:

### • More in-depth financial analysis

✓ As a general rule, any legal entity subject to a verification of its financial capacity which obtains under a more in depth analysis a minimum of:

- 4 points as a result of its financial viability check;
- 1 point as a result of its co-financing capacity check (*if relevant*);

will be considered to have a "positive" financial capacity.

More in Depth Analysis				
	Unsufficient	Weak	Acceptable	Good
Result of financial viability check	0	1-3	4-5	6-10
Result of co-financing check	0		1	2

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## IV- Verification of the financial capacity

### ➤ Implementation:

- More in-depth financial analysis

- ✓ If, according to the results of this more in-depth analysis, the financial capacity of the participant:

- is "acceptable" or "good", the participant can participate to the indirect action, without any other action to be taken.
    - remains "weak", the authorising officer in charge will have to consider protection measures.
    - is "insufficient" the participant can not participate to the indirect action, except if duly justified reasons are provided by the authorising officer according to its own risk assessment.

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## IV- Verification of the financial capacity

### ➤ Implementation:

- Protection measures

✓ Due to the effective and immediate existence of the Participants' Guarantee Fund (PGF), and in compliance with article 38 of the FP7 RP, the PGF is considered as a sufficient guarantee under the FR. As a consequence, **no financial additional guarantee or security** may be requested from participants or imposed on them, such as reduction of pre-financing, trust accounts, blocked accounts, financial guarantees (from a bank/financial institution, a mother company, ...).

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## IV- Verification of the financial capacity

### ➤ Implementation:

#### • Protection measures

✓ However, other kinds of protection measures, as listed below, shall be implemented:

- A natural person can not be the coordinator of an indirect action.
- A legal person with a "weak" financial capacity following a more in-depth analysis shall not be accepted as a coordinator by the Commission services.

***Except if the legal person provides on a voluntary basis a guarantee which can be considered to be "equivalent to a guarantee by a Member State or an Associated State".***

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## IV- Verification of the financial capacity

### ➤ Implementation:

#### • Protection measures

✓ However, other kinds of protection measures, as listed below, shall be implemented:

▪ For any legal entity, the Commission reserves the right to systematically initiate, during the implementation of the relating FP7 indirect action, a financial audit, which may be accompanied if necessary by a technical audit, carried out by the Commission services (including OLAF), or its duly authorised representatives, or by the Court of Auditors, if:

- o it is considered as "weak" after a more in-depth financial analysis of its financial viability ; or
- o the result of its co-financing capacity is "weak" (*if relevant*); or
- o the results obtained through Equity Flag or Financial Exposure Flag are "weak"; or
- o an audit report of the accounts has been issued with serious qualification; or
- o it has been subject to substantial financial findings relating to its financial capacity following a financial audit carried out by the Commission (including OLAF), the European Court of Auditors or their duly authorised representatives within the last 2 years; or
- o it is subject to a warning code W2 or W3 in the EWS database.

▪ Any legal entity with a "weak" financial capacity will be subject to a reinforced monitoring during the implementation of the project (e.g.: appropriate additional reviews by the Commission services and/or independent external expert(s), including on the spot check(s)).

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## IV- Verification of the financial capacity

### ➤ Implementation:

- Protection measures

✓ However, other kinds of protection measures, as listed below, shall be implemented:

- Any legal entity with a "weak" financial capacity will be subject to a reinforced monitoring during the implementation of the project (e.g.: appropriate additional reviews by the Commission services and/or independent external expert(s), including on the spot check(s)).

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## IV- Verification of the financial capacity

### ➤ Implementation:

- Protection measures

✓ The Commission services will immediately inform:

- the coordinator of the consortium that, due to its "insufficient" financial capacity, (a) legal entity(ies) involved in the proposal can not participate to the FP7 indirect action. The coordinator will inform the consortium.
- the relevant participant(s) of an FP7 indirect action of the results and consequences, especially any necessary protection measure, of the verification of its(their) financial capacity, if the latter is "weak". However, this shall not allow the consortium to exclude this(these) participant(s) for that single reason.

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[http://cordis.europa.eu/fp7/find-doc\\_en.html](http://cordis.europa.eu/fp7/find-doc_en.html)

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# Thank you very much for your attention

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