**Follow-up to the European Parliament non-legislative resolution on the revision
of the Financial Regulation in view of the entry into force of the
2021-2027 multiannual financial framework**

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**2. Reference number:** 2021/2162 (INI) / A9-0295/2021 / P9\_TA PROV(2021)0469

**3. Date of adoption of the resolution:** 24 November 2021

**4. Competent Parliamentary Committee:** Committee on Budgets (BUDG), Committee on Budgetary Control (CONT)

**5. Brief analysis/assessment of the resolution and requests made in it:**

The European Parliament adopted the resolution on 24 November 2021 with a large majority (534 in favour, 98 against and 57 abstentions). The resolution comes in the context of the upcoming targeted revision of the Financial Regulation, which will align the text to the 2021-2027 multiannual financial framework package

The main requests of the Parliament’s resolution aim at achieving increased democratic accountability for the implementation of the EU budget, increasing the use of digital tools in order to improve transparency, making it easier for small and medium sized enterprises (SMEs) to receive EU funding and incorporating the content of the General Conditionality Regulation[[1]](#footnote-1) into the Financial Regulation.

The resolution calls on the Commission to increase democratic accountability by including external assigned revenue in the EU budget. Furthermore, the Parliament insists on a compulsory risk scoring and data-mining tool, to which Member States must feed information, including data on the recipients of EU funding. Additionally, the Parliament calls for centralising information on final beneficiaries in a publicly accessible EU database to improve transparency regarding the use of EU funds.

The resolution also contains several requests relating to EU procurement procedures, mainly to improve the accessibility for SMEs and to address the issue of ‘professional conflicting interests’.

The resolution also proposes to make the receipt of EU funds conditional upon the implementation of the European Pillar of Social Rights. It further recalls the commitments made under the Interinstitutional Agreement[[2]](#footnote-2) to promote gender mainstreaming and to address climate and biodiversity related challenges.

Lastly, the resolution requests changes to reporting requirements on borrowing and lending operations and more timely audit and control procedures to provide for a prompt recovery of EU funds. It also encourages increased cross-reliance to optimise audit procedures.

**6. Response to requests and overview of action taken, or intended to be taken, by the Commission:**

This follow-up provides a preliminary reaction to the European Parliament’s requests considering that the Commission proposal is still under preparation.

The Commission considers that this revision of the Financial Regulation must be targeted. The 2018 Financial Regulation is the result of a major revision. It increased flexibility, simplified considerably and paved the way for the 2021-2027 Multiannual Financial Framework (MFF) proposals. These simpler and shorter rules need time to unleash their full potential implementing the 2021-2027 programmes.

This revision of the Financial Regulation should focus on alignment with the MFF 2021-2027 and recovery package, for instance by incorporating certain derogations or commitments taken in that context e.g. in sectoral acts, declarations or the Interinstitutional Agreement (IIA). This will provide greater legal certainty for EU institutions, as well as beneficiaries of EU funds. On that occasion, targeted improvements could be proposed, learning the lessons from the Covid-19 crisis or making the most of digital tools available to protect the EU financial interests.

The Commission welcomes the European Parliament’s acknowledgement of the targeted nature of the revision, although some of the requests included in the resolution seem to fit better in a future broader revision and for others the Financial Regulation may not be the most appropriate legal instrument.

**Response to paragraphs 10, 11, 12 and 43**

The Commission is duly considering the various declarations that are relevant for this revision of the Financial Regulation, including those related to external assigned revenue and to reporting on borrowing and lending operations.

External resources are spent in accordance with the principles of sound financial management and respect all rules laid down in the basic acts and the Financial Regulation. The Commission is committed to keep the European Parliament informed in a transparent way about the use of assigned revenue and recalls that the budgetary authority is adequately involved ex-post via the discharge procedure.

**Response to paragraphs 13 and 14**

In line with the Joint declaration[[3]](#footnote-3), the Commission is assessing the possibility of revising the Financial Regulation’s provisions on reporting on borrowing and lending operations.

The Commission takes seriously its responsibility to manage the EU budget and report to the Parliament, the Council and the wider EU public. One element in achieving this objective is by applying the highest available accounting standards for its reporting, the International Public Sector Accounting Standards (IPSAS). This has helped the Commission to achieve 14 consecutive clean opinions on the EU annual accounts. Meaningful reporting and thus also meaningful analysis of the EU’s finances requires that the necessary information is provided by the Commission’s partners timely and in full.

**Response to paragraphs 16 and 17**

The Commission takes note of the Parliament’s request to assess opportunities to further clarify the link between the implementation of the Union budget and the General Conditionality Regulation. The Commission considers that the focus should now be on the implementation of the General Conditionality Regulation, and re-opening discussions on its substance at this stage would not be productive.

**Response to paragraphs 19, 20, 21, 22 and 23**

The Commission acknowledges the particular importance of transparency, accountability and democratic scrutiny of EU budget implementation.

The Interinstitutional Agreement contains a commitment by the Commission to provide Member States with an integrated and interoperable information and monitoring system, including a single data-mining and risk-scoring tool that they can voluntarily use for control and audit purposes. However, agreed texts do not make its use compulsory. The Commission will keep doing its utmost to encourage Member States to use the system and will continue to provide training, with a view to promote a generalised application by Member States.

The Commission furthermore intends to use the upcoming revision of the Financial Regulation as another opportunity to propose further advance on these aspects, as well as on transparency and public scrutiny with regard to the use of the EU budget.

**Response to paragraph 24**

Any necessary improvements to the Early Detection and Exclusion System will take into account the experience gained since 2016. The Commission is committed to ensure that operators guilty of the most serious misconducts (e.g. corruption, fraud, money laundering, terrorism, etc.) cannot access EU funds anywhere in the EU. The modalities are been carefully examined.

**Response to paragraphs 18, 34, 35, 36, 38 and 39**

The Commission shares the importance of ensuring robust protection for the whole EU budget and is committed to further improve the protection of the EU budget against irregularities, fraud, corruption, conflict of interests and professional conflicting interests.

It should be recalled that the issue related to operators whose parent company owns shares related to activities that are not in line with the EU’s environmental, social and Green Deal objectives is already addressed in the current Financial Regulation[[4]](#footnote-4).

In relation to the updated EU industrial strategy, the Commission also recalls that the proposal for a regulation on foreign subsidies is currently being negotiated and the potential alignment of the Financial Regulation will depend on the progress on the proposals.

The Commission’s Vade-mecum on EU public procurement contains practical guidance for internal use of the Commission departments and the relevant EU bodies. It is of course fully in line the applicable legal framework adopted by the Union legislator. Sufficient flexibility is needed to update this internal tool based on its users’ evolving needs.

**Response to paragraphs 15, 25, 26, 27, 29, 30, 31, 32, 33, 44, 45, 46, 47, 49 and 52**

The Commission takes note of other topics covered by the resolution, such as the location of decentralised agencies, SMEs, gender budgeting, EU trust funds, decommitments, climate and biodiversity challenges and the implementation of the European Pillar of Social rights. In some cases, the Financial Regulation may not be the most appropriate legal instrument. Certain challenges and policy choices rather belong to sector specific legislation. On the other hand, some proposals seem to go beyond the targeted scope of this revision and it might be more appropriate to revisit them in a future wider revision.

There are also proposals in the resolution, which are already fully or partially addressed by the Financial Regulation, or other EU legislation. Regarding the request to ensure sufficient SME participation in the process of tendering for example, the Commission highlights that the equal treatment of tenderers is one of the basic principles observed throughout the procurement process[[5]](#footnote-5). Additionally, the option to divide procurement contracts into smaller lots is available in order to increase the competitiveness of SMEs when tendering[[6]](#footnote-6), provided the principle of sound financial management is complied with.

In line with its commitments under the IIA, the Commission has worked towards the development of a robust and clear climate methodology to track climate expenditures, together with the co-legislators. The budgetary aspects of addressing climate and biodiversity challenges fall into a subcategory of the “do no significant harm” principle. The Commission is reflecting on an appropriate way to refer to that principle. The Commission already committed under the IIA to collect data on gender mainstreaming, and reiterating this in the targeted revision appears unnecessary.

The Commission takes note of the Parliament’s requests to amend audit procedures to provide for a more timely recovery of EU funds paid out unduly, to improve scrutiny over the implementing activities carried out by other institutions, to include the European Public Prosecutors Office as a ’Union institution’ and to revise the deadlines for Union institutions and bodies referred to in Articles 70 and 71 to report on the measures taken in response to the decision on discharge.

In relation to the statement that EU assessments should strictly adhere to EU standards, it is recalled that Article 126 of the Financial Regulation refers to promoting the recognition of internationally accepted standards and best practices. It also requires, for the purposes of cross-reliance, that the assessments are made “on the compliance with conditions equivalent” to those under the Financial Regulation.

Finally, in order to provide a satisfactory response, the Commission would need to better understand the Parliament’s call in paragraph 52 “to ensure that the financial rules applicable to the European Agricultural Fund for Rural Development continue to apply once the necessary changes have been made even if the fund is no longer fully under the Common Provisions Regulation”.

1. OJ L 433 I, 22.12.2020, p. 1 [↑](#footnote-ref-1)
2. OJ L 433 I, 22.12.2020, p. 28 [↑](#footnote-ref-2)
3. OJ C 444 I, 22.12.2020, p. 6 [↑](#footnote-ref-3)
4. See in particular recital 103, Article 166 and point 16.4 (e) Annex I [↑](#footnote-ref-4)
5. See in particular Article 29 of Directive 2014/24/EU [↑](#footnote-ref-5)
6. See in particular Article 46 of Directive 2014/24/EU [↑](#footnote-ref-6)