



THE SEVENTH FRAMEWORK PROGRAMME

The Seventh Framework Programme focuses on Community activities in the field of research, technological development and demonstration (RTD) for the period 2007 to 2013



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)

Table of Contents

<i>Foreword</i>	3
<i>General purpose</i>	4
1. Verification of the existence and legal status	5
1.1. Existence	5
1.1.1. Principles	5
1.1.2. Implementation	5
1.1.2.1. At proposal stage	5
1.1.2.2. At negotiation stage	5
1.2. Legal status (Categories of legal entities)	6
1.2.1. Principles	6
1.2.2. Implementation	7
2. Verification of the operational capacity	8
2.1. Principles	8
2.2. Implementation	8
2.2.1. At proposal stage	8
2.2.2. At negotiation stage	9
3. Verification of the financial capacity: rules of implementation	10
3.1. Principles	10
3.2. Reasons for a concise financial analysis as a general rule	10
3.3. Categories of legal entities subject to (or exempted from) a verification of their financial capacity	10
3.4. Requested data and documents	13
3.4.1. For legal persons	13
3.4.2. For natural persons	13
3.4.3. Other remarks	14
3.5. Financial viability check	14
3.5.1. Purpose	14
3.5.2. Used ratios and noteworthy value	14
3.5.3. Thresholds	15
3.5.4. Particular case of natural persons	15
3.5.4.1. Used ratios	15
3.5.4.2. Thresholds	15
3.6. Co-financing capacity check	15
3.6.1. Purpose	15
3.6.2. Used ratios and noteworthy value	16
3.6.3. Thresholds	16
3.6.4. Particular case of natural persons	17
3.6.4.1. Used ratios	17
3.6.4.2. Thresholds	17
4. Verification of the financial capacity: conclusion of the analysis (checks) and possible measures to be taken	18
4.1. Assessment of the results of the concise analysis	18
4.2. Actions to be taken in case of "weak" result	18
4.2.1. A more in-depth financial analysis	19
4.2.1.1. For legal persons	19
4.2.1.2. For natural persons	20
4.2.2. Protection measures	20
4.3. Additional protection measures, including sanctions	21

Foreword

The Rules for Participation for FP7¹ (FP7 RP) stipulate that "*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*"².

This document defines these rules. It is based on the regulatory requirements provided by the FP7 RP and the Financial Regulation³ (FR) and its associated Implementing Rules⁴ (IR). It has been adopted by the Commission on the 13th of June 2007 and it is applicable from the 1st of January 2007 for any relevant FP7 indirect actions.

These rules concern all FP7 indirect actions taking the form of a grant agreement and will be implemented by all Commission services involved in the management of FP7 indirect actions ("Research Directorate Generals") up to the date of entry into force of a subsequent version of this document.

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.

¹ **EC FP7 RP** – Regulation of the European Parliament and of the Council (EC) No 1906/2006 of 18 December 2006 laying down the rules for the participation of undertakings, research centres and universities in actions under the Seventh Framework Programme of the European Community and for the dissemination of research results (2007-2013)– OJ L 391, 30.12.2006, p1.

EURATOM FP7 RP – Regulation of the Council (Euratom) No 1908/2006 of 19 December 2006 laying down the rules for the participation of undertakings, research centres and universities in actions under the Seventh Framework Programme of the European Atomic Energy Community and for the dissemination of research results (2007-2011) – OJ L 400, 30.12.2006, p1, and corrigendum in OJ L54, 22.02.2007, p4.

EC FP7 RP + EURATOM FP7 RP = FP7 RP.

² **EC FP7 RP** – Article 16.4 and **EURATOM FP7 RP** – Article 15.4

³ **FR** – Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation (Financial Regulation) applicable to the general budget of the European Communities – OJ L 248, 16.09.2002, p.1, as amended by Regulation (EC, Euratom) No 1995/2006 (OJ L 390, 30.12.2006, p.1)

⁴ **IR** – Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) referred to in the previous footnote, OJ L 357, 31.12.2002, p.1 as last amended by Commission Regulation 1248/2006 of 7 August 2006, OJ L 227/3 19/8/2006. If the linked revision of the Implementing Rules is adopted before the adoption of this decision, the respective reference will be inserted.

General purpose

This document addresses the rules regarding award of grants to ensure a consistent verification of:

- ✓ the existence;
- ✓ the legal status;
- ✓ the operational capacity; and
- ✓ the financial capacity

of an FP7 beneficiary in order to ensure the implementation of an indirect action (achievement of the expected objectives and results) and the protection of the financial interests of the Community.

The following guiding principles, developed over successive meetings of a working group involving all Directorates-General of the "Research family" and based on a strong will of simplification and rationalisation, underlie the approach adopted by the Commission:

- 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 force⁵, 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. This implies that information requested at proposal stage will not be asked again during negotiations or that information that e.g. needs to be verified at grant agreement stage is not requested at proposal stage, unless it is obvious that the information provided is no longer up to date at the time of verification.
- 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.
- Standard procedures in place within the Commission – see e.g. for the validation of legal entities – will, as far as possible, be used.

⁵ The entry into force of the URF is expected during the second semester of 2007 at the latest.

1. Verification of the existence and legal status

1.1. Existence

1.1.1. 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.

1.1.2. Implementation

After verification of the eligibility of the application, the following data, documents and/or tools will be used to verify the existence and the legal status of the participant and its situation regarding articles 93(1), 94 and 96(2)(a) of the FR:

1.1.2.1. At proposal stage

In the Proposal Submission Form (PSF), any legal entity shall provide its 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 modified⁶.

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.

1.1.2.2. At negotiation stage

The above-mentioned data will be automatically uploaded into the Grant agreement Preparation Form (GPF).

At this stage, the authorised representative of the legal entity must:

- a. Verify that the basic administrative and legal data provided in the GPF for its organisation are correct; and, if not, to correct them accordingly;
- b. 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 from the person authorised to sign the grant agreement or to commit the organisation. Supporting documents regarding the legal representatives of the legal persons mentioned in this section may be requested by the Commission services.

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):

⁶ Administrative, legal, activity and financial basic data of FP7 participants will be charged progressively into a Unique Registration Facility (URF).

- a. For natural persons:
 - i. A legible photocopy of the valid identity card or passport;
 - ii. If applicable, an official VAT document.
- b. For public bodies:
 - iii. 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;
 - iv. If applicable, an official VAT document.
- c. For other legal entities:
 - v. 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;
 - vi. 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.

The requested supporting documents must be provided within the deadline specified by the Commission in the invitation or/and in the framework for negotiation.

On the basis of these data and documents, and taking also into consideration the information provided in the Early Warning System tool⁷, the Commission services in charge will validate the existence of the legal entity.

After these verifications and validation, 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 not 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.

1.2. Legal status (Categories of legal entities)

1.2.1. 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 obligations⁸, in particular with respect to:

- rights in terms of the EC financial contribution to a participant (including its maximum level of funding);
- whether or not a financial capacity check of a legal entity will be mandatory;

⁷ A legal entity affected by a code W5 in the EWS will automatically be excluded from participation.

⁸ The categorization of legal entities participating to an FP7 indirect action per categories must be carried out in due time (initially during the negotiation stage; subsequently during the implementation stage, before any payment if a change occurs during a reporting period of the project) in order to protect the interests of the participants and of the Community, and to avoid delays of implementation or duplications at the different stages of the procedure(s).

- whether or not a competent public officer is allowed to certify the financial statement(s)⁹;
- the financial responsibility in the implementation of the indirect action (cf implementation modalities of the Participants' Guarantee Fund – see infra).

1.2.2. ***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 main categories of legal entities that shall be identified are the following:

Natural person		
Legal person	Public body	
	<i>Profit</i>	<i>Non profit public body</i>
		<i>Profit public body</i>
	<i>International organisation</i>	<i>Of European interest</i>
		<i>Other</i>
	Secondary and higher education establishment	
	Research organisation	
	Enterprises	SME
		Non-SME
	Legal entity guaranteed by a Member State or an Associated Country	
Other (<i>None of the above</i>)		

The verification of the participation conditions that are introduced in specific funding schemes and/or in specific calls for proposals¹⁰ (eligibility criteria¹¹) 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 obligations¹².

This 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").

⁹ The Commission services may require the audit methodology used by the competent public officer for the calculation of eligible costs.

¹⁰ As examples: ERA-NET Coordination and Support Actions will limit the participation to certain type of legal entities (National authorities like Ministries or regions, Executive agencies of these national authorities, etc...); a call for proposals of collaborative projects may restrict the participation to a certain type of legal entities like for example SMEs, Civil Society Organisations, ...

¹¹ It must be highlighted that even if a participant is not eligible to participate to an indirect action, this does not automatically lead to the non-eligibility of the proposal: in such a case (non-eligibility of one or several participant(s)), the proposal is non-eligible only if the minimum number of participants is not achieved and/or if the minimum number of participants answering the participation conditions of the call is not achieved.

¹² In that context, it must be noted that the legal entities belonging to several categories will be registered as such (i.e.: a legal entity can belong to several categories), in particular for statistical purposes.

2. Verification of the operational capacity

2.1. Principles

As mentioned in 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.**

The operational capacity is to be distinguished from the financial capacity for which a specific verification will be carried out (see *infra*).

The term "operational capacity" relates to the professional (technical, scientific, technological, managerial, administrative ...¹³) skills, qualifications, tools and/or knowledge necessary to achieve the objectives and expected results.

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 capacity¹⁴;
- 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.

2.2. Implementation

2.2.1. At proposal stage

The operational capacity of the consortium will be addressed at the Evaluation Stage¹⁵ by the independent external evaluators when assessing the evaluation criterion "Implementation".

In order to allow the independent external evaluators to perform this task, the participants will be required to provide *inter alia* within their proposal: at participant level, a brief description of the organisation and a short profile of staff members who will undertake the work (See Guide for Applicants); at consortium level, the participants will describe how they collectively constitute a consortium capable of achieving the project objectives (See Guide for Applicants).

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.

¹³ As an example the coordinator of an indirect action has to demonstrate its professional skills and qualifications in terms of administrative, financial, legal and team management.

¹⁴ Not relevant for project with a single beneficiary.

¹⁵ Evaluation Stage is located after the Submission and before the Negotiation for the FP7 award of grants.

2.2.2. At 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. Such additional information may come from different sources such as the findings of previous audits, management of previous (or on-going) projects, the consultation of external databases, etc. In these cases, the Commission services may decide to exclude a legal entity and/or not to select a proposal for EC financial contribution, on the basis of a strong and well-supported argumentation.

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. This declaration is part of the GPF and will be signed by a person authorised to sign the grant agreement and to legally commit the organisation.

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.

3. Verification of the financial capacity: rules of implementation

3.1. 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 following rules specify the minimum requirements for financial checks that authorising officers must conduct in accordance with FP7 RP and with Article 173, 176 and 182 of the IR of the FR.

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 (See chapter 3.3);
- 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 (See chapter 3.4);
- 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. This concise financial analysis will consist of:
 - A financial viability check (See chapter 3.5);
 - A co-financing capacity's check (if relevant) (See chapter 3.6).
- 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. (See Chapter 4).

The same procedure and documents, as described hereafter, will be used/requested for legal entities joining an indirect action during the negotiation or the implementation of this indirect action.

3.2. Reasons for a concise financial analysis as a general rule

The number of applicants to be analysed is important, and a certain “performance level” is therefore expected from the analysts, especially in order to avoid unreasonable increase of delays. This argues the case for a concise analysis in a first step, especially for the financial viability check. However, if the result of the concise financial viability¹⁶ check of a legal entity is "weak", a more in-depth financial analysis¹⁷ shall be carried out in a second step (see infra).

3.3. Categories of legal entities subject to (or exempted from) a verification of their financial capacity

In compliance with the FR and its IR (article 176.4), the following categories of legal entities are not subject to a verification of their financial capacity:

- natural persons in receipt of scholarships;
- public bodies;

¹⁶ Please see chapter 3.5.

¹⁷ Please see chapter 4.2.1.

- international organisations referred to in Article 43(2) of the IR:
 - international public-sector organisations set up by intergovernmental agreements, and specialised agencies set up by such organisations;
 - the International Committee of the Red Cross (ICRC);
 - the International Federation of National Red Cross and Red Crescent Societies;
 - the European Investment Bank and the European Investment Fund.

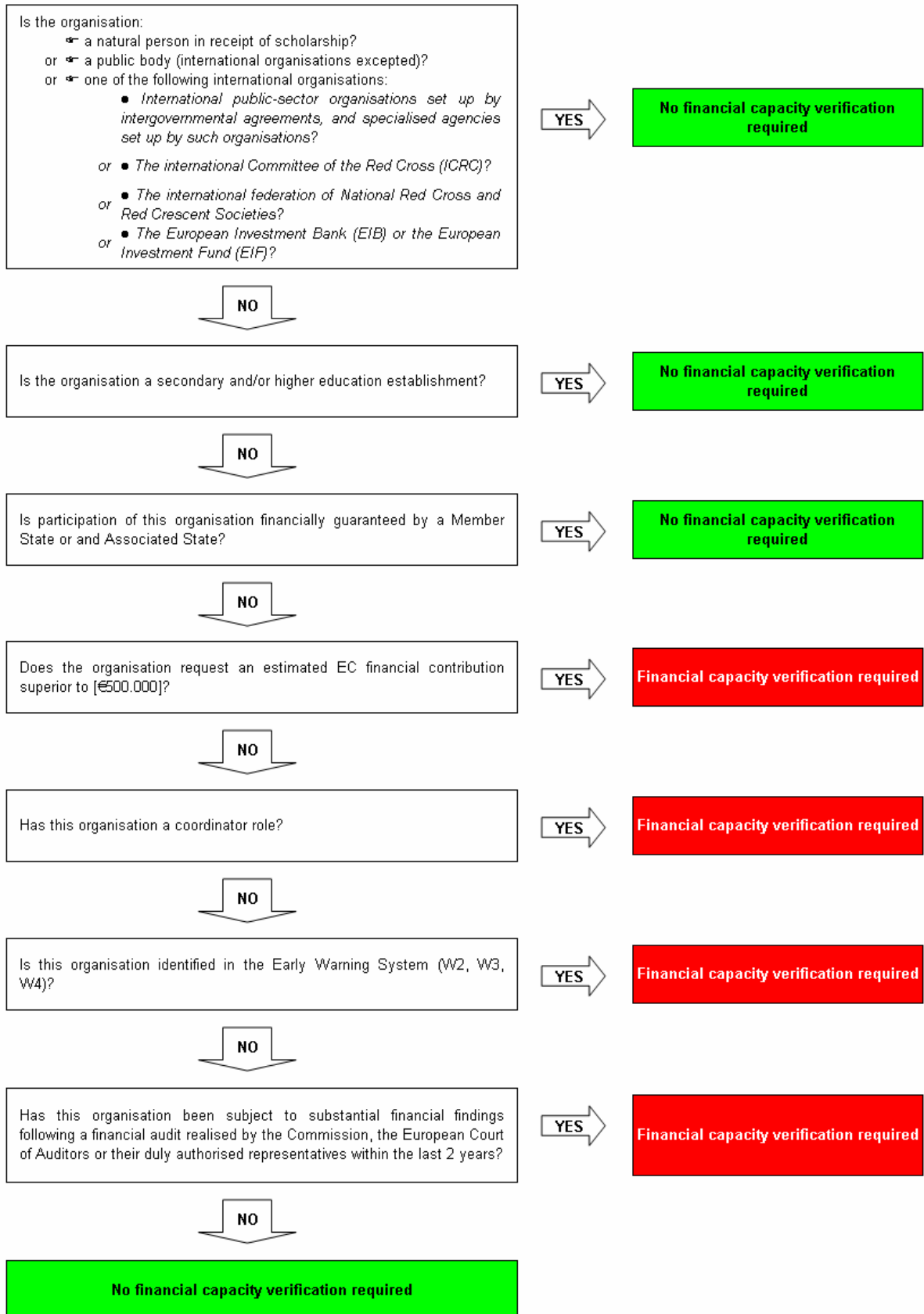
Moreover, due to the introduction in the FP7 RP of a Participants' Guarantee Fund:

- in compliance with article 38 of the FP7 RoP (paragraphs 5 and 6), the following categories of legal entities are not subject to a verification of their financial capacity:
 - legal entities whose participation in the indirect action is guaranteed by a Member State or an Associated country;
 - higher and secondary education establishments.
- In addition, in compliance with paragraph 6 of article 38 of the FP7 RP, any other category of legal entities applying for a Community financial contribution in an FP7 indirect action inferior or equal to EUR 500,000, are also not subject to a verification of their financial capacity, **except if**:
 - the legal entity is the coordinator of the indirect action and it does not belong to one of the above-mentioned categories; and/or
 - in exceptional circumstances, according to information already available to the Commission services, there are justified grounds to doubt the financial capacity of a participant (e.g.: it is identified in the Early Warning System (W2, W3 and W4 codes); it has been subject to substantial financial findings relating to its financial capacity following a financial audit carried out by the Commission, the European Court of Auditors or their duly authorised representatives within the last 2 years).

For any other legal entity participating in an FP7 indirect action, a verification of its financial capacity is mandatory.

A decision tree to identify categories of legal entities subject to a verification of their financial capacity is provided in the next page.

Decision tree on Financial Capacity Verification



3.4. Requested data and documents

3.4.1. For legal persons

At the negotiation stage, and in compliance with FP7 RP and with the IR of the FR:

- 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:
 - Balance sheet;
 - Profit and loss account;
 - Statutory audit report on the 2 above financial statements¹⁸ (if available¹⁹).
- 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.

It can only be delivered by an approved external auditor.

This request shall apply only to the first application made by a beneficiary to the Commission in any budgetary year.

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.

3.4.2. For natural persons

Even if the situations where a natural person will:

- request an estimated EC financial contribution exceeding €500.000; and/or
- be a coordinator;

are theoretical, these possibilities must be foreseen, in order to comply with paragraph 6 of article 38 of the FP7 RP.

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:

- its last income tax declaration;
- a certified declaration of its current patrimony²⁰;
- 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;

¹⁸ The Commission services may require from the legal person a synthesis of the data of its balance sheet and profit and loss account in a specific format.

¹⁹ The requirement on the statutory audit reports however can be waived for those legal entities which are exempted from audit under their national legislation

²⁰ Patrimony includes notably:

- ✓ "Fixed" patrimony like land, tenement, hereditament, medium/long-term time deposits (more than one year), stock options (if the right of exercise is not available within one year), etc.
- ✓ "Current" patrimony like available cash, savings, short-term time deposits (maximum of one year), stock-options (if the right of exercise is available within one year), etc.

- an audit report, as described in chapter 3.4.1, if requesting an estimated EC financial contribution exceeding €500.000.

3.4.3. Other remarks

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.

The financial data has to be provided at the beginning of negotiations and in some cases additional information may be required during the implementation of the project as well²¹.

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.

3.5. Financial viability check

3.5.1. Purpose

In order to be financially viable, a legal entity must be:

- **liquid**: capable of covering its short-term commitments;
- **solvent**: capable of covering its medium and long-term commitments;
- **profitable**²²: generating profits, or at least with self-financing capacity.

As a consequence, the liquidity, the financial autonomy, the profitability and the solvency of the legal entity must be assessed in the financial analysis.

The Commission services will provide a user-friendly electronic tool to applicants to carry out their financial viability check for their own information²³.

The following ratios, noteworthy value and thresholds apply for legal persons. Specific criteria will be used for natural persons (see chapter 3.5.4).

3.5.2. Used ratios and noteworthy value

The concise financial viability is based on the 3 financial ratios defined as follows:

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

²¹ The status of Small and Medium Enterprise (SME), in compliance with the Recommendation 2003/361/EC in the version of 6 May 2003, is defined according to financial criteria, some of which being linked to yearly data provided through balance sheets and profit and loss accounts.

http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/decision_sme_en.pdf

²² The profitability is not relevant for natural persons.

²³ <http://www....>

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.

3.5.3. Thresholds

According to the results obtained for each of the abovementioned ratios, the following quotes are given:

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 ≥ 0

3.5.4. Particular case of natural persons

For natural persons, the financial viability will be assessed as follows:

3.5.4.1. Used ratios

The financial viability is based on the 2 financial ratios as follows:

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

3.5.4.2. Thresholds

According to the results obtained for each of the abovementioned ratios, the following quotes are given:

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

3.6. Co-financing capacity check

3.6.1. Purpose

The purpose of this check is to assess the co-financing capacity of a participant.

This check will only be performed if an audit report²⁴ of the accounts has been issued (i.e.: only in the case of a legal entity requesting for its participation in this FP7 indirect action an estimated EC financial contribution exceeding €500.000) and this report raised serious qualifications in terms of co-financing capacity.

The co-financing capacity of a participant will not only be judged on the relating FP7 indirect action, but at least on the basis of all on-going indirect actions supported by the Community requesting co-financing that the authorising officer is aware of. In this context, the authorising officer will request from a participant a list of projects supported by the EC budget in which it is involved.

This check will however not be performed for participants authorised to receive a Community financial contribution up to 100% of its eligible costs.

The following ratios, noteworthy value and thresholds apply for legal persons. Specific criteria will be used for natural persons (see chapter 3.6.4).

3.6.2. Used ratios and noteworthy value

The co-financing capacity check is based on the financial ratios as follows:

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	$\frac{\text{NOP (NOP}_1) \times \text{duration of the project in days (DP}_0)}{\text{Project eligible costs - EC contribution (CP)}}$

CFE₁: Estimated Cash Flow for 1 year

NOP₁: Estimated Net Operation Profit for 1 year

DP₀: 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.

3.6.3. Thresholds

According to the results obtained for each of the abovementioned ratios, the following quotes are given:

²⁴ See Chapter 3.4.1.

Purpose	Indicators	Weak	Good
		0	1
Co-financing capacity	Cash Flow Indicator	<1	>=1
	Net Operating Profit Indicator	<1	>=1

3.6.4. Particular case of natural persons

For natural persons, the co-financing capacity check will be assessed as follows:

3.6.4.1. Used ratios

The co-financing capacity check is based on the financial ratios as follows:

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

3.6.4.2. Thresholds

According to the results obtained for each of the abovementioned ratios, the following quotes are given:

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

4. Verification of the financial capacity: conclusion of the analysis (checks) and possible measures to be taken

4.1. Assessment of the results of the concise analysis

The concise financial assessment results in an overall score for the financial capacity of a participant in the range of "good", "acceptable" or "weak" on the basis of the above mentioned ratios.

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"²⁵ financial capacity, unless it is subject to one (or several) of the situations mentioned hereafter.

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

Despite of the abovementioned results, the financial capacity of a legal entity will in any case be considered as "weak", if:

- an audit report (cf Chapter 3.4) 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 OLAF²⁶), the European Court of Auditors or their duly authorised representatives within the last 2 years (cf Chapter 3.3).

A legal entity subject to a warning code W2, W3 or W4 in the EWS database (cf Chapter 3.3) 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. For this kind of entity, the authorising officer in charge will have to consider protection measures as defined under chapter 4.2.2.

4.2. Actions to be taken in case of "weak" result

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 (see chapter 4.2.1). If, according to the results of this more in-depth analysis, the financial capacity of the participant:

²⁵ "Positive" means "good" or "acceptable".

²⁶ OLAF means European Anti-Fraud Office.

- 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 as defined under chapter 4.2.2.
- is "insufficient"²⁷ (see chapter 4.2.1), 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.

For other cases ("positive" financial viability but with "weak" results for co-financing check, Equity Flag, Financial Exposure Flag; audit report with serious qualification; substantial financial findings relating to the financial capacity of a legal entity following a financial audit carried out within the last 2 years ; EWS warning codes), the authorising officer in charge will have to consider protection measures as defined under chapter 4.2.2.

4.2.1. A more in-depth financial analysis

4.2.1.1. For legal persons

This more in-depth financial analysis will consist of an extended analysis of the financial viability of the legal entity.

The 5 following ratios will be used:

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)	$\frac{\text{NOP}}{\text{Turnover}}$	●
	Profitability (2)	$\frac{\text{NOP}}{\text{Turnover}}$	●
Solvency	Solvency	$\frac{\text{Total debt}}{\text{Equity}^{(*)}}$	●

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

According to the results obtained for each of the abovementioned ratios, the following quotes are given:

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	$6,00 \geq i \geq 4,00$	$0 \leq i < 4,00$

Any legal entity subject to a verification of its financial capacity who obtains under a more in depth financial 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*);

²⁷ Both in terms of financial viability and, if relevant, of co-financing capacity.

will be considered to have a "positive"²⁸ financial capacity, unless it is subject to one (or several) of the situations mentioned in Chapter 4.1.

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

4.2.1.2. *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.

4.2.2. ***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, ...).

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^{29&30}. This legal entity will nonetheless continue to be a participant(beneficiary);
- 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:
 - it is considered as "weak" after a more in-depth financial analysis of its financial viability ; or
 - the result of its co-financing capacity is "weak" (*if relevant*); or
 - the results obtained through Equity Flag or Financial Exposure Flag are "weak"; or

²⁸ "Positive" means "good" or "acceptable".

²⁹ For grant agreement with a single beneficiary, the latter will be considered as a participant and, as a consequence, be subject to the other protection measures. The purpose of protection measure for a coordinator is only relevant in the case of a consortium, due to the fact that the coordinator receives the Community financial contribution for all the participants.

³⁰ 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".

- an audit report of the accounts has been issued with serious qualification;
- 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
- 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)).

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.

4.3. Additional protection measures, including sanctions

In order to reinforce the requirement of proposals submitted by solid consortia with effective and appropriate governance mechanisms and internal controls, the Community will not simply rely on recovering amounts due from the PGF to ensure the protection of its financial interests.

Indeed, and in addition to the abovementioned actions regarding the verification of the legal existence, the legal status, the operational capacity and the financial capacity of participants, the following actions will be implemented, where appropriate, and in compliance with the FR, its IR and the FP7 grant model agreement³¹:

- recovery orders issued against defaulting participants to the benefit of the PGF shall be enforced in all cases and by all means foreseen by regulations relating to the protection of the financial interests of the Community. In addition, when signing/joining the grant agreement, any participant/beneficiary will accept that any amount due by it to the Community will be assigned to the PGF;
- in accordance with the FR and its IR, sanctions - including the exclusion from the benefit of any Community grant for a number of years - will be enforced, and the FP7 grant model agreement will foresee appropriate financial and administrative penalties (in particular Articles II.24 and II.25).

³¹ **FP7 GMA** – Commission Decision C(2007)/1509 of 10 April 2007.
http://cordis.europa.eu/fp7/calls-grant-agreement_en.html