

Annex II to the Call for Proposals 24.ISE.CP.140 – A5 form – Financial capacity check explanations

1. Financial capacity assessment

1.1 Financial capacity assessment: Criteria and conditions

The financial capacity assessment must in principle be done for each new application. Additional conditions depend on the type of procedure, participant and grant amount (e.g. no financial capacity assessment is needed for public bodies in grant procedures, for Member State organisations, international organisations,; for low-value grants). Additional exemptions are provided in some programmes for specific situations or types of participants.

Moreover, the financial capacity may be assessed ad hoc if there are justified grounds to doubt it, like for example:

- indication of weak/insufficient financial capacity from other sources
- involvement in cases of serious administrative errors or fraud
- pending legal procedures or judicial proceedings for serious administrative errors or fraud
- attachment order or recovery order for an outstanding amount issued by EDA on which the payment is significantly overdue
- substantial findings in EDA audits within the last 2 years that put in doubt the financial capacity.

The financial capacity is assessed on the basis of financial indicators that are in principle the same for all EU programmes. The financial capacity assessment is normally done during grant preparation/tender evaluation but may also be done during implementation.

1.2 Documents and information to provide

1.2.1 General requirements and principles

The financial assessment is in principle based on documents submitted by the participant as scanned versions together with the application. Originals should be kept on file for checks, reviews, audits or investigations (which can be required by EDA at any time).

As a general rule, financial documents must be provided in their original language(s), as imposed by the legislation in the participant's country of registration. For documents in EU languages, participants may be requested to submit an English free (unofficial) translation to facilitate the assessment. For documents in non-EU languages, a free translation in English is always mandatory and needs to be provided together with the original documents. In case of doubt, a certified/legal translation in English may be requested. If the participants have original documents in an EU language which is not the official language of their

country, they can nevertheless submit them (no need for a translation into the official language of the country).

Some examples of such documents are:

- dated and signed annual management;
- reports in English for a company listed on the stock exchange or having international shareholders or for the purpose of consolidation within a foreign group; dated and signed extracts from national registers that use English, etc.

The participants assume full responsibility for the content of the documents and the accuracy of the translations.

In case of false declarations (or intentional manipulation of a translation), the EDA may:

- withdraw or correct the financial assessment;
- terminate on-going grants and procurements (and recover any undue amounts);
- impose financial penalties or administrative sanctions, including exclusion from future EU funding (grants, procurements, prizes, contribution agreements, etc);
- inform the European Anti-Fraud Office (OLAF).

1.2.2 List of documents and information

The participants will be asked to submit the following documents and information:

1. Profit and loss account — approved by the management of the entity, clearly indicating the amounts of turnover from sales of goods and services, operating income, staff, depreciation, amortization costs, net operating result and interest expenses. If this information is not indicated in the profit and loss account or in the explanatory notes it must be provided in the form of a self-declaration.

2. Balance sheet statement — approved by the management, clearly indicating the nature and the maturity (i.e. below or above one year) of receivables and other current assets, grants, provisions and debts. If this information is not indicated in the balance sheet or in the explanatory notes it must be provided in the form of a self-declaration.

3. Annex A.5 form duly filled in (available at LFV Simulation: <https://ec.europa.eu/research/participants/lfv/lfvSimulation.do>)

The documents provided must cover **the last two closed financial years**. The most recent year must have been closed within the last 18 months.

Exceptions are allowed for:

- start-up companies without closed annual accounts which provide prospective data (business plan) for one year only;
- recently created entities which have closed annual accounts for one year only. These entities will be assessed based on the documents for the sole closed financial year.

A single financial document containing comparative data of the annual accounts of both years under assessment will be accepted.

All documents must be provided simultaneously (profit and loss account, balance sheet, audit report/self-declaration, etc).

Specific cases

❖ Subsidiaries without own financial statements — Subsidiaries which do not prepare their own financial statements may provide the consolidated accounts and the audit report/self-declaration of the parent company/group they belong to under the following conditions:

- the entity is exempt under national law from statutory audits
- only consolidated statements of the parent company/group the entity belongs to are available and
- the parent company assumes joint liability for all the debts of the entity (— all conditions must be fulfilled).

In such cases, participants will be requested to provide additional documents to prove these conditions.

❖ Parent companies — Parent companies which are exempt under national law from publishing individual (i.e. non-consolidated) financial statements will be requested to provide a dated and signed by the management simplified summary of their non-consolidated profit and loss statement and balance sheet.

These simplified accounts must respect either the minimum reporting requirements set out in the national accounting law or Annexes III, IV, V and VI of Directive 2013/34 (for the balance sheet, aggregate information limited to the headings preceded by letters and roman numerals is sufficient).

If the provided financial information is not sufficiently clear, EDA may contact participants for further clarifications.

❖ Newly established enterprises that have not yet closed accounts — Must provide estimated financial data (i.e. a business plan or a similar document including financial projections on current and non-current assets, own capital, current and noncurrent liabilities, turnover, operating and financial income and charges).

The financial data must respect either the minimum reporting requirements set out in the national accounting law or to Annexes III, IV, V and VI of EU Directive 2013/34 (for the balance sheet, aggregate information limited to the headings preceded by letters and roman numerals is sufficient).

❖ Natural persons engaged in an economic activity who do not prepare financial

statements in relation to their business activities — Are requested to provide:

- the annual income tax declaration containing details on the revenues and expenses from business activity
- a signed declaration of patrimony, including:
- fixed patrimony (e.g. land, tenement, hereditament, medium/long-term deposits (more than one year), stock options that cannot be exercised within one year)

- current patrimony (e.g. available cash, savings, short-term deposits (maximum of one year), stock-options that can be exercised within one year) and
- a signed declaration of debts, which must contain all liabilities (with dates and figures), broken down in short-term debts (of maximum one year) and medium/long-term debts (of more than one year).

EDA may request additional evidence or information if needed.

❖ Entities operating cash-based accounting — If the available financial documents do not contain a profit and loss account and a balance sheet but are limited to a cash flow statement and/or do not contain sufficient information, declarations signed by the authorised legal representative of the entity may be accepted, if they provide:

- information on fixed and current assets: buildings, equipment, inventory, cash, short/long term deposits, short/long term receivables, short/long term liabilities, grants and equity/sources of funding, etc
- information on revenues and expenses, such as turnover from sales of goods and services, operating income, staff expenses depreciation/amortisation costs, interest expenses, etc.

In addition, it is recommended to provide any available evidence supporting the declared amounts (e.g. bank statements confirming the available balance at accounting closure date, etc).

EDA may request additional evidence or information if needed.

❖ Entities covered by a guarantor — Entities that are covered by a full financial guarantee of another legal entity (i.e. guarantor) may submit the financial data of the guarantor, provided that it is a full guarantee (i.e. the guarantor has assumed full joint liability for all debts). Ad-hoc guarantees (covering, for instance, only the participation in EU projects) cannot be accepted.

Participants that would like to have the financial capacity of their guarantor assessed, must first contact the service in charge of their application for approval of the guarantee. In case of approval, the service in charge will request EDA to proceed with the assessment of the guarantor.

1.2.3 Incomplete or contradictory information

EDA may use any publicly available information to clarify questions about (and complement) the data or information provided by the participants.

Participants may be required to confirm or explain the information submitted or publicly available, or provide missing information within a reasonable time, if:

- findings do not match their declarations or statements
- the documents submitted are outdated
- the provided information is illegible, incomplete, incorrect, contradictory or unclear.

If participants do not respond in time, EDA has the right to refuse the assessment (or finalise it on the basis of the information and documents submitted or publicly available).

If the financial documents do not contain sufficient information regarding the nature and the maturity of the current assets, provisions and liabilities, and such information is not provided, the financial assessment will be completed by taking the most prudent approach, e.g. by considering the maturity of the current assets to be after one year, and of the provisions and liabilities to be within one year.

1.3 Duration of validity and renewal

The financial assessment is valid for 18 months after the closure date of the most recent assessed accounting period. If during this period the participant applies for another grant published by EDA, the financial documents may not be requested again. However, if there are justified grounds to doubt the financial capacity, a new assessment may be triggered even before the end of the 18 months.

1.4 Modification of the assessment

In case of disagreement with the assessment, the participant may contact EDA by sending additional justifications via email. The subject of the message should be clearly labelled as related to the financial assessment. EDA will carry out a re-assessment on the basis of the additional documents.

1.5 Ex-post verifications carried out by the EU — Irregularities and/or false declarations

EDA reserves the right to carry out - at any moment - checks, reviews, audits or investigations. If it is found out that a participant made false declarations, their status may be changed. If in the meantime the participant already received grants or procurements, their participation may be terminated and undue amounts paid will be recovered. In case of irregularities or false declarations, participants may moreover be fined and excluded from future funding (grants, procurements, prizes, contribution agreements). In addition, the European Anti-Fraud Office (OLAF) may be informed.