Your organisation: legal status and financial capacity

Horizon 2020 Coordinators' Day
(Grant Agreement Preparation)

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Legal Validation of Participants
Registration of an organization
(at proposal stage)

Participant Register Check

Registered Organization

First Registration

Existing PIC in a "Validated" Status

Compulsory legal and contact info
(e.g. Legal Name, Country, VAT number, legal status, legal form)

Optional info
(e.g. SME self-assessment* – Financial Viability Self-Check)

New 9-digit Participant Identification Code (PIC) in a "Declared" Status

* Compulsory for some actions (e.g. SME instrument)
Initial data are entered during first registration and remain editable by the "self-registrant". The self-registrant is also in charge of uploading all documents required for the validation in the EU Login area of the Funding and Tender Portal, via the Modify Organisation/Documents tab. S/he can also assign other self-registrant roles via the Manage roles action.

If a proposal or a tender is successfully evaluated, the registered data will be verified by REA Validation Services before the signature of the Grant Agreement or Contract.
REA Validation Services (REA VS)

- Verifies **legal existence and legal status** of entities applying for EU funding and tenders.
- Validates the appointment of Legal Entity Appointed Representatives (**LEAR**).
- Carries out the preparation of the **Financial Capacity Assessment**.
- Performs **SME Validations** and **SME status checks**.
- Handles the creation of **Bank Account Files** in cooperation with DG BUDG.
- Assesses **Universal Takeovers** of validated entities.
- Validates **legal changes** requested by LEARs of validated entities.
Validation Rules

- **Legal Validation of a Participant** in the Single Electronic Data Interchange Area (SEDIA) *is done once*, when the entity has to sign its first contract or grant agreement; it is then used for future participations in EU grant and procurement actions.

- Validation is always performed *on the basis of supporting documents*, in accordance to EU Financial regulation and the Rules on Legal Entity Validation, LEAR Appointment and Financial Capacity Assessment for EU Grants and Tenders.

- In H2020 Validation is required for **all beneficiaries and linked third parties**. PICs of third parties, frequently included in the consortium during the GAP, must be introduced in the Participant Portal Grant Management Service (PPGMS).
Supporting documents

- **Official**: delivered by official national authorities. They cannot be replaced by self-declarations or by sworn or solemn statements before a judicial or administrative authorities, notaries or public officers.

- Certain documents (e.g. registration extract, VAT extract) must be not older than 6 months.

- **Uploaded by the participant** (as scanned versions) via the Participant Register.

- **In any of the official EU languages**. Free translation in English is required for non EU languages.
Legal Entity existence and independence

‘Legal entity’ means any natural or legal person created and recognised as such under national law or international law, that has legal personality and that may, acting in its own name, exercise rights and be subject to obligations.

If the organisation does not have legal personality, it is validated only if:

✓ has representatives who have the capacity to undertake legal obligations on its behalf and
✓ can offer guarantees for protecting the EU’s financial interests equivalent to those offered by legal persons

If the organisation does not have its own independent legal personality and does not meet the above criteria, it must use the PIC of the legal entity to which it is associated (e.g. University Department, Branch of a multinational company).
Legal Status

Supporting documents define the legal status of the applicant. Why is legal status important?

- Programmes may have differences in terms of funding rates (e.g. **non-profit** entities)
- Programmes/calls may establish specific eligibility criteria (e.g. **SME**)
- 'public bodies', 'international organisations' are by default exempted from the Financial Capacity Assessment. 'Secondary and/or higher education establishments' are also exempted in H2020.
Non-profit organisations:

"A legal entity which, by its legal form, is non-profit making AND/OR which has a statutory obligation not to distribute profits to its shareholders or individual members"

"Research" organisation:

Two conditions have to be met:

- Entity must be non-profit. This status is verified by the REA VS
- Entity performs research activities. This status is based on a self-declaration (no legal documents required)
SME status via the web-based SME self-assessment *(no documents required)*

- The SME self-assessment IT tool is part of the Beneficiary Register

- REA VS carries out **ex-post checks** of the SME status periodically and/or upon request of the operational services

- Entities that would like to participate in actions for which SME status is an eligibility criterion may request the REA VS to confirm the SME status (**SME validation**).  

  *In these cases, supporting documents are required (i.e. Balance Sheet, P&L, staff headcount)*
Legal Validation Documents

- **Legal entities form** (template to be completed, dated, stamped and signed)
- **VAT extract** (< 6 months)
  - If not registered for VAT – *proof of VAT exemption*
- **Registration extract** (<6 months) – for private law bodies
- **Law/decree/decision** – for public law bodies
- **Treaty** – for international organisations
- **Statutes** – for non-profit organisations
**LEAR role**

The LEAR appointment is mandatory.

The LEAR:

- Notifies the EU of changes in legal data/status;
- Submits legal and financial documents if required;
- Nominates 'Account Administrators' and individuals authorised to sign:
  - Grant agreements and contracts and their amendments (Legal signatories i.e. **LSIGN**)
  - Financial statements (Financial signatories, i.e. **FSIGN**)
- Informs own staff about the organisation's PIC
LEAR appointment documents

1. LEAR appointment letter & LEAR roles & duties (duly signed by both the legal representative and the LEAR)

2. Declaration of Consent (duly signed by legal representative)

3. Official proof of identity (ID-card, passport, with photo and signature) of the legal representative and the LEAR

4. Proof of empowerment of the legal representative

**Scanned version of these documents shall be uploaded in the Participant Register.**

Originals of 1 and 2 must be kept in the entity's premises.
**LEAR appointment tips**

- The LEAR's EU Login account is linked to the PIC
  - Name and email in the LEAR section shall match name and email address of the linked EU Login account
  - New LEAR or new email = new EU Login account

- PIN code is sent by service-desk via postal mail
  - Urgent request for PIN code: send an email to EC-SEDIA-SUPPORT@ec.europa.eu, OR
  - Provide in the LEAR appointment form the mobile phone number of the LEAR, which will be used by the service-desk only to communicate the PIN code.
Validation services workflow

Validation Starts → REA VS Request supporting documents

If the Participant is non-responsive
PIC is set to "sleeping" status in the Beneficiary Register and REA VS informs the Operational Unit (POs)

Yes → Submission of documents is complete?

No → Participant replies?

No → REA VS sends reminders to the Participant

Yes → POs contact the Participant to request documents' upload

Yes → REA VS requests missing supporting documents

Yes → Legal Validation + LEAR Extended Mandate

No → Participant replies?

No → REA VS requests missing supporting documents

Yes → Submission of documents is complete?
Financial Capacity Assessment

• In general, under H2020, the financial capacity is checked if:
  
  ➢ The beneficiary is a **coordinator**, and
  ➢ The requested EU **funding** for the project is **≥ € 500 000**

• Applicants for mono-beneficiary grants are not considered as 'coordinators'

• A Financial Capacity Assessment can be performed on other beneficiaries at the request of the EU service in charge of the project
**FCA assessment**

- At proposal stage, coordinators are asked to self-declare their financial capacity. A **self-check tool** available in the PP embeds the same calculations of the formal FCA. Those results are not binding for EU services and, if needed, a FCA will be performed by the REA VS against supporting documents.

- For H2020, 5* Ratios are displayed online (Liquidity, Financial Autonomy, Profitability (2), Solvency) with a specific (0-2) and global (0-10) score and result (Insufficient, Weak, Acceptable, Good).

- Final decision on the participation of an applicant with a 'weak' FCA result (based on the ratios) is taken by the EU services responsible for each individual project.

* Only two ratios are applicable for natural persons
FCA Supporting documents

- Balance sheet
- Profit and loss account
- Explanatory notes and/or annexes that form part of the above financial statements (if available).

- External audit report if requested EU-contribution exceeds € 750.000

Once completed, the assessment remains valid for 18 months.
Bank Accounts

- If needed, Participant search for available bank account(s) in PPGMS when the session is open. If no account exists, PPGMS displays an explanatory message on how to request the validation of a BA.

- Coordinator contact shall inform the LEAR to start BA entry request (upload of documents via the Participant Register).

- REA VS will launch BA entry creation and informs LEAR when the Bank Account File is completed
Communication

All communications to -and from- participants is exclusively managed through the Participant Register.

Messages from the REA VS are also sent as email to the participant (to the Self-Registrant(s) or the LEAR for valid entities).

Please check the notifications in the EU Login area to follow-up REA VS requests.

To reply, please select the Modify Organisation/Messages tab.
Guidance Documents

- Rules on Legal Validation, LEAR appointment and financial capacity assessment

- **H2020 Online Manual** and specific FAQs published on the Funding and Tender Portal
  [Link](http://ec.europa.eu/research/participants/docs/h2020-funding-guide/index_en.htm) The Online Manual includes a dedicated section on the legal and financial validation rule, including the LEAR appointment.
7360 Entities validated in 143 countries
Thank you for your attention!

Questions?