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**SIMPLIFYING THE IMPLEMENTATION OF THE RESEARCH FRAMEWORK
PROGRAMMES**

TABLE OF CONTENTS

1.	Introduction.....	3
2.	Simplification measures already in place, but.....	4
3.	Further possibilities for simplification of rules and procedures.....	4
3.1.	Strand 1: Streamlining proposal and grant management under the existing rules.....	5
3.2.	Strand 2: Adapting the rules under the current cost-based system	6
3.3	Strand 3: Moving towards result-based instead of cost-based funding.....	9
4.	Revisiting the EU research and Innovation funding landscape	11
5.	The way forward	11
6.	Conclusion.....	13

1. INTRODUCTION

Research and innovation are at the core of the Commission's initiative "Europe 2020 – a strategy for smart, sustainable and inclusive growth"¹. Following the endorsement by the Spring European Council of the main elements of the strategy, concrete steps are now being undertaken to flesh out the Europe 2020 flagship initiatives. A "European plan for research and innovation", the "Innovation Union" flagship, will set out priorities and directions to improve framework conditions for Europe's research and its capacities for creativity and innovation. To act on this in partnership more decisively than ever is needed in view the fierce global race for knowledge and its translation into innovative products, processes and services that create jobs and fuel growth.

In order to deliver on the 2020 strategy objectives, based on a common ownership of the strategy called for by the European Council, regional, national and European public funding initiatives in research and innovation should be as effective as possible, in order to promote the highest quality research. For maximum impact such initiatives at European level should therefore be highly attractive and accessible to the best researchers worldwide, to Europe's industry and entrepreneurs, to universities and other research and innovation actors.

Prerequisites for attractiveness and accessibility include clarity of objectives and instruments; an overall participant orientation of the initiatives and their implementation; consistency and stability of rules and conditions; and lightness and speed of administrative procedures and processes, from application, over reporting, to auditing.

This Communication assesses where we stand on this as concerns Europe's current major public funding initiative for research and technological development, the Seventh Framework Programme (FP7). A lot has been and is being done in terms of simplification following discussions in Council and Parliament, the independent review of the ERC's structures and mechanisms² and the recent public consultation of stakeholders³. Further concrete simplification measures for immediate implementation under the current legal framework are presented.

But what else and more should and could be done in view of the imminent "Innovation Union" flagship initiative? This Communication also provides possible directions for more radical simplification. Directions which could subsequently be translated into concrete actions, either under the current framework or in the form of new legislative proposals. Some of these directions however would require a new political balance concerning trust and accountability and could in all likelihood also be extended to other European funding actions in the areas of research and innovation, such as the Competitiveness and Innovation Programme (CIP) and the European Institute of Innovation and Technology (EIT). The purpose of presenting these directions at this stage is to facilitate the interinstitutional debate in the frame of the upcoming "Innovation Union" flagship proposals.

Simplification is also a major goal of the upcoming Commission proposal on the triennial review of the Financial Regulation. The Commission intends to seize that opportunity to

¹ COM(2010) 2020, 3.3.2010.

² Report of a panel of independent experts for the review of the structures and mechanisms of the ERC; 23 July 2009 and Commission Communication COM(2009) 552, 22.10.2009.

³ Consultation on ideas for simplifying the implementation of the EU RTD Framework Programmes, 24.7.-30.9.2009, http://ec.europa.eu/research/consultations/fp-simplification/consultation_en.htm;
Consultation on the review of the financial regulation, 19.10.-18.12.2009
http://ec.europa.eu/budget/consultations/FRconsult2009_en.htm.

review budget delivery mechanisms and set financial rules for the next financial framework. Since the Financial Regulation provides the general framework for the implementation of the EU budget, including research expenditure, its successful review will allow further progress in simplification in the research area, including through translating it in the sectoral RTD legislation. Simplification will therefore be one of the key elements of the preparation of the future Framework Programmes for Research and Technological Development (FP8).

2. SIMPLIFICATION MEASURES ALREADY IN PLACE, BUT...

Compared to its predecessors FP7 brought about a number of widely acknowledged simplifications. Some come from the legal basis of FP7⁴, others are based on the continuous efforts of the Commission in improving implementation rules and processes. These achievements in FP7 include notably:

- Considerable reduction of ex-ante controls and revised protective measures for financially weak participants designed to ease the participation of SMEs and high-tech start-ups. 80% of FP7 participants are exempt from ex-ante financial capacity check.
- Major reduction of the number of certificates on financial statements to be provided with periodic cost claims. 75% of FP7 participants are exempt from providing such certificates.
- Introduction of a unique registration facility, thus avoiding repeated requests for the same information.
- Introduction of the possibility of ex-ante certification of the accounting methodology for recurring participants (currently under restrictive conditions).
- Streamlining of the project reporting requirements.
- Progress towards optimised IT tools ("e-FP7") as a mean for rationalising all interactions.
- Improvements to the services and guidance documents for applicants.

These concrete measures have already led to a reduction of time-to-grant and of the administrative effort for managing projects. However, the feedback received in stakeholder consultations shows that access to the programmes and preparation of proposals are still too difficult, in particular for newcomers, that the administrative burden for project administration and accounting is perceived as too high and that time-to-grant and time-to-pay are still too long. Moreover, the error rates detected in ex-post audits, in particular for personnel and indirect costs, are still above the materiality threshold defined by the Court of Auditors. This fact is also calling for further simplification of rules.

3. FURTHER POSSIBILITIES FOR SIMPLIFICATION OF RULES AND PROCEDURES

The possibilities for further simplification as presented below are structured in three main strands: a first strand with the improvements and simplifications that the Commission will implement under the current legal and regulatory framework (short term), a second strand with changes to the rules but still under the current cost-based model, and a third strand suggesting more far-reaching changes towards a result-based funding using lump sums.

Under the first strand, practical improvements to processes and tools are presented that the Commission has already started implementing. These improvements will lead to a further reduction of time-to-grant and time-to-pay.

⁴ OJ L 412, 30.12.2006, p. 1; OJ L 391, 30.12.2006 p. 1; OJ L 400, 30.12.2006, p. 1.

The second strand covers changes to the existing rules allowing a broader acceptance of usual accounting practices (including average personnel costs), the reduction of the variety of special conditions, a provision for owner-managers of SMEs and a change to the grant selection process. These options, in addition to accelerating the processes, would contribute to a reduction of the error rate in the cost based approach.

Under the third strand, options paving the way to future more profound changes are presented, by introducing a result-based approach that would entail a major shift of the control efforts from the financial to the scientific-technical side. This approach would minimise the administrative burden for accounting and the needs for financial ex-ante and ex-post checking.

3.1. Strand 1: Streamlining proposal and grant management under the existing rules

FP7 is one of the biggest public research grant programmes in the world with an annual budget that increases year-on-year, reaching €10 billion in 2013. These funds are allocated on the basis of research excellence, involving the reception of up to 30 000 proposals, the conclusions of 6 000 grants with about 36 000 participants and the issuing of 10 000 payments each year. All this must be achieved while assuring proper accountability. To this end, the Commission has established and is permanently improving a complex business process that needs properly adapted resources, management structures and skills. The Commission, supported by the executive agencies, strives for an optimised implementation, translating any given regulatory framework into the least burdensome, least complex and quickest system of proposal and grant management.

(1) User support, guidance, transparency, IT tools and processes

Easily understandable documents, proficient help services, efficient IT tools and optimised business processes have a potential for **reducing average time-to-grant and time-to-pay** by several months. The Commission will continue its efforts on providing efficient and user-friendly IT-supported grant management processes. The Research Participant Portal will be developed into the unique platform for all interactions with beneficiaries. By the end of 2010, all processes of grant management as well as a system for expert evaluators will be integrated. Proposal submission and evaluation will be integrated in 2011-2012. Parallel paper streams will be abolished by the use of electronic signatures replacing paper signatures wherever possible, starting in 2010 with the financial statements. IT systems will provide workflow support and online help. A web-based document repository and a tracking system for transactions in proposal and grant management will be installed by the end of 2011, so that participants get feedback on the status of all transactions and have access to all documentation related to their proposal or grant.

The new IT system for reporting will allow the automatic publication and dissemination of any publishable reports and results of projects.

Some of the IT services of the research framework programme are used also by the Competitiveness and Innovation Programme (CIP). The Commission will further explore the possibilities of providing more unique IT tools for the Community research, education and innovation programmes.

The Commission will work on the improvement of the clarity and accessibility of guidance documents and services, by streamlining the guides, removing unnecessary jargon and using consistent terminology - to reduce the entrance barriers for newcomers, in particular SMEs.

(2) Uniform application of rules

The stakeholder consultations reveal that the divergent interpretation and application of rules and the lack of coordination in the planning of audits by the different Commission services are a source of irritation for beneficiaries and put into question the Commission's credibility. Within the boundaries of the applicable legal framework, the Commission is committed to ensuring that its organisational set up provides for uniform interpretation and application of the rules and procedures. Furthermore, the Commission will provide a coherent audit programming respecting the single audit approach.

(3) Optimising the structure and timing of calls for proposals

Following the schedule of calls and topics is sometimes complicated for potential applicants. SMEs in particular would generally prefer calls with larger topics or even open calls with cut-off dates in order to shorten the time to the next possible funding application. The Commission will build on its experience in implementing such calls to see whether this approach could be extended. This could be in conjunction with two-stage submission and evaluation, where this is likely to curb the problem of oversubscription and excessive effort for proposal preparation.

Applicants also plead for longer periods in which to form consortia and prepare proposals. Wherever possible within the logistical and budgetary constraints, the Commission will increase the time between call publication and deadline beyond the standard three months. When three month periods are unavoidable, these will avoid major holiday periods.

(4) Adapting sizes of consortia

In future work programmes, the Commission will take care to adapt the indications on expected sizes of projects to the needs in the specific fields, allowing, where appropriate, for smaller consortia. The simpler management of smaller consortia bears a potential for **reducing average time-to-grant and time-to-pay**.

(5) More extended use of prizes

Prizes are provided for in the Financial Regulation and the FP7 Rules for Participation. A prize is a reward following a contest. Prizes, apart from administrative simplicity, have the advantage of a high leverage effect – the prize is paid only to the winner, i.e. the overall research effort induced by the prize can be a multiple of the amount of the prize⁵. In addition, prizes set scientific-technical targets without specifying the path to reach them or the scientific disciplines to be involved, thus inciting unconventional solutions and multi-disciplinarity.

The Commission will initiate a pilot action under FP7.

3.2. Strand 2: Adapting the rules under the current cost-based system

(1) Broader acceptance of usual accounting practices

The Commission considers it necessary to clarify in the rules for participation the **concept of eligible actual costs**, in such a manner that they could be considered as eligible if registered in the beneficiary's accounts according to its usual accounting practice in compliance with applicable accounting and auditing standards. Such an approach avoids the need for beneficiaries to set up separate accounting systems, provides more legal certainty for beneficiaries and diminishes the risk of errors.

(2) Average personnel costs

⁵ Example: US\$ 10 million prize of X Prize foundation (<http://www.xprize.org>) for commercial space craft induced private R&D investments of more than US\$ 100 million.

As an exception to the principle of actual costs, the rules for participation state that average personnel costs are deemed eligible if they do not "significantly" deviate from actual costs. The acceptability criteria are currently defined in a Commission Decision⁶ of June 2009. The margin of deviation has been defined in the light of the materiality threshold for errors established by the European Court of Auditors. The current acceptability criteria can be met only by very few beneficiaries⁷ thereby limiting the intended simplification impact of certifying average costs.

For this reason, the Commission considers that any average personnel cost methodologies applied as usual accounting practice by the beneficiary could be accepted, as long as they are based on actual personnel costs registered in the accounts and any double funding of costs under other cost categories is excluded. This option has a very large simplification potential. Beneficiaries could apply in all cases their usual accounting practice under the sole condition that it is based on the payroll costs registered in the statutory accounts. The approach would include the vast majority of methodologies, including those based on "cost centres". Inherent to this approach, deviations between averages claimed and actual costs would be accepted, regardless of the size or sense of the deviations. To provide higher assurance one could require that the average cost methodology applied must have been accepted in national public research programmes or have been certified by national public authorities.

This proposal is in line with the spirit of the discharge resolution for 2007⁸, in which the European Parliament has asked the Commission to make FP7 compatible with general business practices.

Widening the current acceptability criteria could increase the number of potential users but even higher margins for deviation would not cover widespread practice such as the "cost centre" based approach.

(3) Limiting the variety of rules

As mentioned above, another source of complication is the tendency to cover with special provisions an increasing number of activities (e.g. research, demonstration, management) and types of participants (e.g. research organisations, universities, non-profit organisations). As a consequence, legislative acts, guidance documents, ex-ante checks and all related IT systems become increasingly complex, creating confusion and requiring yet more guidance for applicants and further slowing down the processes. For reversing this tendency, the return to a **common set of basic principles instead of a "tailor-made" approach** seems appropriate, provided that policy objectives can still be met.

The Commission suggests in particular two possibilities, both of which would lead to a considerable reduction in complexity, together with a potential for **shortening average time-to-grant and time-to-pay by several weeks**:

- Reduce the number of **combinations between funding rates, organisation types and activity types**. The option preferred by the Commission would be a single reimbursement rate for all activity types and categories of organisations; another could be a uniform reimbursement rate over all activity types, so that only the differentiation by the two existing major categories of organisations would remain.

⁶ C(2009) 4705.

⁷ About nine out of ten organisations using average personnel costs as their usual accounting practice do not meet the current criteria. Up to March 2010, the Commission only accepted the certified methodologies of 12 organisations for using average costs.

⁸ OJ L255, 26.9.2009, p. 24.

- Reduce the number of **methods for determining indirect costs**. The option preferred by the Commission with the highest simplification potential would entail a single flat rate for charging indirect costs for all types of organisations and funding schemes. This approach would also contribute to reducing the error rate detected in ex-post audits, since experience shows that actual cost accounting is error-prone. Although it would slightly weaken the motivation for universities to move towards analytical accounting, it would give them the possibility to organise such a transition according to their own and the national needs. Feedback from university associations shows that the move towards analytical accounting will in many cases require more time than originally expected.

(4) Interest on pre-financing

Potential for simplification exists also in the treatment of **interest gained from pre-financing payments**. Currently, coordinators are obliged to open interest-bearing bank accounts and the interest gained is recovered by the Commission. As some organisations are unable to open interest-bearing accounts, the Commission has to establish a register of exceptions. The removal of the obligation to open interest-bearing bank accounts would spare the related administrative effort.

A yet bigger simplification could be achieved by fully or partially suppressing the obligation to recover interest on pre-financing.

(5) More lump sum elements in the current cost-based approach

Wide use is already made of lump sum reimbursements in the "People" programme, and lump sum options for certain cost categories exist in other specific programmes. However, feedback from the stakeholder consultations shows that many beneficiaries see limited simplification potential in the extension of lump sums to further cost categories (e.g. travel costs, scales of unit costs for personnel etc.). The establishment of scales of unit costs for personnel, based on statistical analysis, would be very complex, considering the great variety of personnel costs between countries, regions, sectors, industry branches etc. Nevertheless, the following two exceptions are presented:

- Time recording for personnel cost accounting is perceived as particularly burdensome by some beneficiaries. Such a requirement could only be dropped if **lump sums for personnel per beneficiary**, based on an ex ante estimation of the personnel costs per beneficiary for the project, were to be established and agreed during grant negotiations.
- As an option for improving the conditions of participation for **SMEs**, in which the **owner-managers** carry out a major part of the project themselves without a salary registered in the accounts, the Commission will introduce a lump sum system based on the scales of unit costs used under the specific programme "People".

More far-reaching options based on fully abandoning actual costs and introducing lump sums for whole projects are presented in Chapter 3.3.

(6) Accelerating project selection

Under the legal base for FP7, committees of Member States representatives are to provide opinions on the majority of the selection decisions on individual projects. The Commission proposes to remove this legal requirement in the future framework programmes. The comprehensive system of information flow to these committees renders this process step unnecessary in the future. This would lead to a **reduction of time-to-grant** by several weeks and to a removal of administrative burden both for Member State and Commission services.

For the future framework programmes the Commission will also consider whether in certain areas the introduction of Commission decisions instead of grant agreements could speed up the process.

3.3 Strand 3: Moving towards result-based instead of cost-based funding

The options above already open up many possibilities for simplification but they will not remove the administrative efforts connected with cost reporting and financial auditing. A more profound change would be to move away from cost-based system focused on input

towards a system of funding based on **prior definition and acceptance of output/results**. In this context, some questions posed by the European Court of Auditors⁹ are highly relevant:

- Is it possible to recast programmes in terms not of eligible inputs but in terms of acceptable outputs, with projects based on a set of concrete objectives, and disbursement linked to the achievement of results?
- Insofar as expenditure schemes continue to be based on inputs, is it possible to radically simplify the basis of calculation? Could the EU, for example, make far greater use of lump sum or flat rate payments instead of the reimbursement of actual costs?

The Commission therefore suggests exploring the three options below. All would entail a lump sum per project as a whole leading to the removal of all checks on actual costs incurred and a shift of the control efforts from the financial to the scientific side. Lump sums would be fixed amounts covering the overall costs of implementation of an operation, removing the obligation for beneficiaries to present supporting documents related to expenditure, and allowing also major simplifications in the financial audit of projects.

Result-based approaches require a careful definition of output/result at the level of each individual project and a thorough analysis in order to fix lump sums that are based on a reliable estimation of eligible costs necessary for the implementation of the project and guarantee sound financial management, which might lead to longer time-to-grant. Moreover, a reinforced scientific/technical monitoring, including external experts, would have to be installed as a basis for the payment decisions. The implementation would require a different balance of skills, an adapted project management approach in the Commission and extended cooperation with external experts. The payment of the grants would be entirely based on the assessment of outputs/results.

To better assess the opportunities and difficulties inherent in result based approaches, pilot actions in selected areas should precede their extended application.

The three options suggested for exploring result-based approaches are:

(1) Project-specific lump sums as a contribution to project costs estimated during grant evaluation/negotiation, and paid against agreed output/results:

In this approach, an ex-ante estimation of adequate total eligible costs of the project and the definition of measurable output/results would be part of the evaluation and negotiation process. A project-specific lump sum would be established on the basis of the estimated total eligible costs. The lump sum would be paid (fully or partially) on the basis of the acceptance of the agreed output/result. This may include interim payments.

(2) The publication of calls with pre-defined lump sums per project in a given subject area and selection of the proposals promising the highest scientific output for the specified lump sum:

Here, the evaluation of proposals would include an award criterion: the resources that the consortium is willing to invest itself in addition to the lump sum. The approach would provide an incentive for a higher leverage effect of EU funds.

⁹ Response by the European Court of Auditors to the Commission Communication 'Reforming the Budget, Changing Europe'.

(3) A high-trust "award" approach consisting in distributing pre-defined lump sums per project without further control by the Commission:

The selection of the awardees would be based on a highly competitive process. After the selection, the funding would be given as a lump sum without further financial or scientific checking by the Commission. This is a high-trust high-risk approach. However, absence of control by the Commission would not mean complete absence of control. The approach would rely on the self-control and the motivation and incentive structure inherent in the scientific community. To make this motivation and incentive structure work, the awardees should be obliged to assure maximum transparency on the use of the funds and the results achieved towards their peers and to the general public. The risk of abuse would exist but misbehaviour would severely jeopardise the career of the awardee as a scientist. This scenario would be most appropriate in areas where the above-mentioned incentive mechanisms are strongest, i.e. in particular in the European Research Council. The advantages of the approach are obvious: no need for cost checking, minimised administrative effort, high speed.

4. REVISITING THE EU RESEARCH AND INNOVATION FUNDING LANDSCAPE

Transnational research collaboration fostered under FP7 implies an inherent degree of complexity because of the diversity of national legal systems, accounting practices and management cultures.

The current FP houses a constellation of objectives, a multitude of intervention mechanisms with specific rules, a diversity of reimbursement rates and the special conditions for certain types of organisations. Collectively this diversified approach signifies complexity.

The definition of a common set of basic principles rather than the current diversified approach would undoubtedly lead to a considerable trimming and lightening of rules, processes and IT systems. A detailed analysis is necessary to assess to what extent this can be achieved, allowing tailor-made approaches only where the policy objectives justify them.

Under FP7, the number of intervention mechanism has increased with the participation of the EU in programmes undertaken jointly by several Member States and the creation of Joint Technology Initiatives (JTIs). As the FP7 rules for participation do not apply to these intervention mechanisms, they each have their own distinct rules, taking into account their specific operating needs. These rules may differ substantially from those of the FP7 rules for participation.

The European Parliament, in its discharge resolution for 2007¹⁰, points to this increase in diversity and calls for an assessment of the associated problems for beneficiaries, including lack of transparency.

Against this background, the Commission considers that a reduction of the complexity of the EU research funding landscape could also be a major source of simplification. In the preparation of the next framework programmes attention should therefore be given in particular to the following two issues:

- Suitability and necessity of these intervention mechanisms to achieve the objectives set;
- Desirability or necessity that the applicable funding rules or at least parts thereof are identical.

¹⁰ OJ L255, 26.9.2009, p. 24.

As regards public-private partnerships (PPPs), including JTIs and the Knowledge and Innovation Communities of the EIT, there is a need to explore the best possible institutional set-up that permits these bodies to achieve their objectives in an efficient and effective manner ("ideal house" for future JTIs). The recommendations of the report of the JTI Sherpa Group¹¹ will be important in this respect.

5. THE WAY FORWARD

Most options proposed under the second and third strand require changes to the rules and will therefore be addressed in the triennial review of the Financial Regulation and, on that basis, in the forthcoming review of the regulatory framework of research policy.

However, depending on consensus obtained in response to this Communication regarding specific measures the Commission may present amendments for FP7, following its interim evaluation. An early amendment of FP7 rules could in particular be envisaged for the rules on average personnel costs presented under Chapter 3.2.

Any such change to the FP7 rules must take into account the following important provisos.

Any simplification must outweigh the costs of its implementation; stability of existing rules is perceived as very important for all the users of the FP and is preferred to the change towards only slightly simpler rules. Changes to the basic legal acts require the ordinary legislative procedure ("co-decision"), with associated lead times of at least one year. Consequently, related changes would apply only to the last wave of FP7 calls. Two parallel systems of rules, processes and IT systems would have to be managed. The additional complexity for both the beneficiaries and the Commission services has to be taken into account.

Simplification is also intimately linked to the accountability parameters which govern EU research policy implementation. The Commission relies on a comprehensive control strategy including a very high number of on-the-spot auditing of projects and recovery of any amounts paid in excess to obtain reasonable assurance that payments are in compliance with the rules. The Commission can achieve such a positive assurance statement from the European Court of Auditors only when the level of errors is below 2%. The implementation of this control strategy has exacerbated the perceived complexity of EU research grant requirements and may discourage researchers and industry from participating in the community research funding programmes. Until profound simplification of the research funding rules take effect, the implementation of a research-specific tolerable risk of error (TRE) would permit the Commission to review its control strategy. The purpose of this concept is to ensure a proper balance between controls and policy effectiveness. A concrete proposal for a specific TRE level for research expenditure will be presented in a Communication from the Commission scheduled for May 2010 to accompany the Commission proposal for the triennial revision of the Financial Regulation. The acceptance of this concept for research by the European Parliament and Council would permit the Commission to review its current control strategy whilst maintaining sound financial management. In particular the magnitude of controls (audit coverage and subsequent adjustments) could be addressed with a view to lower the control burden. Such a revised control strategy could focus in a more pronounced manner on targeted risk based audits and fraud prevention controls, taking into account the operational experience of the Commission anti-fraud services. On such a basis, a solid accountability framework can be ensured whilst maintaining an appropriate deterrent to irregular use of EU research funds.

¹¹ "Designing together the 'ideal house' for public-private partnerships in European Research", Final report of the JTI Sherpa Group, January 2010.

Finally, any subsequent legislative proposal for introducing simplifications will be subject to a thorough risk assessment as part of the overall ex-ante impact assessment, and the evaluation of the fraud-proofing quality.

6. CONCLUSION

This Communication presents measures and options for simplifying EU research funding, for assuring that EU research funding promotes the highest quality research. The Commission will soon present a proposal on the triennial review of the Financial Regulation, transforming some of the simplification ideas put forward in this Communication into legal proposals. More potential for simplification might be revealed by the FP7 interim evaluation due to be presented in October 2010.

Further simplification can only be achieved with the full commitment and political support of the other EU institutions, in particular the Council and European Parliament. Difficult compromises for reaching a better balance between trust and control and between risk taking and risk avoidance have to be made, while ensuring sound financial management. The debate on a research specific Tolerable Risk of Error (TRE) offers an opportunity in this respect.

Under all circumstances the Commission in its role of steward of EU taxpayer's money will maintain proper conditions to ensure sound financial management, including appropriate fraud prevention measures, based on a thorough risk analysis and strategy taking into account each strand. Simplification and TRE shall not compromise this prerequisite.

The Commission calls on the other EU institutions to contribute to the debate and give feedback on the options outlined in this Communication, in view of the future shaping of EU research funding.

The results of this debate will be introduced in the Commission proposals for the "Innovation Union" flagship initiative under the Europe 2020 strategy and into the shaping of the next framework programmes.

Depending on consensus obtained in response to this Communication regarding specific measures the Commission may present amendments still for FP7, following its interim evaluation.