# Play Forward

Shaping football's sustainable future

oxera

Assessing the financial regulation of European football clubs

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# Foreword

## The roar of the crowd, the thrill of the game—football is a global phenomenon. With rising TV audiences and lucrative commercial deals, it has become big business. Money has surged into the game and changed the incentives for clubs, their executives and owners. So, what needs to be done to protect the game, to ensure that it remains sustainable and exciting?

Play Forward is a series of reports focused on building a fair, sustainable, and successful global football industry. Economics is at the centre of finding a solution and securing the future objectives of the industry. From football financing to competitive balance, economics sets frameworks to assess the overall success of competing aims and provides clarity on the strategies for the future.

In this first report, we focus on financial regulation. Like most things in sports, it is a controversial topic. It is also a crucial one. Having grown up in a small town, that has seen both its football and rugby union clubs face financial distress, I have witnessed firsthand the profound impact that the collapse of a beloved sports team can have on its fans and the local community.

Sports clubs generate economic value, but their benefits extend far beyond that. They are, at their core, social and cultural institutions, that bind and unite people and communities together. They are the subject of unrivalled passion, and countless hours of conversation, whether with close friends or newly-encountered strangers.

### The future of regulation

Our view at Oxera is that regulation has a legitimate role in ensuring that fans can support their team, safe in the knowledge that it will exist for future generations to support with the same passion and fervour. There is ample evidence that well-designed regulation can be a powerful tool for aligning the incentives of owners with the interests of fans and communities, driving better behaviours and achieving better outcomes. We see this across sectors, but also in the improvements that have been made since modern financial regulations were introduced in European football more than a decade ago. At the same time, badly designed regulation can make things worse. Getting it right needs real thought and careful analysis.

Of course, football fans should spend their time obsessing over clean sheets, not balance sheets. The football should come first, and the regulations should stay behind the scenes as much as possible. Fans should not need a PhD in finance or an accountancy qualification to understand what is happening. It is notable, in England at least, that financial regulation—rather than the brilliance of the players on the pitch—has increasingly become the story (at least when VAR is not under the spotlight). Two Premier League clubs finished the 2023/24 season with asterisks next to their points total. Leicester City fans' celebrations of their return to the top flight have been muted by the possibility of starting the season on negative points.

This report explores the birth of financial regulation in the industry, and how over a decade ago, mounting club debt sparked a revolution in football's financial affairs. By placing six of the largest national football leagues across Europe under the microscope, we review the current status of regulation and examine the impact on clubs and the football industry. We hope that this will be a valuable contribution as clubs, leagues and potentially even future independent regulators consider the optimal design of regulatory systems in the coming seasons.

In the meantime, whether red, blue or (in my case) black and white, I hope that you enjoy the start of the new season.

**Christopher Davis**
Principal and Head of Oxera's Sports practice

## Executive summary

Financial regulation in football has come a long way since it was first introduced. Approaches have changed as new challenges have arisen, and there remains considerable debate over the best way to promote a sustainable football sector, while maintaining the quality of the fan product. This report reviews the current state of financial regulation in European football and considers the direction of travel for the future, with a focus on UEFA and the top European leagues.

### Financial regulation in football has been in place for more than a decade; but differences remain

At the European level, UEFA introduced the concept of Financial Fair Play ('FFP') at the start of the 2011/12 season. Shortly thereafter, a number of national leagues introduced their own rules.

For example, the Premier League introduced its Profit and Sustainability Rules ('PSR') covering all twenty clubs in 2013.

Around this time, Spain's LaLiga also introduced a dedicated economic analysis team that has the responsibility of determining the squad budget for each of the first and second division clubs, based on their projected revenues and non-squad costs.

What is noticeable is that there is a wide degree of variation in how different leagues monitor, assess and enforce financial sustainability—including differences in target financial metrics, whether the regulation is forwards- or backwards-looking, and the existing sanctions regimes.

### There have been a number of important developments in recent years that will impact the finances of clubs across Europe in the future

UEFA recently modified its financial rules, replacing the concept of FFP with 'Financial Sustainability'.[1] Under the new system, clubs' finances will be assessed using a squad cost approach, whereby the total amount of spending on the playing squad is capped based on revenues.

[1] UEFA (2022), 'Explainer: UEFA's new Financial Sustainability regulations', 7 April.



In the UK, a Bill was presented to Parliament proposing the creation of a new independent regulatory body for English football. The Bill did not complete its passage through Parliament before the recent general election, but is expected to be reintroduced later this year (following its inclusion in the King's Speech). The introduction of an independent regulator, backed by statute, would be a novel approach in the football sector. Separately, before the end of the 2023/24 season, the Premier League proposed to its member clubs the introduction of a new financial regulation model that included elements of both a squad cost ratio (similar to UEFA's new financial sustainability rules), as well as an absolute squad cost limit based on a multiple of the broadcasting revenues of the smallest Premier League clubs.

In Italy, there are also active discussions (at the time of publication) between the government, Serie A and the football association regarding the creation of a new independent football financial regulator.

The creation of a relatively new UEFA club competition ('UCC'), the UEFA Conference League, and the enlargement of all UCCs from the 2024/25 season onwards under a 'Swiss model', means that more clubs will need to comply with UEFA's financial regulations in order to obtain licences for participating in the UCCs.[2]

### Financial regulation at the UEFA and domestic levels has helped achieve the objective of improving the financial sustainability of clubs

The number of insolvency events identified by UEFA has decreased from 15–35 per year during the 2008–13 period (which was marked by the Global Financial Crisis and the Eurozone sovereign debt crisis) to 7–10 over the last three seasons. During the 2020 calendar year, when the COVID-19 pandemic forced most games to be played without attendance and most football clubs in Europe suffered from a significant reduction in revenues, 20 clubs went into insolvency, which is far less than before the introduction of FFP (albeit other factors, including exceptional government support measures were also important contributors in keeping clubs afloat).

At the domestic level, financial regulation has helped prevent the build-up of some financial risks in clubs that do not normally participate in UEFA competitions (and therefore do not normally need to comply with FFP). However, despite the improvements on some metrics, it is clear that there remain financial weaknesses and fragilities across club football that have not yet been eradicated by the systems of financial regulation that are in place.

The impact of financial regulation has been felt by some of the giants of the game, most notably FC Barcelona whose spending budget was slashed by LaLiga's Economic Control Unit. The club has faced considerable restrictions in recent years on its ability to register new players in its LaLiga squad.

[2] UEFA (2024), 'New format for Champions League post-2024: Everything you need to know', 7 May.

In countries where the focus has been primarily on achieving positive equity and limiting indebtedness (e.g. Germany and the Netherlands), the debt to equity ratio and the average financing costs of clubs are relatively low. Similarly, in countries where the focus has been on cost containment—particularly in Spain—the average pre-tax losses of clubs are also relatively low.

Moreover, in Italy, where financial regulation has not been applied as extensively and comprehensively, the impact across various financial metrics is discernible: Italian clubs appear to be the least profitable and the most indebted across the top European leagues.

## Summary of financial regulations across Europe

| | Financial system | Year originally introduced | Core elements of the regulatory system | Financial metrics considered Enforcement policy | Enforcement policy |
|---|---|---|---|---|---|
| England | The Premier League's Profit and Sustainability Rules ('PSR') currently apply. A new system combining a squad cost rule and a top-to-bottom anchor is being trialled on a non-binding 'shadow' basis in the 2024/25 season. | 2013 | Rules are designed by the Premier League. The 20 member clubs vote on any proposed changes, with a two thirds (14 club) majority needed for a change to pass. The system is backwards-looking, based on financial performance over the previous three years. | Clubs can make maximum permitted losses (based on adjusted earnings before tax) of £105m over a rolling three-year period. | The Premier League enforces the rules and can impose financial and sporting sanctions, including points deductions. Appeals can be made to an independent panel. |
| France | The National Management Control Unit ('DNCG'), a semi-independent body, that oversees financial regulation | 1990 | DNCG is responsible for assessing the financial situation of clubs, including by using financial indicators. | The two main indicators are the squad cost ratio and equity ratio. However, DNCG must take account of the broader legal and financial situation of clubs. | A wide range of measures exist including public warnings, referral to UEFA's Club Financial Control Body ('CFCB'), the need for the club to develop a pre-approved budget, as well as sporting sanctions. |
| Germany | Set out in the Deutsche Fußball Liga licensing rules. | The licensing regime was first introduced in 1963, with economic considerations added shortly thereafter | Clubs must submit documents to DFL ahead of each season (including financial accounts and budgets for the coming year) and demonstrate that they meet the below financial criteria. | Clubs must evidence they are a 'going concern', hold positive net equity and have no overdue liabilities. | Potential sanctions include fines, points deductions, transfer embargoes and, ultimately, expulsion from the leagues if a licence is not granted. |
| Italy | The Italian Football Federation's financial rules were included in licences between 2015/16 and 2019/20 but have since been removed. | 2015/16, but revoked after the 2019/20 season | Clubs must comply with requirements regarding their payments to staff, tax authorities and suppliers. | The previous indicators covered current assets to current liabilities, total debt to revenues, and wages-to-revenues. | Points deductions can be applied where clubs fall behind on salary/tax payments. |
| Netherlands | KNVB applies a Financial Rating System. | 2003/04 | Clubs are rated once a year across six variables, with a score from one to four. | The six variables are:<br>• working capital<br>• solvency<br>• historical net margin<br>• staff costs/revenue<br>• cash/monthly staff expense ratio<br>• future net margin | A range of measures are available, from warnings to financial and sporting sanctions through to licence revocation. |
| Spain | Financial controls are overseen by LaLiga's Economic Control Unit. | 2013 | Forward-looking approach in which clubs submit their budgets before the beginning of each transfer window and the Economic Control Unit sets spending limits. | Squad spending limits are set based on the difference between budgeted non-football expenses and expected revenues. | Potential enforcement action includes fines and restrictions on transfers. |

## Understanding trade-offs between different policy goals and objectives is important for a more holistic approach to financial regulation

Financial regulation in football was initially driven by the objective to make European clubs more financially sustainable. More recently, stakeholders also appear to be increasingly concerned about competitive balance between clubs, both at the domestic and international level. However, this should be seen as an entirely different policy objective and the tools that were effective in addressing the problems of financial sustainability might not necessarily be the most appropriate for promoting competitive balance.

This highlights one of the most important questions at the heart of football financial regulation: **what is the intended purpose of the regulation, and what are the objectives that it is trying to achieve?** This question underscores some of the potential trade-offs between an objective like financial sustainability, and the objective of promoting competition and the emergence of new challenger clubs.

As with any regulatory intervention, it is critical to understand the incentives that regulatory systems will create and the scope for unintended consequences. In the football sector, a central concern with financial regulation, particularly systems that tie allowable spending to club revenues, is that they could reduce the ability of 'lower income' clubs to invest and compete with 'higher income' clubs. A second concern is that some clubs may respond to the incentives that are created by 'gaming' the system. Third, the accountancy treatment of player registrations may create unwanted incentives (e.g. to sell academy players who have no book value).

More work and analysis is needed to understand the optimal design of financial regulation in the sector to ensure the beautiful game remains sustainable and entertaining for future generations. There is much that can be learnt from other sectors as leagues and governing bodies look to modernise regulatory approaches in the sport.

## Examples of the types of questions and trade-offs to consider when designing football regulations


Source: Oxera analysis

# 1. A short history of financial regulation in European football

Historical context is important for understanding why FFP measures were introduced during the 2011/12 season. By the end of the 2000s, the financial losses incurred by European clubs and the amount of debt in their balance sheets had raised the attention (and concern) of various stakeholders. For example, UEFA's 2009 Club Licensing Benchmarking Report highlighted a number of concerning statistics regarding the state of the industry.

- Clubs across UEFA's leagues suffered a total loss of €1,179m during the 2008/09 season, a record relative to any previous season, and a deterioration of 85% relative to the previous season.
- 56% of the clubs in UEFA's leagues reported net losses in the 2008/09 season.
- The gross debt of all clubs totalled €8.2bn, while net debt stood at €6.7bn.
- 37% of clubs reported a negative net equity position in their balance sheets, meaning that their liabilities were greater than their assets.

In the UK, a House of Commons report from 2011 also noted the significant challenges that clubs were facing because of growing debt, stating that:

> [...] the successes of the new domestic football model have been accompanied by financial instability and increasing levels of debt, which remains a serious problem throughout the football pyramid.

The House of Commons 2011 report was published shortly after Portsmouth FC faced insolvency during the 2009/10 season. Portsmouth had played in the Premier League for seven straight seasons, and had qualified for the 2008/09 UEFA Cup (currently known as the Europa League) after winning the 2008 FA Cup. Richard Scudamore, then Chief Executive of the Premier League, admitted that Portsmouth's insolvency had surprised the Premier League, stating 'we didn't foresee a club with that amount of revenue being able to get itself into the sort of difficulties that Portsmouth got into'.

Spanish clubs were also facing a very challenging financial situation at the time. Between 2004 and 2012, more than half of Spain's professional clubs entered administration to avoid paying all of their creditors in full. As at the end of the 2011/12 season, Spanish clubs had accumulated debts of approximately €4bn. At that point, 20 clubs were going through a process of administration, and 300 players in the first and second division had filed formal complaints about the debts that clubs had towards players (approximately €42m at the time), mostly related to unpaid wages.

The indebtedness and the losses of the European clubs had an impact on their owners and funders. UEFA acknowledged the impact that the FFP rules could have on improving the situation of owners and the attractiveness of investing in football in the long term.[3]

As a result, financial regulation was first introduced by UEFA in the 2011/12 season, with the clear objective of improving the financial sustainability of European football.[4] UEFA's 2012 Club Licensing Requirements explained the six main objectives behind the introduction of the FFP rules, all of which related to the financial sustainability of the industry:

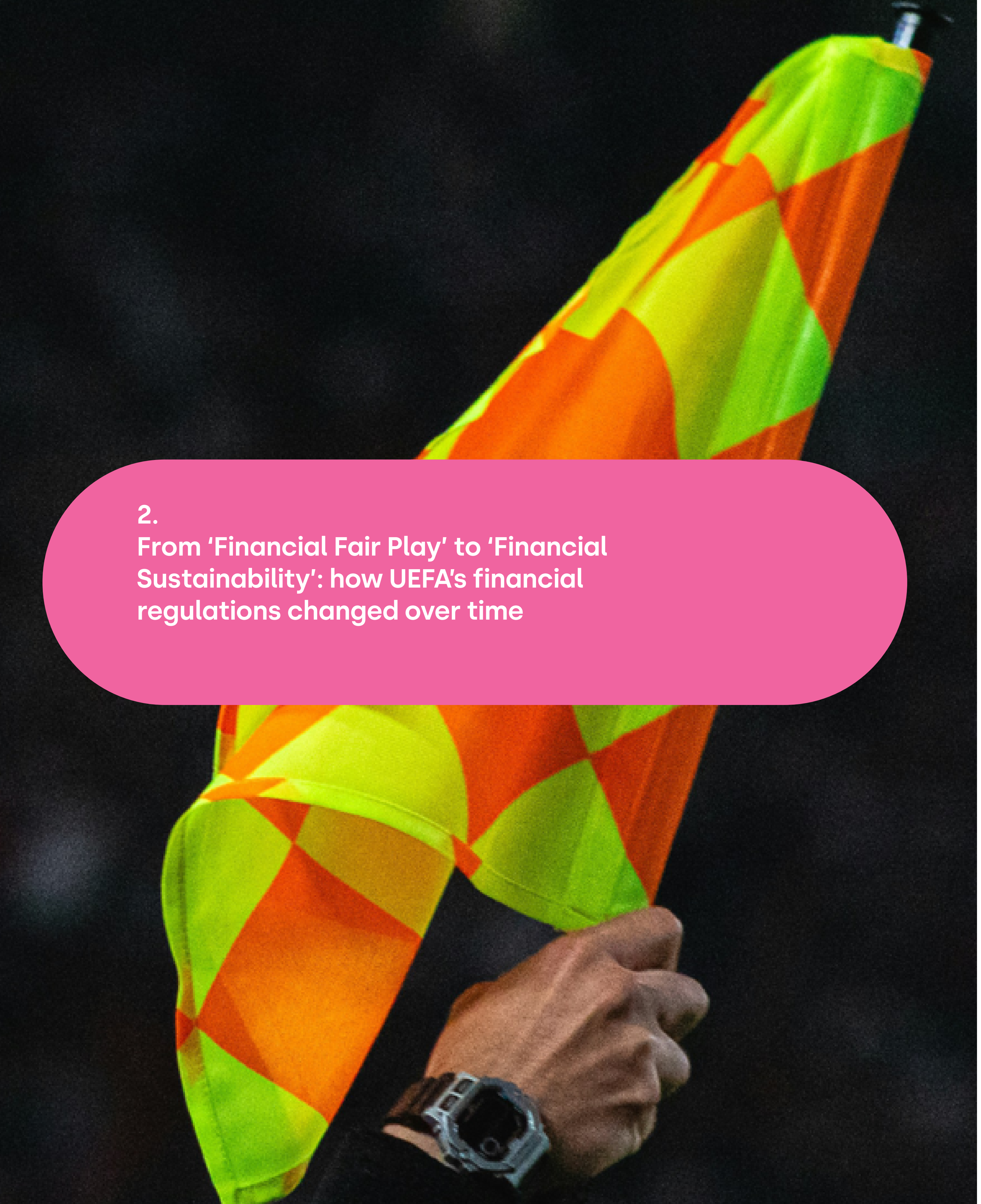
- 'to improve the economic and financial capability of the clubs, increasing their transparency and credibility';
- 'to place the necessary importance on the protection of creditors and to ensure that clubs settle their liabilities with players, social/tax authorities and other clubs punctually';
- 'to introduce more discipline and rationality in club football finances';
- 'to encourage clubs to operate on the basis of their own revenues';
- 'to encourage responsible spending for the long-term benefit of football';
- 'to protect the long-term viability and sustainability of European club football'.

### Post-match summary

1. The UEFA FFP regulations were introduced in 2011/12 and dramatically changed the landscape of European football.
2. The rules were a response to growing indebtedness and the weak financial health of clubs across Europe, which had reached a point of considerable concern.
3. The regulations were initially motivated purely by enhancing the financial strength of clubs and seeking to improve sustainability. It is only more recently that a potential objective of promoting competitive balance has been considered.

[3] Mr Platini stated that '[t]he owners are asking for rules because they can't implement them themselves, many of them have had it with shovelling money into clubs and the more money you put into clubs, the harder it is to sell at a profit. I think a lot of owners would like to sell at the moment but can't because of the line of business they are in.' See BBC Sport (2009), 'Uefa approves new spending plans', 15 September.
[4] For example, Mr Platini stated that '[l]iving within your means is the basis of accounting but it hasn't been the basis of football for years now', and that '[f]ifty per cent of clubs are losing money and this is an increasing trend'. Ibid.





## 2. From 'Financial Fair Play' to 'Financial Sustainability': how UEFA's financial regulations changed over time

### The key features of FFP

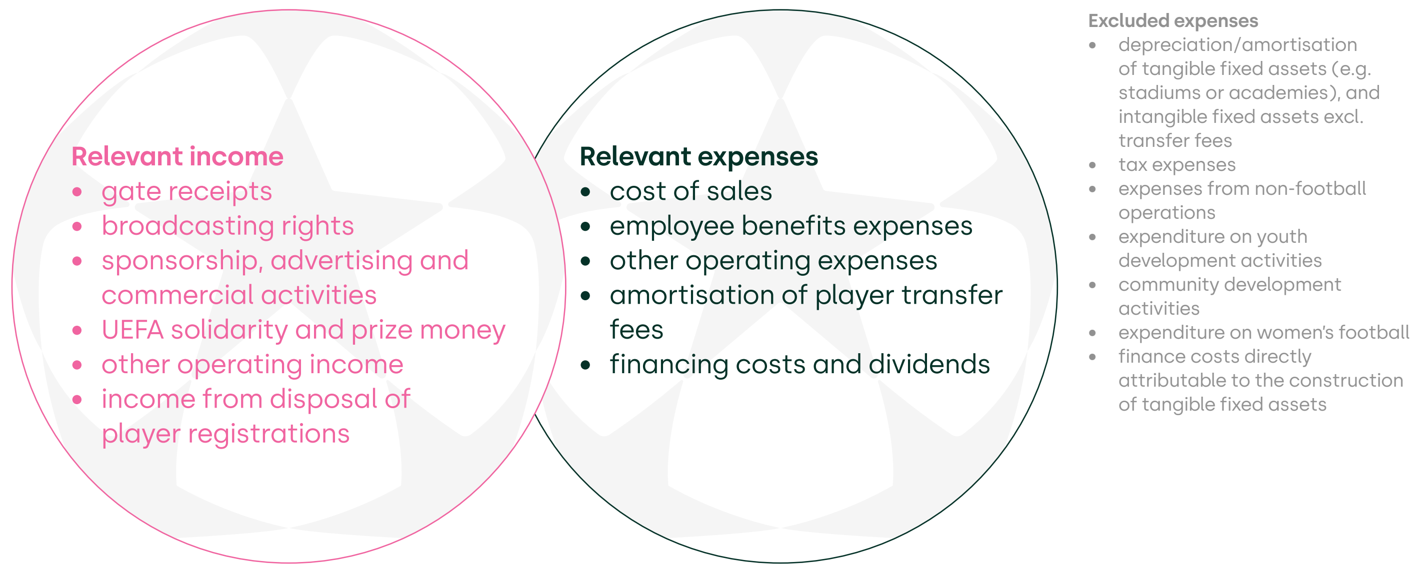
UEFA's financial regulations are applicable to all clubs that want to obtain a licence to participate in an UCC—i.e. the Champions League, Europa League and Conference League. Even in countries that do not have their own financial regulations, UEFA's rules will apply to the clubs that are participating in UCCs during that season. The rules may also have an impact on the financial decision-making of the clubs that usually aspire to participate in UCCs, even if they do not qualify in a particular season.

Consequently, UEFA's rules directly impact the decision-making of only a relatively small number of clubs across Europe, while the rest of the clubs are subject to their applicable domestic rules.

UEFA's FFP rules were first implemented at the start of the 2011/12 season. Initially, clubs that had qualified for UCCs had to prove that they did not have overdue payables towards their players, other clubs (e.g. relating to player transfer fee instalments), or social/tax authorities. As described by UEFA at the time, clubs had to 'prove they have paid their bills'.[5]

From the 2013/14 season onwards, the remit of the FFP rules was expanded with the introduction of the 'break-even requirements' on club profitability. The submission of break-even figures was a requirement for all UCC participants whose relevant income or relevant expenses exceeded €5m. Any club below this threshold was exempted from the break-even requirement. Figure 2.1 summarises the revenue and cost items that were taken into account in the break-even calculation.

Figure 2.1
Financial information for the calculation of the break-even requirement under FFP rules




Source: UEFA, 'Club Licensing and Financial Fair Play Regulations, Edition 2018', Annex X

[5] UEFA (2015), 'Financial fair play: all you need to know', 30 June.

The rules restricted the amount that a club could lose to a maximum of €5m over a rolling three-season period. Clubs were allowed to accumulate larger losses if these were covered by a direct contribution or payment from the club owner(s) or related parties. The maximum allowed limit for the three-season rolling windows ending in 2013/14 and 2014/15 was set at €45m, while for the three-year assessment periods ending in 2015/16 to 2017/18, the limit was set at €30m.

Another important element of FFP was the requirement that sponsorship contracts with entities controlled or owned by the same shareholders be assessed on a fair value basis. In other words, the amounts and the conditions in these contracts had to be in line with the conditions that an unaffiliated third-party sponsor would be prepared to offer the club, in order to prevent the club from obtaining an unfair financial advantage from these contracts.

The FFP rules remained in place until 2022/23. However, during the COVID-19 pandemic, UEFA made some modifications to the rules in order to provide clubs with flexibility to deal with the crisis.[6]

The financial situation of clubs, and their compliance with the Licensing and Financial Fair Play Regulations, is monitored and supervised by the Club Financial Control Body ('CFCB'). The creation of the CFCB was approved by the UEFA Executive Committee in June 2012.[7]

### Understanding the new financial sustainability rules

UEFA's new financial sustainability rules started applying from the start of the 2023/24 season. These rules consist of three main pillars: (i) solvency, (ii) stability and (iii) cost control.[8]

**'Solvency'** refers to the clubs' outstanding payables. Relative to FFP, the rules concerning payables were strengthened, and the scope was expanded to cover a larger number of club employees as well as payables towards UEFA. Under the new rules, quarterly controls on payables were introduced.

**'Stability'** refers to UEFA's 'new football earnings requirements', which represents an update on the previous break-even requirements. As under the previous rules, clubs are allowed to lose up to €5m during a three-year period. The 'acceptable deviation'—how much clubs can afford to lose—has increased from €30m over three seasons to €60m over the same period. Clubs that are deemed to be in 'good financial health' are allowed to incur more losses than others. In particular, they are allowed to incur additional losses of €10m per reporting period, or an additional €30m over a three-year monitoring period.[9]

**'Cost control'** refers to a newly introduced 'squad cost rule'. A club's total expenditure on wages, player transfers and agents' fees cannot exceed 70% of its revenue in a given year.[10] This requirement is being phased in gradually, starting at 90% for the 2023/24 season, decreasing to 80% in 2024/25, and again to 70% from 2025/26 onwards.

Under the new financial sustainability rules, the requirement that transactions be conducted at fair value has been extended to all transactions, not just those with related parties (as was the case under FFP).

### Monitoring and compliance

Since the introduction of FFP, UEFA has introduced a number of different tools to deal with non-compliance, including warnings, fines, deduction of points, withholding of UEFA revenues, transfer bans, or disqualification from competitions.

In numerous instances, the CFCB has adopted a rehabilitative approach (rather than a punitive approach) with clubs, negotiating settlement agreements with clubs with the aim of correcting their financial position over time. These settlements are progressively monitored and usually involve fines.

UEFA has also imposed a number of bans on well-known European clubs which were upheld by the Court of Arbitration for Sport. Examples of such bans include:

- Málaga and Rayo Vallecano in 2013/14 due to unpaid bills towards players and suppliers; and

- Galatasaray (2016/17), AC Milan (2019/20), Trabzonspor (2020/21) and Juventus (2023/24) all for breaching the break-even requirement.

### Post-match summary

1. The FFP rules strictly only apply to clubs competing in the three UEFA club competitions; however, they may indirectly influence the behaviours of other clubs that are striving to qualify.

2. For over a decade, the rules were based on a break-even requirement, which limited the amount of losses clubs could make.

3. The FFP rules have led to UEFA taking enforcement action against clubs in a number of cases, with financial sanctions and sporting sanctions (including bans on entry into UEFA qualifications) in some instances.

[6] The break-even rule was temporarily changed for the 2020/21 and 2021/22 seasons. Financial year 2020 was assessed together with financial year 2021; the 2020/21 monitoring period was curtailed to only include two reporting periods (financial years ending in 2018 and 2019); and the 2021/22 monitoring period was extended to cover four reporting periods. COVID-19 specific adjustments to clubs' losses were also allowed. See UEFA (2020), 'Temporary emergency measures for Financial Fair Play', 18 June.
[7] UEFA (2012), 'UEFA Club Financial Control Body appointed', 30 June.
[8] Slater, M. and Bosher, L. (2022), 'UEFA approves new financial regulations to replace FFP – new 'squad cost rule' of 70 per cent of revenue', *The Athletic*, 7 April; UEFA (2022), 'Explainer: UEFA's new Financial Sustainability regulations', 7 April.



[9] Article 87 and Annex J.6. of the 2023 UEFA Club Licensing and Financial Sustainability Regulations outline the conditions under which a club will be allowed to lose an additional €10m per reporting period: (i) the club has not been subject to a disciplinary measure; (ii) the club is not subject to a settlement agreement with the CFCB; (iii) the club has positive equity, has a quick ratio (i.e. current assets minus inventories, divided by current liabilities) above 1, has net debt that is less than three times average earnings, and is operating as a going concern.
[10] Relative to the break-even requirement, the same revenues are used as the denominator of the squad cost ratio. For the numerator, only a subset of the costs considered in the break-even assessment are used for the squad cost ratio. See UEFA, 'UEFA Club Licensing and Financial Sustainability Regulations, Edition 2023', Article 92.

# 3. A journey through the financial regulation landscape of the top European leagues

While UEFA has implemented rules at the European level, domestic leagues have been free to implement their own rules, with marked differences across countries.

In this section, we provide an overview of the differing financial regulations that have been adopted in England, Spain, Germany, France, Italy, and the Netherlands.

## England

Financial regulation in English football differs between the Premier League, which manages the first tier of English football (consisting of 20 clubs), and the English Football League ('EFL'), which manages the second, third and fourth tiers of English football (known as the Championship, League One and League Two respectively). The EFL covers 72 clubs in total, and has its own financial regulations in place.

Financial regulation in the Premier League appears to be undergoing a transition period following pressure from government, fans and the changes in the UEFA system. The financial rules that are still in place, the PSR, were introduced in 2013. They are based on the concept of allowed losses during a three-season window. Premier League clubs are allowed to lose a maximum of £15m over a rolling three-season cycle, with the limit increasing to £105m if the difference can be covered by shareholder funding (e.g. equity injections or interest-free shareholder loans).

Similarly to UEFA's FFP rules, only a subset of clubs' costs are factored into the PSR allowed losses calculation, with costs relating to infrastructure, women's football, youth and community work (among others) excluded from the calculation.

[11] Premier League, 'Premier League Handbook Season 2023/24', Section A: Definitions and Interpretation, A.1.11.

**The 2023/24 Premier League season was marked by three instances of points deductions related to PSR breaches**

Over the first decade of their implementation, the PSR rules did not lead to any enforcement action against clubs. However, things have changed markedly over the last 12 months, with the 2023/24 season seeing three instances of clubs being sanctioned with points deductions for breaching the PSR. Everton FC received two separate points deductions due to breaches covering two different periods, and Nottingham Forest FC also received a points deduction. The finances of Leicester City FC, which spent the 2023/24 season competing in the Championship, are being analysed by an independent commission relating to alleged PSR breaches for the three-season cycle that ended in 2022/23.[12] This could also result in points deductions for the newly promoted club.

Source: See Premier League (2024), 'Premier League Statement', 21 March; Hunter, A. (2024), 'Everton drop appeal over two-point penalty for breaching financial rules', *The Guardian*, 10 May.

The Premier League clubs recently agreed to trial an alternative system of financial regulation during the 2024/25 season on a non-binding basis. While the existing PSR rules will still remain in place, the alternative system of financial regulation is now in the process of considering and voting on a different system of financial regulation, which, if approved in the current proposed format, will reportedly be based on two main aspects.

First, a squad cost rule that will limit the amount that clubs can spend on their squads in a given season to 85% of their revenues. The calculation is expected to follow the same approach as UEFA's new squad cost rules. Given that the threshold is higher than UEFA's 70% threshold, the Premier League's squad cost rule is only likely to be 'binding' for the clubs that are not actively participating, or aiming to participate, in UEFA's club competitions.

The second aspect is an anchoring of annual squad costs to the lowest amount received by any club from the Premier League for the centralised distribution of TV rights. The maximum that any club will be allowed to spend on its squad will reportedly be set at five times the lowest TV rights revenue received by a Premier League club, which is usually the club that finishes last (i.e. 20th) in the league.

The lowest of the two thresholds will be applicable to a club. In other words, for the clubs with the largest revenues, even if they comply with the 85% squad cost limit set by the Premier League as well as the 70% limit imposed by UEFA, in practice they might be forced to spend less than this in order to avoid breaching the anchor-based limit.

[12] Premier League (2024), 'Premier League Statement', 21 March.



The new rules will allegedly also seek to reduce the time between breaches and sanctions, with clubs that significantly overspend the 85% threshold, or clubs that breach the anchor-based cap, subjected to points deductions during the same season.

As noted above, the new framework is being trialled on a non-binding basis and clubs will need to vote in favour of their permanent adoption. The anchoring proposal is likely to be the more controversial element given that it breaks the longstanding tie between a club's own revenues and its ability to spend (since a club might instead be capped based on a multiple of the broadcasting distributions paid to a different club).


## Spain

**As described in section 1, at the end of the 2000s, Spanish clubs were in a precarious financial position, characterised by large debts and unpaid bills to players and other suppliers.**

As a response to this, in 2013, LaLiga and its member clubs agreed to establish an Economic Control Unit that holds the responsibility for monitoring the spending and finances of clubs operating in the first and second divisions in Spain.[13]

In comparison to the Premier League, the approach taken by LaLiga is more forward looking ('ex ante' in regulatory terms). The economic and financial regulation adopted in 2013 requires clubs to submit their budgets before the beginning of each transfer window to the Economic Control Unit, which assesses the budgets and sets the spending limits for each club for each transfer window accordingly. As such, clubs head into each transfer window knowing how much they are allowed to spend on players and head coaches. To accommodate for any potential disagreements with the Economic Control Unit, clubs can also appeal to an independent body within the Spanish Football Federation.

Each club's spending limit is determined by the difference between its budgeted non-football expenses (e.g. interest payments on debt, energy and water bills) and its expected revenues for the year. The remaining amount is the club's squad cost limit.

When a club signs a new player, it needs to inform LaLiga of the transfer fee paid for the player as well as the player's ongoing salary costs. LaLiga will authorise or reject the transfer based on the rules and on the squad cost limit at the time of the application.

A Budget Validation Body within LaLiga also has the responsibility of assessing whether financial transactions with third parties, whether related or not to the club, are conducted at fair market value.

Overstated revenues and/or understated costs will, naturally, have an impact on the calculation of a club's squad spending limit.[14]

[13] The LALIGA Newsletter (2021), 'Global Fútbol–How LaLiga's Economic Control and Squad Cost Limit works', 27 September.
[14] LaLiga assessed a number of sponsorship contracts between Almeria and Saudi-owned companies, as they were not deemed to be on market value. Almeria has a Saudi owner. See Menchen, M. (2022), 'Los 'no patrocinios' de Almería', *Sport*, 27 March.

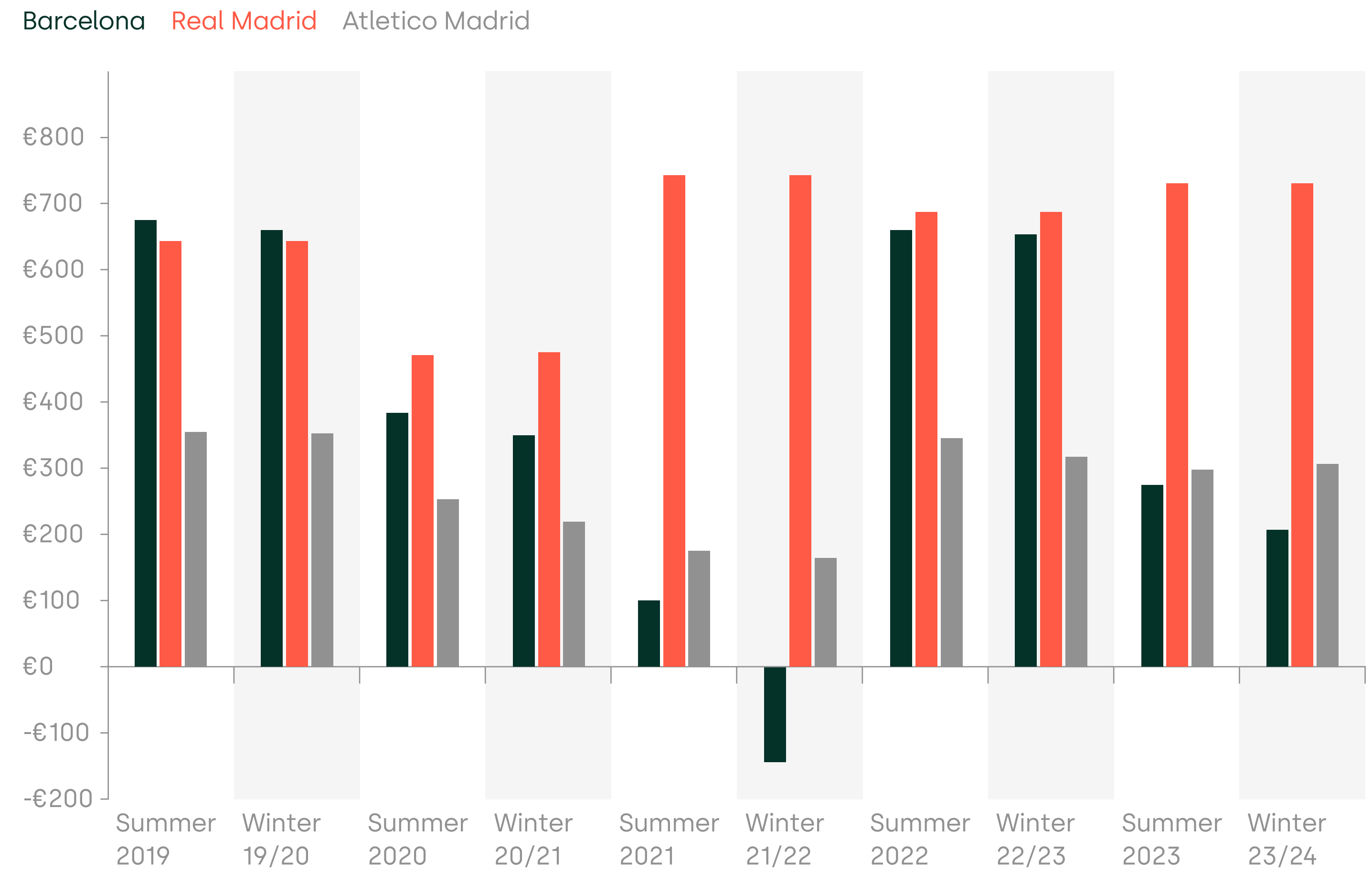
The squad cost limit calculated by LaLiga may fall below a club's actual squad costs. If this is the case, it will be necessary for clubs to adjust their squad costs over time to reach a break-even point where their actual squad costs are in line with the limit. LaLiga can impose fines on clubs that overspend, the magnitude of which depends on the size of the overspend. Repeated offences can be met with limitations on the transfer of players. Moreover, clubs that are above their spending limit are only allowed to spend 50% of the revenue that they generate from player sales.[15] An equity injection may also allow a club to spend more than the squad cost limits determined by LaLiga, depending on the financial situation of a club.[16]

### The impact of LaLiga's cost control rules on FC Barcelona

An example of the limitations that LaLiga's cost control rules can impose on clubs is FC Barcelona, whose squad cost limit has been significantly reduced over time, and has experienced significant volatility every year, due to the club's large debts of over €1bn.[1] While Barcelona was able, up until the end of 2022, to increase its revenues using 'financial levers' such as the anticipation of future revenues, LaLiga is reportedly taking a much tougher stance towards the use of such strategies to boost current spending.[2] As Barcelona is still significantly overspending its allowed limit, uncertainty remains during the summer 2024 transfer window regarding the club's ability to register new players in LaLiga.[3]

Source: [1] Corriga n, D. (2024), 'Barcelona's money worries: What Xavi's replacement as manager should know', The Athletic, 31 January; [2] Villaveiran, L.N. (2023), 'Palancas, renovaciones, patrocinios, ventas y salarios imprecisos, las herramientas del Barça para cumplir el control económico de LaLiga', El Mundo, 15 September; [3] Corrigan, D. (2024), 'Barcelona's latest plan to fix their finances - the one where caterers help sell the metaverse', *The Athletic*, 9 August.

Figure 3.1
LaLiga squad cost limit for Barcelona, Real Madrid, and Atletico Madrid




Note: Barcelona's negative squad cost limit resulted from their non-football expenses being higher than their expected revenues during the course of that season.
Source: Oxera analysis based on LaLiga data.

[15] Villaveiran, L.N. (2023), 'Palancas, renovaciones, patrocinios, ventas y salarios imprecisos, las herramientas del Barça para cumplir el control económico de LaLiga', *El Mundo*, 15 September.
[16] Liga Nacional de Fútbol Profesional (2023), 'Normas de Elaboración de Presupuestos de Clubes y SADs', 3 November, Articles 84–88.

## Germany

The licensing rules for Bundesliga 1 and 2 have, for many years, included a number of financial requirements and obligations. These rules predate UEFA's FFP regulations, and were even mentioned by the UK House of Commons' 2011 report as a possible model for regulation of the sport in the UK.[17]

Annually in March, before a new season commences, clubs must submit a number of documents to the Deutsche Fußball Liga ('DFL', the entity that manages Bundesliga 1 and 2), including their financial accounts, group management reports, audit reports, and budgets for the year ahead, in order to obtain their licence for the upcoming season. The following financial criteria are assessed.[18]

- Clubs must provide proof of their financial viability and that they can continue operating as a 'going concern'[19] throughout the following season. The DFL assesses the liquidity of the clubs and whether they are in the position to continue operating throughout the following season.
- Clubs must have a net equity position in their consolidated balance sheet as of 31 December of the previous year (i.e. t-1) that: (i) is positive; or (ii) has improved since 31 December t-2 of by at least 10% for applicants from the Bundesliga and 5% for Bundesliga 2; (iii) in the case of applicants from Bundesliga 2 which were relegated from the Bundesliga in calendar year t-1, the net equity position should not have deteriorated.
- No overdue liabilities to other football clubs, employees, social security institutions, tax authorities, to UEFA or to the DFL.

The sanctions that are available if the club fails to meet the economic criteria include fines, deductions of points, a transfer embargo and, ultimately, expulsion from the leagues after not granting a licence.

Examples of clubs that have received points deductions due to non-compliance with financial rules include SV Sandhausen and VfR Aalen in 2015, TSV 1860 Munich in 2010, Arminia Bielefeld in 2010, and Koblenz in 2008. The case study overleaf summarises the financial difficulties and sanctions received by Arminia Bielefeld.

[17] House of Commons (2011), 'Culture, Media and Sport Committee–Football Governance', July, paras 5, 143–148.
[18] DFL, 'Lizenzierungsordnung 2023/24', pp. 27–42.
[19] 'Going concern' is an accounting term that describes whether a company is likely to have the financial resources to continue operating in the foreseeable future.



**The financial difficulties of Arminia Bielefeld and resulting sanctions during 2009–11**

After finishing last at the end of the 2008/09 Bundesliga season, Arminia Bielefeld was relegated to Bundesliga 2. In February 2010, the club reported a liquidity shortfall of €2.5m for the ongoing season and was requested by the DFL to rectify the situation by March 2010. As the club was not able to close the liquidity gap, the DFL imposed sanctions including a four point deduction and a fine of €50,000. Prior to the DFL decision, Arminia Bielefeld were six points away from third place, which would have qualified the team for the promotion play-offs, but the points deduction made it extremely challenging to finish in the top spots.

Arminia Bielefeld's financial situation became more problematic, as the budget deficit increased to €12m due to a considerable cost overrun on a stadium expansion project. This left the club at risk of not being able to renew its licence for the following season. Only after it was able to secure additional loans, payment deferrals and early sponsorship payments from commercial partners, was the club awarded a licence for the following season.

Before the 2010/11 Bundesliga 2 season, several key players left the club and, despite a number of new signings, the club was not able to avoid relegation. In April 2011, the club had to draw on financial aid in the amount of €1.25m from the league association's security fund, which led to a deduction of three points for the club.

## France

# The finances of French football clubs are monitored by the National Management Control Unit (DNCG), which was established in 1984.

It is part of the French Professional Football League (LFP), which administers the first and second French divisions, which in turn is controlled by the French Football Federation. In particular, since the 2020/21 season, the DNCG assesses two main indicators relating to the financial situation of clubs:[20]

- **squad cost ratio**: costs relating to the football playing squad should remain below 70% of a club's revenues;
- **equity ratio**: a club's equity position should be at least 100% of the club's debts towards external parties, excluding any debt related to infrastructure investment.

The DNCG's assessment of clubs' finances is not just restricted to these two ratios. The LFP rulebook clearly states that the DNCG should take into account the broader legal and financial situation of clubs. In particular, if a club is deemed incompliant with the 70% squad cost rule, it will not face any penalties if it has a sufficiently large equity position to cover the amount by which the club exceeds the 70% ratio.

The DNCG can adopt a wide range of measures if a club is deemed to be incompliant with the financial regulation. Measures can range from a public warning, a referral to UEFA's CFCB, the need for the club to develop a pre-approved budget that controls its costs, to more intrusive measures such as transfer bans, points deductions, relegations and exclusion from competitions.

For example, Lille was prevented from acquiring a player from Sochaux in 2014 because of restrictions imposed by the DNCG. Historically, there are numerous examples of clubs that were relegated due to financial problems, including well-known clubs such as RC Strasbourg, RC Lens and FC Sochaux-Montbéliard. Olympique Marseille, the club with the second largest revenues in France in the 2022/23 season, had to obtain an explicit approval from the DNCG for its budget for the 2023/24 season, after concerns were identified by DNCG regarding Marseille's financial situation.

**RC Lens' return to the upper tiers of French football after a financially tumultuous period**

RC Lens is one of France's storied clubs, having won the French Ligue 1 in 1997/98 and runners-up in 2001/02. Lens competed in the Champions League in 1998/99 and again in 2002/03. It participated in the Europa League for the last time in 2007/08 before being relegated that same year. Although the club won Ligue 2 and was immediately promoted to Ligue 1, it was again relegated after two seasons, at the end of 2010/11.

This marked the start of a very challenging period in the club's history. While Lens was able to achieve promotion during the 2013/14 season, it was again immediately relegated the year after, but this time due to financial problems. A detailed investigation by the DNCG concluded that the club lacked the necessary funds to compete in Ligue 1 without the risk of facing financial difficulties, and that there were irregularities in relation to supposed payments made by Lens' then-owner (an Azerbaijani business man) to the club. During the following seasons spent in Ligue 2, Lens was under close scrutiny from the DNCG, which placed restrictions on the ability of the club to spend and sign new players.

In 2016, when the club faced a severe risk of going bankrupt, a new co-investor was found as a partner to the Azerbaijani owner. The new investor took full control of the club in 2018. Following a process of cost-cutting and restructuring, Lens was able to stabilise its financial position and finally returned to Ligue 1 after the 2019/20 season. It has since finished seventh in three out of the four seasons since returning to Ligue 1, with a highlight of a second place finish in 2022/23 which earned the club a place in the Champions League group stage.

[20] Ligue de Football Professionel, 'Statuts et Règlements 2023/2024', Annexe à la Convention FFF / LFP 2023/2024, Article 11.

"Financial regulations affect all aspects of how a football team is managed on and off the pitch, from which players are signed and sold, to how much a club wants to invest in infrastructure. Our favourite team's starting-11 will inevitably reflect these constraints. The impact of any modifications to existing financial regulations—either big or small—have the potential to change how clubs operate, and therefore have to be carefully considered in the context of the broader objectives of governing bodies, clubs and fans."

Francisco Couto
Senior Consultant

## Italy

# Starting in 2015/16, the licensing requirements for the Serie A included three main financial indicators that clubs needed to comply with.[21]

These indicators were later removed from the licensing requirements after the 2019/20 season.[22] Although the Italian Football Federation ('FIGC') tried to reintroduce these indicators into the licensing requirements again in 2022/23, a judicial appeal by Italian clubs prevented this from happening, and therefore no financial indicators have been in place since the end of the 2019/20 season.[23]

The three main financial indicators that were in place between 2015/16 and 2019/20 are summarised Figure 3.2.

Figure 3.2
Serie A Financial indicators

**Liquidity situation**
- current assets ÷ current liabilities
- must be at least 0.6x

**Debt position**
- total debt ÷ revenues
- cannot be higher than 1.5x

- **Salaries**
- salaries ÷ revenues
- cannot be higher than 0.8x

Note: The thresholds are based on the 2019/20 Licensing Requirements. The thresholds that were proposed for the 2022/23 season, which the clubs successfully appealed, were slightly more onerous.
Source: FIGC, 'Sistema Licenze Nazionali 2019/2020–Lega Nazionale Professionisti Serie A', pp. 2–3.

In case of non-compliance with any of the three indicators, clubs were required to either complete or commit to a future capital injection, or to secure interest-free debt financing from owners.

During the period when these indicators were in place (i.e. 2015/16 until 2019/20), there are no reports of sanctions or penalties being applied to clubs for directly breaching these indicators.[24]

[21] FIGC, 'Sistema Licenze Nazionali 2015/2016–Lega Nazionale Professionisti Serie A'.
[22] FIGC, 'Sistema Licenze Nazionali 2020/2021–Lega Nazionale Professionisti Serie A'.
[23] FIGC, 'Sistema Licenze Nazionali 2023/2024–Lega Nazionale Professionisti Serie A'.
[24] Juventus was given a ten point penalty during the 2022/23 season for financial irregularities regarding inflated player trading revenues. Juventus also reached a plea-bargain agreement with FIGC–which resulted in a fine of €718k–for allegations regarding the falsification of accounts and financial statements. Separately, Italian tax authorities have recently seized control of another Serie A club, Hellas Verona, due to a bankruptcy proceeding involving its owners. See Horncastle, J. (2023), 'Juventus strike plea bargain, will face no more Serie A sporting sanctions', *The Athletic*, 30 May; and Horncastle, J. (2024), 'Crises of Napoli and Verona fuel Serie A's winter window as Premier League freeze spreads', *The Athletic*, 2 February.



In addition to these financial sustainability indicators, and even before they were introduced, Italian clubs need to comply with requirements regarding their payables towards players, coaches, staff, government/tax authorities and suppliers. Breaching these requirements can result in at least a two point deduction. Sampdoria, for example, received a two point penalty at the end of the 2022/23 season due to delays in the payment of wages and social security contributions.

**Sampdoria's breach of licensing requirements: a cascade effect**

Sampdoria is a name that will be familiar to fans of Serie A and beyond. The club was very successful during the 1990s, winning the UEFA Cup Winners' Cup in 1990, the Serie A in 1991, reaching the Champions League final in 1992 (losing against FC Barcelona), and winning the Italian Cup in 1994. In 2014, Mr Massimo Ferrero bought the club from the Garrone family in an unusual deal structure that relied on the previous owners injecting a considerable amount of equity into the club before selling it.

Sampdoria's financial challenges started in 2019, as the club started to incur significant operating losses, which were covered by a substantial increase in the club's short- and long-term debts and liabilities. Mr Ferrero did not appear to have the financial resources to support the club, and it was sold in May 2023 to two new investors.

However, Sampdoria's financial situation did not improve after the transaction. Shortly after, Sampdoria risked suffering points deductions for failing to pay players' salaries on time during the last quarter of 2022. The club only escaped the penalties as the players agreed to smooth the payment of the outstanding salaries throughout the following months. Nevertheless, the FIGC decided to apply a two points deduction to Sampdoria as the club had also failed to pay social security contributions and the tax authorities in a timely manner.

In addition, on the same day that the points deductions were announced, the Italian financial police confiscated evidence relating to possible fraud in Sampdoria's financial statements for the years 2020 and 2021. The club is also being investigated for allegedly inflating player trading revenues.

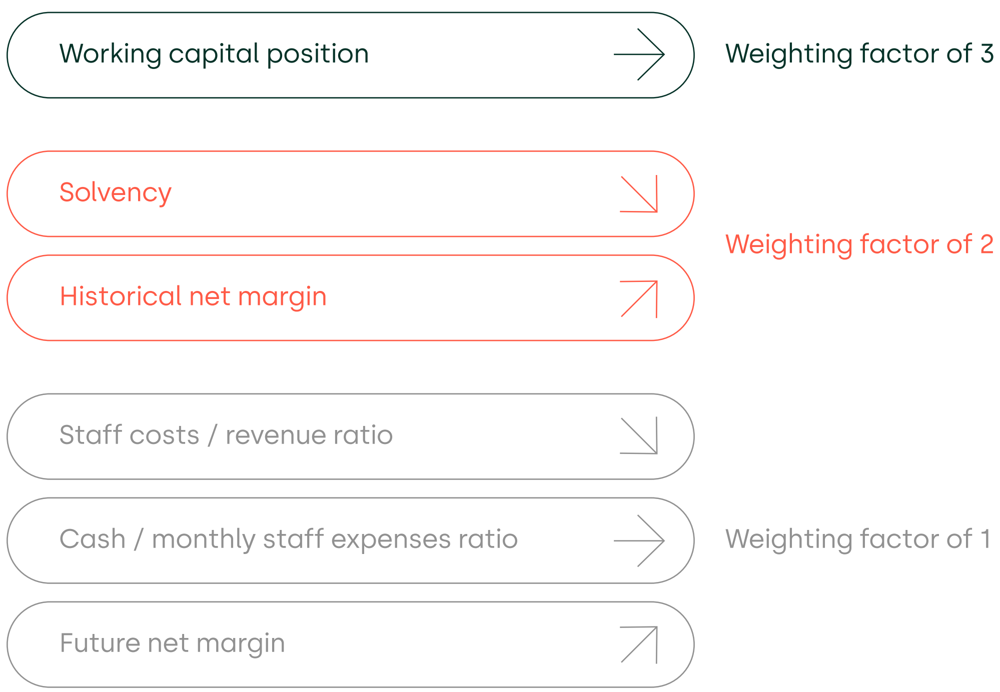
Looking ahead, the Italian government has recently proposed the creation of an independent sports regulator to monitor the finances of football and basketball clubs. As at May 2024, the government is engaged in discussions with the Serie A and FIGC about the precise remit of the regulator and its powers in regards to the licensing of clubs and the imposition of penalties. At this stage, both the Serie A and FIGC have shown resistance to this idea.

## Netherlands

### In order to obtain a license from the Royal Dutch Football Association (KNVB), Dutch clubs must comply with certain financial requirements. The KNVB's 'Financial Rating System' ('FRS') was first introduced in the 2003/04 season, with some alterations taking place over time.[25]

Clubs are rated once a year based on a financial rating system that evaluates their annual accounts and business plans which are filled out in models that are provided by the KNVB. Clubs are rated across six variables and provided with a score from one to four that reflects their performance, as shown in Figure 3.3.[26] The six variables have different weighting factors according to their importance, and the maximum score that clubs can obtain is 40.

Figure 3.3
Financial metrics assessed by the KNVB




Source: KNVB

[25] KNVB (2023), 'Richtlijn Controleprotocol, Seizoen 2023/24', 1 July, p. 4.
[26] KNVB (2023), 'Richtlijn financieel ratingsysteem, Seizoen 2023/24', 1 July.



If clubs fail to achieve more than 15 points, they need to submit a plan that outlines their projected improvements over the next two seasons. Clubs then need to achieve more than 15 points for the two subsequent years to be relieved of this requirement. If their position does not improve, clubs may face fines, points deductions and/or loss of their licences for domestic and European competitions.

The KNVB also has rules regarding the equity position of clubs. If a club has negative equity, it has to improve its position by at least 5% each season until it achieves positive equity again. Failure to achieve the 5% improvement is only punished if the negative equity position is greater than 25% of the club's revenue. Failure to comply results in a conditional one point deduction, which materialises in the next season if the problem arises again.

**FC Twente's roller-coaster ride on and off the pitch**

An example of a club whose financial position was closely scrutinised by the KNVB is FC Twente. The club achieved considerable success in the Eredivisie, including winning the league title in 2009/10 and finishing second in the 2008/09 and 2010/11 seasons. The success of the club was, however, associated with a substantial increase in its indebtedness, which the club sought to hide and conceal from the KNVB.

The club's financial situation and its failure to provide the KNVB with accurate information resulted in three sets of points deductions during the period March 2015 to April 2016. They also received other sanctions, such as fines, public warnings and a three year exclusion (from December 2015 onwards) from participating in European competitions. The club was ultimately relegated to the second division after finishing bottom of the Eredivisie in the 2017/18 season, but was able to return to the top flight after just one season.

Since then, FC Twente's financial position has considerably improved, and the club has recently achieved a full 40 point mark in the KNVB's financial ranking. Over the course of the last three seasons, the club has consistently finished in the top five of the Eredivisie.

More recently, Vitesse is also faced the serious prospect of losing its professional licence given that it was considered to be in significant breach of the KNVB's financial rules. The club was given an 18 point deduction in April 2024 due to an ongoing dispute regarding its ownership structure and previous links with Roman Abramovich. The club launched a public crowdfunding campaign and was ultimately able to secure contributions from external investors' to cover debts towards Coley Parry, an investor that had intended to acquire the club but has since been rejected by the KNVB under its ownership rules.[27]

[27] BBC Sport (2024), 'Vitesse crowdfunding in bid to play next season', 3 May; Van Barneveld, J. (2024), 'Geldproblemen Vitesse blijken nóg groter: crisisclub heeft schuld van 19 miljoen', NU, 26 April; Friedrichs, S. (2024), 'Crowdfunding Vitesse inmiddels op anderhalf miljoen, ook Marcouch en bekende NEC-supporter doneren', AD, 6 May.

## Post-match summary

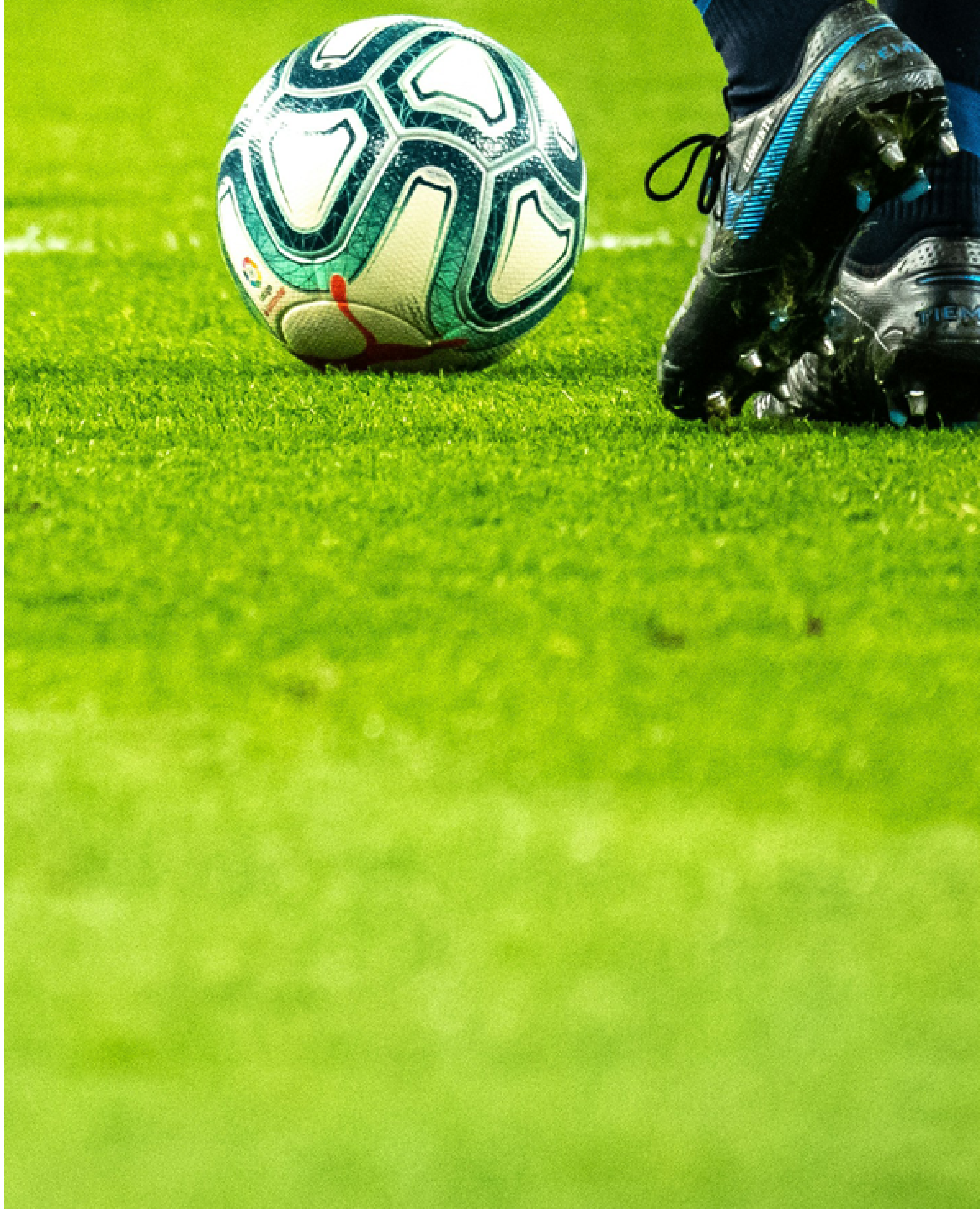
1. Domestic league organisers have overseen the introduction and implementation of financial regulations for their own leagues. These have generally not been overseen by fully independent bodies to date, although there is the prospect of an independent football regulator in England and/or Italy in the near future. There is already a spectrum of independence across countries in terms of how the bodies responsible for regulation interact with the league organisers—for example, the DNGC in France is a semi-independent body, whereas the Premier League is responsible for all aspects of competition organisation and financial regulation.

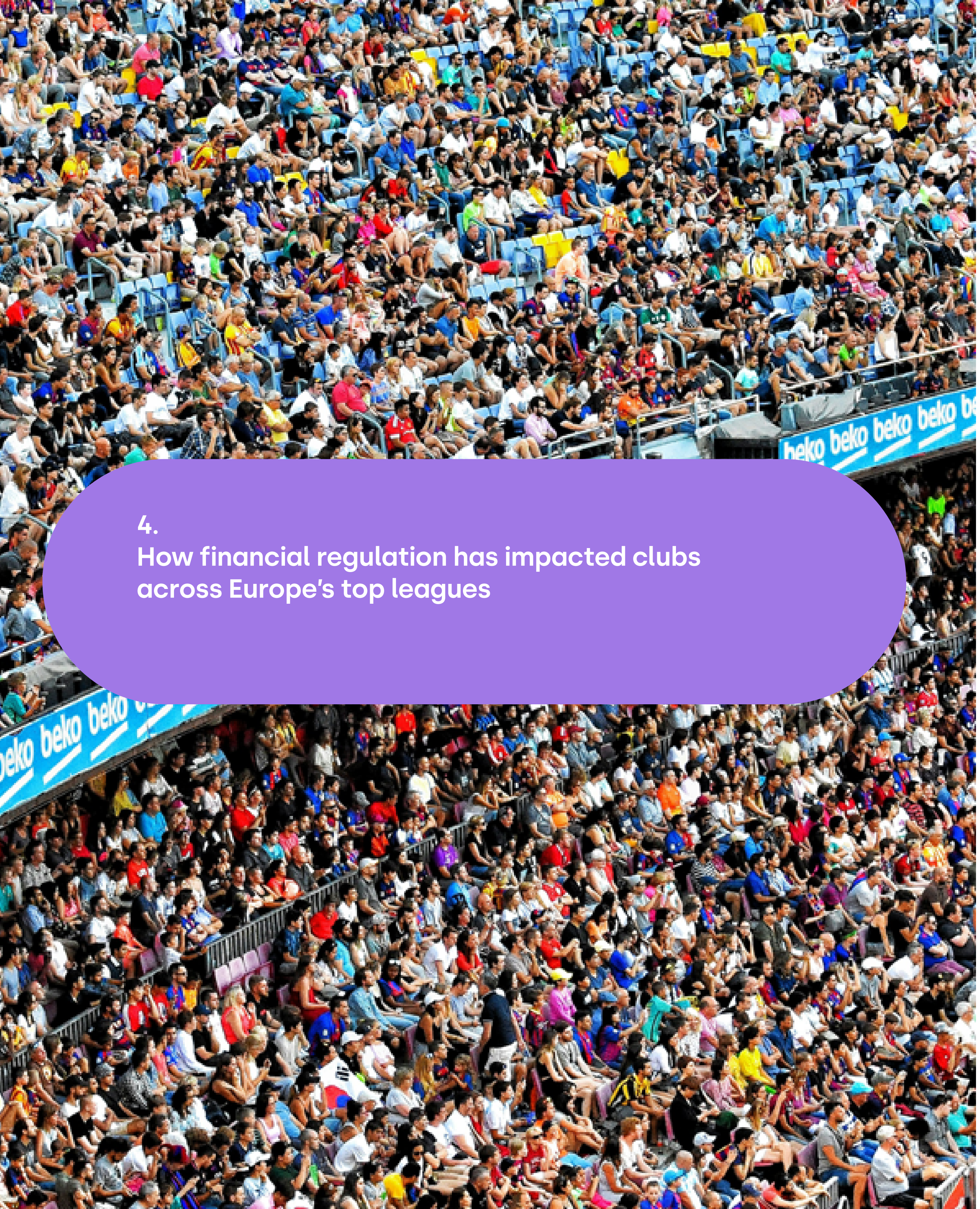
2. There are clear differences in terms of how the various countries and leagues approach financial regulation, including differences relative to UEFA's rules. In particular, the various leagues prioritise different financial metrics and ratios. The system in LaLiga is somewhat unique in terms of setting allowed budgets up front. England is trialling a top-to-bottom anchor system that would also be unique.

3. The way in which rules are drafted and applied in practice create different incentives and restrictions for how clubs behave. The impact of financial regulation has been felt by some of the giants of the game, most notably FC Barcelona whose spending budget was slashed by LaLiga's Economic Control Unit. The club has faced considerable restrictions in recent years on its ability to register new players in its LaLiga squad.

4. Although financial regulations have been in place for over a decade, many clubs—including those participating in UCCs—have still faced financial difficulties.

5. There is evidence of enforcement action increasing relative to the past, particularly in the Premier League (with various points deductions during the 2023/24 season). There are suggestions that clubs are changing their behaviour as a reaction, particularly in the transfer market.

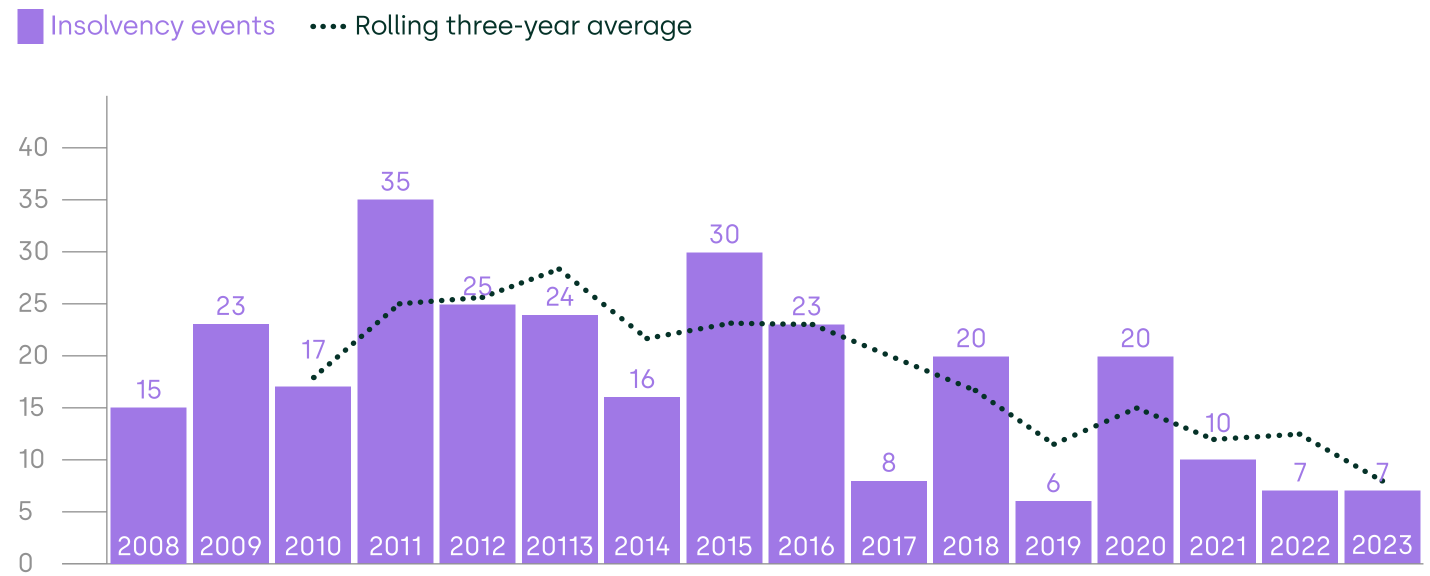




## 4.
## How financial regulation has impacted clubs across Europe's top leagues

Financial regulation across Europe, both at the UEFA and national level, appears to have contributed to a reduction in the number of insolvency events in the top two divisions across European countries, as shown in Figure 4.1. This suggests that regulation has at least contributed to reducing the number of extreme events, which was one of the objectives of the introduction of the FFP rules.

Figure 4.1
Insolvency events in European football




Note: UEFA's insolvency database covers 1,500 clubs from the top two tiers in each UEFA member country. Data for 2023 covers the period 1 January until 30 November. Source: UEFA (2024), 'The European Club Finance and Investment Landscape', p. 54.

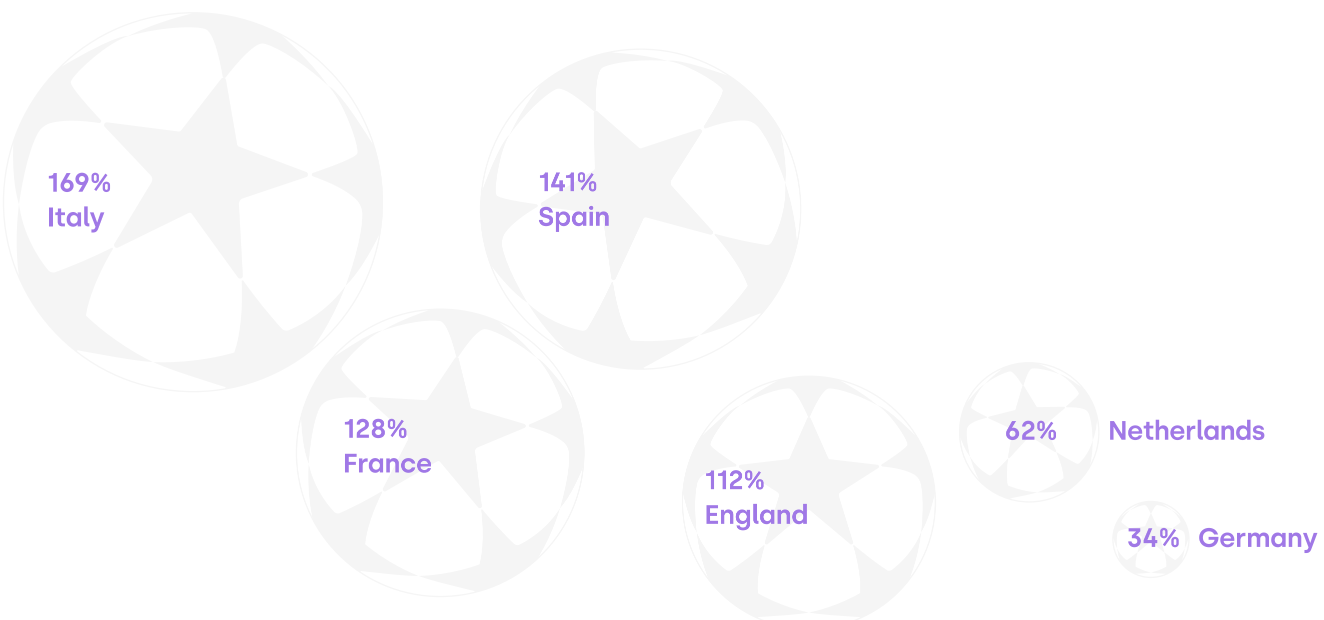
The discussion in the previous section highlighted a number of areas where the regulatory approaches of different European countries appear to be relatively aligned. For example, all domestic regulations seem to have a strong focus on ensuring that clubs do not have overdue payables, which can help to protect players, suppliers and other stakeholders in the event that a club enters into administration. There is also a clear focus on the amount of equity in clubs' balance sheets, as a measure of the financial buffer available to clubs.

It is interesting to note that none of these countries currently has an independent regulator focusing on football (or sports more generally). All of the entities that are tasked with monitoring clubs' finances across the countries we have assessed, are either part of the national football association or the league itself (albeit with varying levels of independence within these organisations). This could potentially leave these entities more subject to significant pressure from clubs and/or conflicts of interest.

Despite some similarities between the regulatory models reviewed, there appear to be interesting differences in outcomes between countries that are apparent when analysing the data published by UEFA on the financial situation of clubs in different European leagues. It is worth noting that the analysis that follows i) focuses on the top division within each country, and may therefore not capture issues in lower leagues; and ii) considers league-wide averages, which may mask differences between clubs within the same league.

From this data on top divisions, it is clear that Italian clubs are much more heavily indebted than clubs in the other leagues, on average, as Figure 4.2 shows. In contrast, German and Dutch clubs have significantly less debt as a proportion of their revenues, which may be explained by the focus on positive equity, working capital and solvency in both countries. In Italy, on the other hand, there have been no restrictions on the debt to revenue ratios of clubs since the end of the 2019/20 season, which may explain the level of indebtedness of Italian clubs.

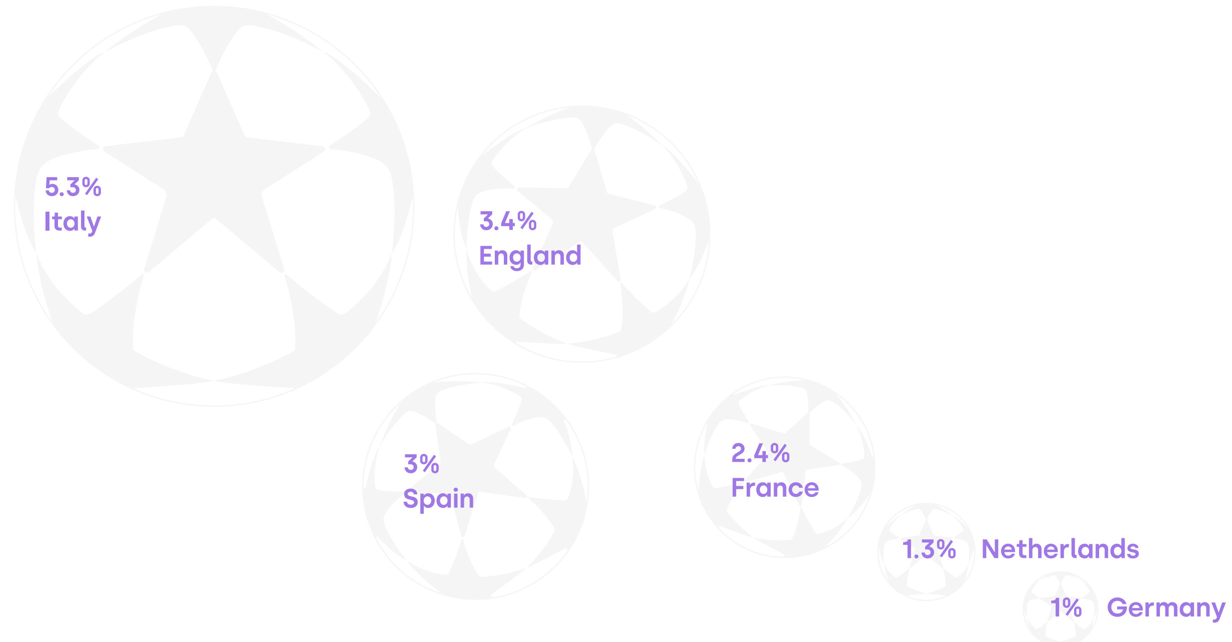
Figure 4.2
Total debt relative to clubs' revenues in 2022




Note: The data refers to the 2022 calendar year, and captures all the clubs in the top division of the respective countries.
Source: UEFA (2024), 'The European Club Finance and Investment Landscape', pp. 12, 52.

The level of indebtedness will also be reflected in the financing costs of clubs. As Figure 4.3 shows, Italian clubs need to use a much larger share of their revenues to cover interest payments than clubs in other countries.

Figure 4.3
Average financing costs as a share of clubs' revenues in 2022



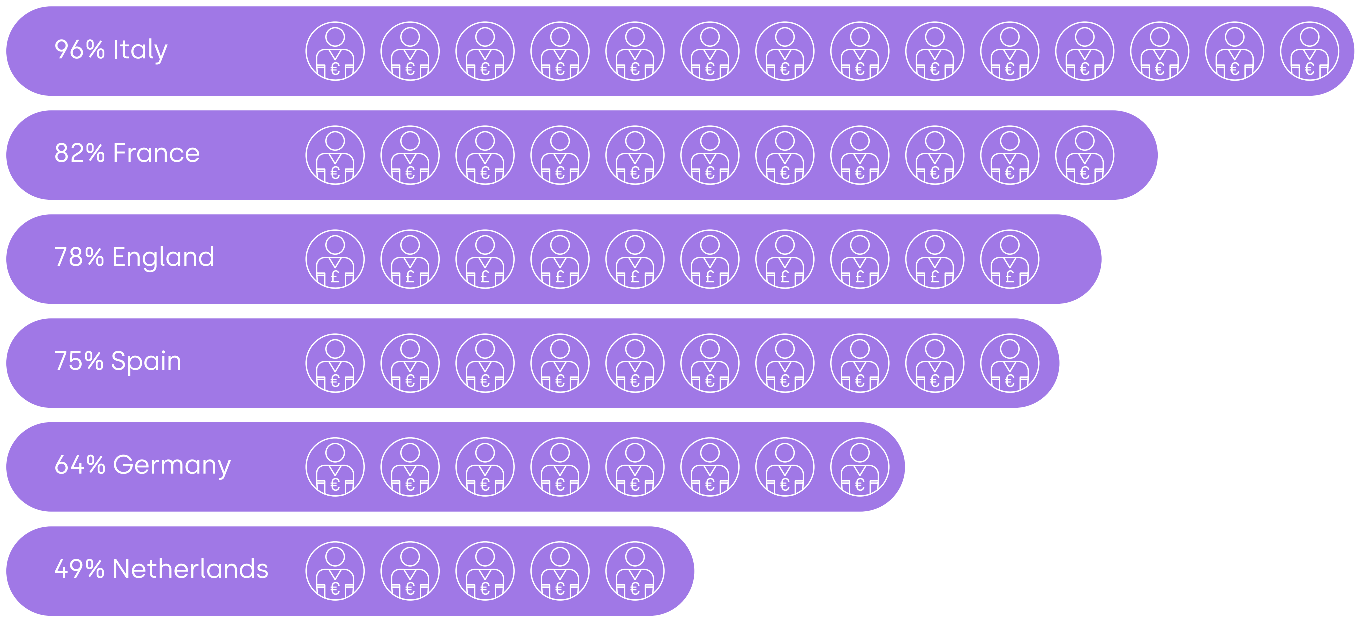

Note: The data refers to the 2022 calendar year, and captures all the clubs in the top division of the respective countries.
Source: UEFA (2024), 'The European Club Finance and Investment Landscape', p. 44.

> Financial regulation is the economic heartbeat of modern football. While it aims to create a sustainable future for the industry, its true challenge lies in balancing fiscal responsibility with the sport's inherent passion for success. As the game evolves, so must our approach to financial regulation—it's time for clubs, fans, and governing bodies to rewrite the playbook of football economics together.

Georgia Davies
Senior Consultant

Italy also stands out as the country with the highest squad costs relative to revenues, as shown in Figure 4.4. In countries which have regulations that clearly focus on squad costs (e.g. Spain and the Netherlands), these tend to represent a much smaller share of revenues.

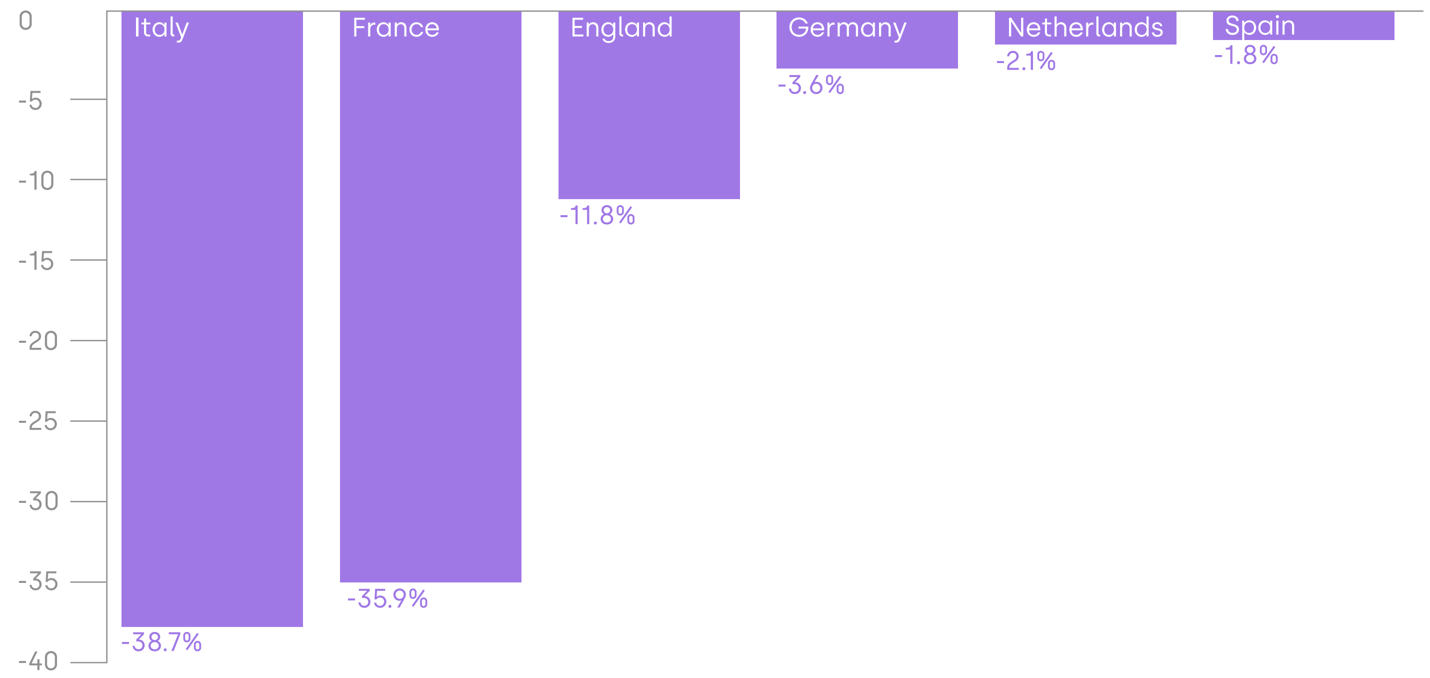
Figure 4.4
UEFA's estimates of the squad cost ratios for 2022




Note: The data refers to the 2022 calendar year, and captures all the clubs in the top division of the respective countries.
Source: UEFA (2024), 'The European Club Finance and Investment Landscape', p. 45.

Looking at data relating to the pre-tax profits of clubs, Italy and France also stand out as the leagues where clubs are accruing the largest losses relative to their revenues, as Figure 4.5 shows. This observation is unsurprising given their higher squad cost ratios and interest expenses. Spanish clubs are, on average, among the most profitable across the top European leagues, which may be explained by the focus of LaLiga's Economic Control Unit on monitoring the operating costs of clubs and putting in place strict budget limits up front.

Figure 4.5
Average pre-tax profits across different leagues in 2022




Note: The data refers to the 2022 calendar year, and captures all the clubs in the top division of the respective countries.
Source: UEFA (2024), 'The European Club Finance and Investment Landscape', pp. 12, 42.

The differences between the financial situations of clubs in the various leagues is also apparent from UEFA's recent decisions regarding compliance with FFP rules. In a report outlining its investigations and decisions made during the 2021/22 and 2022/23 seasons, UEFA reported that it had found significant break-even deficits at three French clubs (PSG, Olympique Marseille and AS Monaco) and three Italian clubs (AC Milan, Inter Milan and AS Roma). It also reported that another Italian club, Juventus, had breached an earlier settlement agreement with UEFA. In addition, as described in section 2, AC Milan and Juventus have recently faced one-year bans from UCCs due to serious breaches of break-even requirements, separate from the breaches described above for the 2021/22 and 2022/23 seasons.

In comparison, no club from any of the other major European leagues analysed in this report was found in significant breach of UEFA's rules, which suggests that these countries have been more successful in complying with the financial regulations to date.

Post-match summary

1. There is evidence that financial regulation has an impact on the financial strength of clubs. Insolvency rates have fallen since the introduction of FFP and financial ratios have strengthened.

2. Questions remain as to the extent to which underlying systemic issues and fragility have been addressed (particularly at lower levels of the football pyramid, which have not been considered here). The evidence suggests clubs still run high squad cost ratios, have high levels of debt and report sizeable losses, on average.

3. Serie A clubs, which are not currently subject to financial regulation domestically, appear to have the weakest finances compared across the six European leagues considered in this report.

4. Clubs in the Netherlands and Germany generally report lower squad cost ratios, less debt and smaller pre-tax losses than their counterparts in Italy and France.

## 5.
## Time for a modernised approach to financial regulation of football clubs?

**As described in previous sections, financial regulation in football has been driven primarily by the domestic leagues, football associations and UEFA. The approach that has been adopted by these bodies for introducing financial regulation is, however, quite different to the approach that is usually adopted by regulatory bodies in other industries that are subject to economic regulation (e.g. energy and water networks, airports, air traffic control and railways). Regulators in these industries have to clearly define the objectives of their interventions and regulations, conduct cost-benefit assessments of any new significant policies and evaluate how well the regulations are functioning on an ongoing basis.**

Financial regulation in football was initially driven by the objective to make European clubs more financially sustainable, following a number of insolvency cases and broader problems stemming from high levels of indebtedness in the late 2000s and early 2010s. More recently, stakeholders also appear to be increasingly concerned about competitive balance between clubs, both at the domestic and international level.

However, the tools that were effective in addressing the problems of financial sustainability might not necessarily be the most appropriate for promoting competitive balance (even if it is possible to define what competitive balance means and what an optimal level would entail). For example, from the moment that FFP was introduced, concerns were raised that it would help to entrench the position of the leading European clubs by making it more difficult for new challenger clubs to emerge, as they would not be allowed to incur significant losses (usually funded by their shareholders) in the hope of becoming more competitive.[28]

This highlights one of the most important questions at the heart of football financial regulation: what is the intended purpose of the regulation, and what are the objectives that it is trying to achieve? This

[28] For example, see Plumley, D., Ramchandani, G. and Wilson, R. (2018), 'The unintended consequences of Financial Fair Play: An examination of competitive balance across five European football leagues', *Sport, Business and Management: An International Journal.*

is the first issue that an independent regulator for football, similarly to regulators in other industries, would have to consider. Addressing this question would highlight some of the potential trade-offs between an objective like financial sustainability, and the objective of promoting competition and the emergence of new challenger clubs.

As Figure 5.1 illustrates, a number of related issues stem from this central question.

Figure 5.1
Examples of the types of questions and trade-offs to consider when setting football regulations




What is financial sustainability in the context of a football club, and how can it be measured effectively?
As described in sections 1 and 2, UEFA and the different national leagues have focused on different metrics for assessing financial sustainability. These metrics range from balance sheet items such as the level of equity to those that place a focus on permissible losses using accounting practices. Selecting the appropriate metric to use should be based on a careful assessment of the metrics that are important in the specific case of football clubs, and are likely to provide an 'early warning sign' of when things may be heading in the wrong direction. However, metrics alone are unlikely to tell the full story and it is important to consider sustainability through a broader lens (e.g. appropriate governance, resilience to a change of owner or circumstances).

What incentives and unintended consequences will the regulations create?
Different rules and regulations will generate different incentives and behaviours from stakeholders. The way in which the revenues, costs and profits of football clubs are defined in financial regulations may generate certain behavioural incentives. For example, the accounting treatment of the asset value of football players creates strong incentives for clubs to prioritise selling players from their youth academies, given that the transfer fees will count fully as profit for FFP and PSR assessments. It is important to consider whether this is the type of behaviour that football's governing bodies want to promote from clubs.

How to minimise the risk of financial regulation being 'gamed'?
This question is closely related to the previous one, as certain financial metrics may be more easily 'gamed', just as certain restrictions may be more easily circumvented. A set of financial regulations that is easy to game will not change clubs' behaviours and may be ineffective in achieving the desired objectives. For example, questions have been raised recently about the impact on Chelsea's allowed losses under the PSR of the sale of two hotels by Chelsea FC Holdings Ltd to Blueco 22 Properties Ltd for £76.5m. Both companies are owned by the same ultimate parent, Blueco 22 Ltd.

Are there benefits of further harmonisation of financial regulation across European countries?
While the top European clubs all need to comply with UEFA's regulations, in certain countries like Spain, Germany and the Netherlands, the requirements on clubs to prepare information for the leagues, and the restrictions that may be applied to the spending of clubs, can be quite different from UEFA's. This may affect the ability of clubs to compete under the same set of conditions and restrictions in international competitions. LaLiga has been particularly critical of the perceived leniency of financial regulations in other leagues, including the Premier League, relative to its own.

### What are the impacts on the quality of the 'football product' and fan experience?

Related to the previous question, if one regulator in one country decides to adopt a very different approach to other European regulators, there could be consequences for the performance of domestic clubs relative to European peers. For example, the introduction of financial regulation that applies stricter limits to the spending of domestic clubs than the rules applied by UEFA, could restrict the ability of domestic clubs to compete in the market for attracting top talent. Similarly, any change to regulations that may have an impact on the decision-making and/or the financial situation of clubs should be considered from the perspective of the impact on the fan experience and the quality of the game. One example of this is the role of points deductions as a punishment mechanism for non-complying clubs. While points deductions may be more effective in deterring future non-compliance, they might have a negative impact on fan engagement and lead to greater uncertainty regarding the standings of leagues, which will affect even the clubs that are not suffering points deductions (and can harm the credibility of the league).

### Is enforcement more effective and appropriate before or after a breach of financial regulation occurs?

As described in sections 3 and 4, the regulatory framework applied by UEFA and the national bodies differs in the extent to which they consist of forward-looking or backward-looking monitoring of clubs' finances. Both approaches can have their own set of risks and advantages. While forward-looking regulation might be more effective in spotting risks in clubs' finances before they actually materialise, it produces a greater burden on clubs to share data and engage with the oversight bodies, and also increases the need for these entities to have dedicated teams of financial specialists.

The nature of these questions, and the extent to which they are interconnected and interdependent, clearly suggest that a modernised approach for financial regulation in the football sector is required in order to better recognise trade-offs between objectives and potential unintended consequences emerging from certain regulatory decisions. Critically, the solution does not necessarily mean increasingly intricate, costly and complex regulations.

## Unlock the power of data-driven insights

Our team of experts in economics, finance, and data science is ready to help you navigate the complexities revealed in this report. With 40 years of consulting experience across Europe, we offer data-backed solutions and a multidisciplinary approach to help football bodies and clubs prepare for the future. Speak to our experts and discover how we can help you transform data into decisions, and challenges into opportunities.

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