Department of Business and Management

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IS FINANCIAL FAIR PLAY REALLY FAIR?

A COMPARISON AMONG THE MAJOR EUROPEAN LEAGUES

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INTRODUCTION

Football is a business able to gather the highest revenue than the other industries. Deloitte[1] states that in 2011/2012, the European football market grew to the exorbitant amount of €19,4 billion. In the period 2007-2011, the CAGR of the total turnover of the European clubs that play in the first divisions has grown of 5,6 per cent, compared to the 0,5 per cent of that of the general European economy in the same period[2]. Unlikely, the prosperity of the sector is impacted by the even higher costs that clubs have to suffer in order to improve their performance.

Starting from this data, the interest has been moved toward a remedy that UEFA has imposed in order to solve the bad situation. In particular, since the measure has to be applied to several European clubs, the analysis will focus on its fairness, trying to understand whether the sizeable discrepancies among different leagues could falsify the rule's validity.

The first chapter explains in detail how the regulations work. Briefly, Financial Fair Play imposes clubs to live within their means, meaning that they may not spend more than what they earn. The requirement are regulated by the document "Club Licensing and Financial Fair Play Regulations" that divides the measure into two big groups, the club licensing and the club monitoring: the former is related to the steps to undertake in order to obtain the license and participate to the European tournaments, the latter regards the stricter requirements that UEFA ask

[1] Deloitte, Annual review of football finance - Highlights, 2013

[2] PricewaterhouseCoopers, Report Calcio, 2013

European clubs to comply with in order to avoid sanctions. The present work pays attention on the most relevant duty, that is the break - even, as the first chapter will deeply investigate, it means that clubs have to gradually make relevant income higher that relevant expenses. The second part of the first chapter will deal with a critical analysis on the object of the work: advantages and disadvantages will be indentified through the support of the literature review and to make clearer this analysis, it is divided into the legal and the economic assessment. Being this measure very recent, the interesting literature is recent as well.

In order to make complete the examination, the second chapter will make a benchmark among the different European leagues. The focus will be on the non-regulated leagues, that is the Italian, English and Spanish ones, sharing the most traits but quick signs will be also provided for the German and French leagues. The goal of this chapter will be to identify points of commonality and points of difference in order to understand whether FFP will maintain its validity wherever it is applied. The investigation will concern the main items of revenue and expenses, how the revenue are allocated among their different sources, the kind of ownership structure, the governance and the listed companies.

The third chapter links the first and the second one, applying the theoretical concepts of the first part to the contingent peculiarities of the leagues, explained in the second one; it involves the practical demonstration of the break - even computation. One club for any non-regulated countries will be chosen in order to make the simulation and verify whether the discrepancies negatively affect the results of the requirement. Manchester City FC represent a club owned by a so-called sugar daddy willing to inject money and cover the exorbitant costs of the star players, Barcelona FC is a members association owned by its supporters and ACF Fiorentina represents the common Italian club owned by an entrepreneur with unrelated business activities and without the ownership of the stadium.

However, this analysis, and in particular the practical cases of the last chapter, aim at answering to the question "Are the European leagues comparable under the FFP in spite of their structural discrepancies?".

1 CHAPTER 1. FINANCIAL FAIR PLAY

1.1 Introduction

This chapter aims at analyzing the main paths undertaken by UEFA in introducing the remedy adopted to start a recovery of the disastrous situation of the European football. The investigation will start with a general analysis of the topic, following the line used by UEFA in the document “Club Licensing and Financial Fair Play Regulations”, in this part the measure’s goals, the main documents of the regulation and the bodies created for the control will be carefully explained. Indeed, the study will be split into the two parts constituting the general remedy, club licensing and club monitoring. A quick review on the first topic is considered useful to know the outset of the main intervention of UEFA: the association has firstly validate some criteria clubs have to meet to access to European competitions, it has just laid the foundations for the most relevant issue that is known by the name of Financial Fair Play (FFP). Indeed, in the second part, this topic will be largely examined. The focus will be on what it is and how it works, then it will shift on the advantages and disadvantages that help investigate on the literature interest useful to identify critics, some of which constitute real limits that will be tried to be overtaken recommending some alternatives.
In the following, an introduction to the topic has dealt with.

The desire to obtain the success on pitch has compelled teams to spend enormous amount of money to purchase the strongest players, this has triggered a vicious circle in which the second phase, a growing level of debt, brought clubs on the verge of bankruptcy. This has created a consisted gap between poor and rich clubs since only rich owners could inject massive amount of cash to recover the bad situation of their teams. The consequences are two: richer clubs have continued paying exorbitant wages, increasing their indebtedness but being able to achieve sportive success that gave back other money to be spent in order to become more competitive. On the other side, poorer clubs worsened their critical situation greater and greater without any chance to win in order to obtain money and improve the quality of the team.

However, empirical evidence shows how the degree of indebtedness strongly depends on the degree of regulation of each country. In countries where the regulation is stronger, such as France and Germany, the financial situation of clubs is of course positive because they have more constraints to take into account even if the sportive success isn't assured. On the contrary, countries with lower regulation, as England, Spain and Italy, can afford higher expenses that allow to win the most famous and aspired competitions. How regulation is organized in all the best European leagues and why it matters will be investigated in the second chapter.

However, the need, mainly for the latter countries, to increase the level of regulation and emotions existing around the most loved sport in the world have required to search an effective remedy that limits the bad conditions in which it has been and it still is. In this sense, the "Club Licensing and Financial Fair Play Regulations" is representing a revolution in the European scenario. UEFA intends to keep the promises drafted into the UEFA Statutes, where the association is invited to "draw up regulations governing the conditions of participation in and the staging of UEFA competitions"[3] and to "define a club licensing system"[4]; on their side, members associations are invited to "apply a club licensing system […]and define the licensing bodies in their statutes"[5].

To be successful in these calls, UEFA issued the document including all regulations useful to ensure the long term sustainability of the business and the benefits of clubs. It includes several measures adopted by UEFA in 2010 for the first time and uploaded by the last edition in 2012. As the "UEFA Club Licensing and Financial Fair Play Regulations" explains[6], the whole package aims at:

- ✓ further promoting and continuously improving the standard of all aspects of football in Europe and giving continued priority to the training and care of young players in every club;
- ✓ ensuring that clubs have an adequate level of management and organization;
- ✓ adapting clubs' sporting infrastructure to provide players, spectators and media representatives with suitable, well-equipped and safe facilities;
- ✓ protecting the integrity and smoothing running of the UEFA club competitions;
- ✓ allowing the development of benchmarking for clubs in financial, sporting, legal, personnel, administrative and infrastructure-related criteria throughout Europe.

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[3] UEFA, Statutes, 2012 Art. 50(1)

[4] UEFA, Statutes, 2012 Art. 50(1bis)

[5] UEFA, Statutes, 2012 Art. 7bis(4)

[6] UEFA Club Licensing and Financial Fair Play Regulations - Edition 2012, Art.2, Co. 1

From this list, it is easy to gather that by issuing these regulations, UEFA has intended to create the best conditions to guarantee the recovery of the European football. All these issues converge into a better financial and economic management of football companies necessary to give back reliability to the sector. This tool is also useful to attempt to uniform as much as possible the considerable differences among the member associations. Of course, the resumption of the sector would be surely expedited though the homogeneity of the European leagues.

1.2 Financial Fair Play

The measure can be divided into two main parts: the club licensing system and the club monitoring process. The difference is that the breach of club licensing criteria implies the refusal of the license and the consequent exclusion from European competitions, while the non-fulfillment of monitoring requirements entails the application of sanctions, later better explained.

In the following part of the chapter, both the actions will be examined, starting from the licensing system; then, the investigation prosecutes with the monitoring process that includes the regulation of the Club Financial Control Body (CFCB) and the monitoring requirements.

1.2.1 UEFA club licensing system

The UEFA club licensing is a system that explains the procedure that a football club must follow to obtain the license necessary to access to UEFA's competitions. Responsibilities, duties and rights of both licensor and licensee are settled but the most significant issues are reported in the second part where licensing criteria are scrutinized.

Football clubs are required to meet all the licensing criteria to be granted the license: the stakes are high because if these criteria are not fulfilled, clubs couldn't enter the European contests and economic consequences for their financial statements would be considerable.

The perspective is in the short run because the licensing system entails commitment just with a view to the European competitions will happen in the following year. The point will be clearer when it will be contrasted to the long term view of the FFP, indeed, as it has already said, club licensing had just been a point of departure to restore the sector.

From the UEFA's point of view, these criteria reflect which are the main fields that need to be overseen to reach a more efficient management of the football clubs. The emphasis is given to sporting and infrastructure criteria, but administrative and personnel, legal and financial criteria have to be met as well.

This is the first time in which the strategic relevance UEFA assigns to stadium and young players appears, this could be considered a *file rouge* for the entire work in order to underlie the importance UEFA wants to set aside to these two topics. The reason is that they are two key factors necessary to better finances and management of football clubs; since it is well-known that stadia and cost of acquiring new players represent the biggest expenses in financial statements of football clubs causing dramatic economic and financial conditions, the importance UEFA gives to stadia and young players can be considered a kind of suggestion given to affiliates. They should really start focusing on those issues.

1.2.2 UEFA club monitoring process

The second part of the "UEFA Club Licensing and Financial Fair Play Regulations" is the core topic of the entire revolutionary measure and it is well known as Financial Fair Play. It introduces the club monitoring process that consists of the UEFA Club Financial Control Body and the monitoring requirements. The former, as it will be soon analyzed, is regulated by the "Procedural rules governing the UEFA Club Financial Control Body" and its responsibility is to supervise whether what UEFA requires is fulfilled by clubs and above all is to conduct the monitoring process. The latter is the most noteworthy topic because involves the break-even rule that is the strictest limitation clubs must comply with to avoid sanctions; indeed, the significant difference from the club licensing system is the fact that the breach of the latter only prevents clubs from obtaining the license while the breach of the former also adds the consideration of sanctions. The objectives explicitly specified by "Club Licensing and Financial Fair Play Regulations" for what concerns closely the FFP are[7]:

- ✓ 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;

[7] UEFA Club Licensing and Financial Fair Play Regulations - Edition 2012, Art.2, Co. 2

- ✓ to encourage responsible spending for the long-term benefit of football;
- ✓ to protect the long-term viability and sustainability of European club football.

However, the real goals UEFA intends to reach by introducing this measure can be better understood with the analysis of the reasons why the association has believed necessary intervene.

Financial stability and going concern of football teams have been at risk long since. Red accounts have raised mainly because of the enormous amount of money clubs were available to pay for playing talents without taking care about revenue and even if they hadn't financial means to cover those big expenses. These overspending have worsened with the arrival of so – called sugar daddies, wealthy rich owners willing to take over clubs and inject massive amount of money to make them the best clubs in the related scenario. Of course, it is not a common behavior or a regular measure in the sport industry because it triggers vicious circles in which the richer the owner, the stronger the team and the lower the chances for other teams of winning. The main negative consequences have been the losing interest on the actual performance on the pitch and the mercenary run-up to the most expensive player. In this sense, UEFA seems to be justified in its intention of regulating financial doping. For the good of the sector, it is necessary that someone would guarantee the financial stability and control the external funding.

1.2.2.1 UEFA Club Financial Control Body

Before introducing the core element, UEFA has established the authority devoted to oversee the application of the analysing regulations, the Club Financial Control Body (CFCB). It has to act according to the main document, "UEFA Club Licensing and Financial Fair Play Regulations", but it is specifically regulated by another document, the "Procedural rules governing the UEFA Club Financial Control Body".

Also considering the UEFA Statutes, UEFA issued that document to regulate powers, duties and responsibilities of the CFCB that is competent not only in controlling whether the licensing criteria and the monitoring requirements have been fulfilling but also in imposing disciplinary measures when the obligations haven't been met by clubs; indeed, it is very important mainly because it lists the disciplinary measures in which football clubs could incur.

The CFCB consists of qualified experts in financial and legal fields and it is composed by an investigatory chamber for the monitoring stage of the proceedings and an adjudicatory chamber for the judgment stage of the proceedings. The uploaded version of the document includes a clarification of the investigation chamber's powers because it may decide to close the investigation either dismissing the case or applying a disciplinary measure or referring the case to the adjudicatory chamber or concluding a settlement agreement. The settlement agreement represents a softer approach to the requirements for the licensees because also those clubs, that exceed the acceptable deviation and that in normal conditions should be punished or sent to the adjudicatory chamber, could exploit a settlement agreement. According to it, clubs could persuade the investigatory wing that even if they are not still in line with the required parameters, they have started virtuous processes thanks to which they deserve relief. These facilitations are reported in the Annex XI, as it will analyze in the next section.

On the other side, the adjudicatory chamber has the power to impose disciplinary measures according to the circumstances of the case, it means that the no-fulfillment of requirements doesn't mean the exclusion from European competitions in any case. The disciplinary measures include "warning, reprimand, fine, deduction of points, withholding of revenues from a UEFA competition, prohibition on registering new players in UEFA competitions, restriction on the number of players that a club may register for participation in UEFA competitions, including a financial limit on the overall aggregate cost of the employee benefits expenses of players registered on the A – list for the purposes of UEFA club competitions, disqualification from competitions in progress and/or exclusion from future competitions, withdrawal of a title or award" [8].

To this day, CFCB has been assessing the conduct of 237 football clubs of which 104 have been declared exempt because their break-even doesn't exceed € 5m, 57 have not been requested additional information while 76 are now under investigation because they could have breached the FFP rules. However, the CFCB's decisions will be communicated by mid-June and still, clubs will have the right of appeal to the Court of Arbitration for Sport (CAS).

Indeed, in the matter of the jurisdiction about FFP regulations, anyone wants to bring challenges against the FFP regulations has the power to recur to not only the two chambers of the CFCB but also the CAS, that has stronger duties of

[8] UEFA Club Licensing and Financial Fair Play Regulations - Edition 2012, Art. 29, Co. 1

disclosure. The change is that, being the CFCB an UEFA "Organ for the Administration of Justice", CAS is the only body devoted to the appeal. CAS has full power to review the facts and the law of the case. In addition, if the suit regards the violation of the European law, the jurisdiction is under the European Court (the General Court of the EU and the Court of Justice of the EU for the appeal).

A practical case useful to better understand the application of those issues is the experience of Malaga. In November 2012, CFCB investigatory chamber found that Malaga as of 30 September 2012 had overdue payable debts owed to the Spanish tax authorities. It is clear that the conduct was violating the Article 66 of the "UEFA Club Licensing and Financial Fair Play Regulations", as the next section will explain. According to the Article 14(1)(d) of the "Procedural rules governing the UEFA Club Financial Control Body", the investigatory chamber has referred the case to the adjudicatory chamber that, after a hearing, confirmed that Malaga was in breach of the overdue payables and fixed the sanctions, fining the club € 300,000 and banning it for the two following UEFA club competitions in case of qualification. Malaga appealed to CAS affirming that its debts were not overdue because it had a valid agreement to defer its payables, being the tax authorities guilty of the delay. CAS stated that there wasn't a written agreement demonstrating that the authorities agreed so the payables were actually overdue. For this reason CAS confirmed the CFCB's decision. This is one of the first applications of the control body but its real assessment will involve the break-even rule and it will start in spring 2014.

Now the analysis continues with the investigation on the second part of the club monitoring process, the monitoring requirements.

1.2.2.2 Monitoring requirements

The extended and more complete measures than the club licensing are the monitoring requirements. They have to be monitored in a long term perspective. The long run view is opposed to the short one provided by the club licensing system: one of the fundamental of the monitoring requirements is the monitoring period that, as it will soon make more deep, involves three shorter ranges of time. UEFA has wanted to grant clubs' time to make their financial recovery more sustainable.

The chapter 2 of the part III of the "UEFA Club Licensing and Financial Fair Play Regulations" regulates the topic constituting the Financial Fair Play. It involves some monitoring requirements that have to be met to avoid sanctions or exclusion from European competitions: the biggest revolution is the break even requirement (Articles 58 to 63) but other monitoring requirements (Articles 64 to 68) have to be fulfilled as well. Starting from the former, it must be complied by all licensees that have qualified for a UEFA club competition, however it is worth mentioning that some clubs are exempt from the break even requirement, for instance, those clubs that qualify for a UEFA competition on sporting merit and is granted special permission as defined in Article 15[9] are exempt from reaching the break – even constraint.

[9] This article provides for an extraordinary application of the analyzing regulations

Three issues are essential to understand what UEFA asks clubs to consider in order to meet the break even requirement:

- ✓ the monitoring period (Art. 59): is the long term in which the club is subject to the control of UEFA for what concerns the break-even result. It involves three shorter reporting periods. Taking as datum point a certain sportive season (e.g. 2015/2016), the first reporting period, T, coincides with the first calendar year of the sportive season (2015), the second reporting period, T-1, is the calendar year before the one of the first reporting period (2014) and the third reporting period, T-2, is equal to the calendar year before the one of the second reporting period (2013). This is a fundamental issue considering the importance of the long term of the measure that will be better examined in the paragraph regarding pros and cons of FFP.

- ✓ the break-even result (Art. 60): is the difference between relevant income and relevant expenses. If relevant income are higher than relevant expenses for a reporting period, then the club will generate a surplus, otherwise the club will have a deficit. The sum of the break-even results for the three reporting periods constitutes the aggregate break-even result for the monitoring period; the three reporting periods are an useful parachute for clubs because possible break-even surplus of the reporting periods may be used to cover a potential aggregate break-even deficit for the monitoring period.

The following table shows which income and expenses have to be considered relevant so as to be included in the computation. This distinction is made to distinguish the good expenditures from the excessive ones.

RELEVANT INCOME	RELEVANT EXPENSES
✓ Revenue – Gate receipts ✓ Revenue – Sponsorship and advertising ✓ Revenue – Broadcasting rights ✓ Revenue – Commercial activities ✓ Revenue – Other operating income ✓ Profit or income on disposal of player registrations ✓ Excess proceeds on disposal of tangible assets ✓ Finance income	✓ Expenses – Costs of sales/materials ✓ Expenses – Employee benefits expenses ✓ Expenses – Other operating expenses ✓ Amortization/impairment of player registrations and loss on disposal of player registrations (or costs of acquiring player registrations) ✓ Finance costs and dividends

The first time UEFA grants a softer approach to the measure is in listing some items that haven't to be included in the computation of the break – even requirement. Indeed, adjustments have to be made to reduce relevant income if items above listed include any non-monetary credits, income transaction with related party above fair value, income from non-football operations not related to the club. Generally speaking, the first category is excluded by the relevant income to avoid loopholes consisting in fake improvements of internal accounts though transactions closed at higher values than those of the market; the other risk related to this item is that clubs could shift their losses to other companies, on purpose created. Then, non-monetary items are excluded because they will not generate financial returns in the short term, able to promote the club management. Lastly, income from non-football operations are not included to prevent the temptation of reaching the break – even requirement only though operations of non-football related activities, such as management of hotel, restaurants, conference centers...

On the other hand, relevant expenses are increased if its items include transaction with related party below fair value. They are decreased if its items include expenditure on youth development activities, expenditure on community development activities, non-monetary debits/charges, finance costs directly attributable to the construction of tangible fixed assets, expenses of non-football operations not related to the club. For what concerns the adjustments to the expenses, symmetrically to the income, the intention to exclude expenses transaction with related party below fair value and expenses of non-football operations not related to the club is the same than that of income. The only non-monetary costs relevant for the computation are possible foreign exchange losses, albeit their limited diffusion in football financial statements. Therefore, what it is worth underling is that the following expenses are not considered relevant:

- expenditure on youth development activities;
- expenditure on community development activities;
- finance costs directly attributable to the construction of tangible fixed assets.

Now the file rouge appears again: in this case, it doesn't only represent an incentive to promote youth programs and infrastructures' construction, protecting the long term benefit of football but it is also devoted to soften the break-even requirement, allowing clubs to have expenses exceeding income.

- ✓ the acceptable deviation (Art. 61): is the maximum break-even deficit a club may afford to remain in line with the regulations. The following amounts are even considered acceptable deviations only if the contributions from equity participants and/or related parties are able to entirely covered the excess:

  - EUR 45 million for the monitoring period assessed in the first two license seasons (2013/2014 and 2014/2015);
  - EUR 30 million for the monitoring period assessed in the three following period (2015/2016, 2016/2017 and 2017/2018);
  - A lower amount to be decided for the monitoring period assessed in the following years.

Contributions from equity participants mean payments for shares through the share capital or share premium reserve accounts. Contributions from related party involves capital contributions (unconditional gifts made to the reporting entity by a related party which increase the reporting entity's equity without any obligation) and income transactions (amount equivalent to the difference between the actual income and the fair value of the transaction, all in a reporting period). A related party is a person or entity related to the entity which is preparing financial statements.

These specifications aim at guaranteeing that clubs richer owners inject massive amount of cash though fake sponsorship deals to boost revenues that would increase the chances of clubs to break - even. Nevertheless, since UEFA could find very difficult to assess whether the deal was made bona fide or just in view of the FFP computation, the thorny issue should be specifically evaluated from case to case.

To make clearer these three essential but quite complex factors, let's apply the theoretical concepts to the imminent reality[10].

FIRST PHASE:

Two-year period 2012/2013, 2013/2014:

- Debt not exceeding € 45 million;
- Controls s.s. 2013/2014;
- Sanctions s.s. 2014/2015.

Three-year period 2012/2013, 2013/2014, 2014/2015:

- Debt not exceeding € 45 million;
- Controls s.s. 2014/2015;
- Sanctions s.s. 2015/2016.

SECOND PHASE:

Three-year period 2013/2014, 2014/2015, 2015/2016:

- Debt not exceeding € 30 million;
- Controls s.s. 2015/2016;
- Sanctions s.s. 2016/2017.

[10] Corvacchiola N.,Febbo G., La gestione delle società sportive nell'era del calcio business, Cesi Multimedia, 2012

Three-year period 2014/2015, 2015/2016, 2016/2017:

- Debt not exceeding € 30 million;
- Controls s.s. 2016/2017;
- Sanctions s.s. 2017/2018.

Three-year period 2015/2016, 2016/2017, 2017/2018:

- Debt not exceeding € 30 million;
- Controls s.s. 2017/2018;
- Sanctions s.s. 2018/2019.

THIRD PHASE:

From the s.s. 2018/2019, constraints will be decided in the future, however, the rationale is to maintain the indebtedness into € 5 million, aiming to reach the break-even by the s.s. 2020/2021.

It is noteworthy that in order to fulfill the break – even requirement, it is not enough to have relevant income exceeding relevant expenses but four indicators have to be held as well:

1. going concern: the auditor's report mustn't include conclusions in respect of going concern;
2. negative equity: the financial statement mustn't disclose a net liabilities position deteriorated relative to previous financial statements;
3. break-even result: the licensee must have relevant income higher then relevant expenses, that is the break-even requirement stricto sensu;
4. overdue payables: the licensee mustn't have overdue payables, as defined in the following.

Indeed, the fulfillment of the break-even result is reached if both no indicator is breached and a break-even surplus for reporting periods T-2 and T-1 exists. But even if an indicator is breached, some exceptions allow to reach the break-even requirement anyway.

Finally, the second part of the monitoring requirements provide other constraints clubs have to consider. Their core element is the overdue payables. They are defined as “those amounts due to football clubs as a result of transfer activities, including training compensation and solidarity contributions”[11]. According to this requirement, football clubs must demonstrate they have no overdue payables towards other football clubs, their employees or social tax authorities that arose prior to 30 June of the year in which the UEFA club competitions commence.

1.3 Pros and Cons of Financial Fair Play

A careful analysis has to also consider advantages and disadvantages that the topic involves. In this paragraph, an introduction to these elements is contained but they will be further examined in the next section with the help of the literature overview. The main fields where they are included are the legal and the economic ones, indeed, the analyzing issue will follow those two paths. Let’s start from the legal assessment.

1.3.1 The legal assessment

A sizeable disadvantage of the FFP’s rule comes from the risk that it could violate the European law. Concerns raised because FFP, and in particular the break-even

[11] UEFA Club Licensing and Financial Fair Play Regulations - Edition 2012, Art. 65, Co. 2

rule, strongly affects the investment decisions of clubs, limiting their freedom of spending how much they want. To prevent future potential complaints, at the outset of the FFP, UEFA and European Commission issued a joint statement, it "forms a basis for further cooperation between UEFA and the Commission"[12], meaning that UEFA may enjoy the European institutions' full support. The document ensures the UEFA has the permission to implement the measure according to the applicable framework of EU law because, from the Commission's point of view, it is not possible that a business may continue surviving by spending more than it earns.

Moreover, the same document outlines the fact that the rules are consistent with State Aid law, taking no notice of the consistency with the EU competition law. This Commission's declaration is sustained by a letter[13] that the Commission's Vice President, Joaquìn Almunia, sent to Michel Platini in order to give additional importance to the State Aid issue. Since FFP and State Aid policy are proclaimed consistent, the remedy can't be pronounced illegal under the Article 107[14] of the

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[12] European Commission - UEFA, Join statement, 2012

[13] Available at http://www.uefa.com/MultimediaFiles/Download/uefaorg/EuropeanUnion/01/77/21/75/1772175_DOWNLOAD.pdf

[14] Save as otherwise provided in the Treaties, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favoring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market.

The following shall be compatible with the internal market:

(a) aid having a social character, granted to individual consumers, provided that such aid is granted without discrimination related to the origin of the products concerned;

(b) aid to make good the damage caused by natural disasters or exceptional occurrences;

(c) aid granted to the economy of certain areas of the Federal Republic of Germany affected by the division of Germany, in so far as such aid is required in order to compensate for the economic

Treaty on the Functioning of the European Union. Indeed, FFP guarantees “fair competition between football clubs”[15] without privileging any operator; further, financial restrictions by UEFA help reduce public subsidies for certain football clubs, besides State Aid law prevents unauthorized State interventions. Lastly, youth training and development, social and community projects and investment in infrastructure are matters to which UEFA has devoted specific consideration and which are considered compatible with the internal market by the Art. 107(3). It is noteworthy that also the Commission has identified the importance of the expenditure for youth programs and infrastructures, the *file rouge* of the present work appears again and is even highlighted by an European Institution.

However, the risk that FFP would be declared void under the Article 101[16] TFEU remains. Indeed, the lawyer Jean-Louis Dupont on behalf of a Belgian football

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disadvantages caused by that division. Five years after the entry into force of the Treaty of Lisbon, the Council, acting on a proposal from the Commission, may adopt a decision repealing this point.

The following may be considered to be compatible with the internal market:
(a) aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment, and of the regions referred to in Article 349, in view of their structural, economic and social situation;

(b) aid to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State;

(c) aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest;

(d) aid to promote culture and heritage conservation where such aid does not affect trading conditions and competition in the Union to an extent that is contrary to the common interest;

(e) such other categories of aid as may be specified by decision of the Council on a proposal from the Commission

[15] European Commission - UEFA, Join statement, 2012

[16] The following shall be prohibited as incompatible with the internal market all agreements between undertakings, decisions by associations of undertakings and concerted practices which

agent, Daniel Striani, has filed a lawsuit against the FFP rules with the European Commission. They have asked that the Commission would recognize that FFP regulations breach Article 101(1) and is therefore void under Article 101(2). In their point of view, the restrictions of competition generated by the break-even rule are the following:

- ✓ restriction of investments in a club, by no longer allowing them to run at a loss;
- ✓ fossilization of the existing market structure, especially in England where the power of the already rich clubs could be locked;
- ✓ abatement of chances for agents of earning fees from players' wages and transfer fees;
- ✓ reduction of the number of transfers, of the transfer amounts and of the number of players under contracts per club;
- ✓ deflatory effect on the level of players' salaries, caused by the previous point.

Their opinion is that the objectives UEFA wants to reach though the FFP are not justified by the aforementioned restraints. A second front on legal suit followed when Striani stated that there are more effective alternatives than FFP, as it will be better analyzed later, and this makes the measure illegal because it is not

may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market.

Any agreements or decisions prohibited pursuant to this article shall be automatically void.

The provisions of paragraph 1 may, however, be declared inapplicable in the case […] which contributes to improving the production or distribution of goods or to promoting technical or economic progress…

proportionate. If the compliant will annul the Commission decision, the lawsuit would be filed to the General Court of the EU, with a second possibility represented by the appeal of the CJEU. In this case, the Meca-Medina ruling would be applied, according to which, European law guarantees its primacy on any complaints about sportive issues. This means that the court must apply the same tests to sports as it does to any area of economic activity, so sport federations don't infringe European competition law if they pursue *legitimacy*, *inherence* and *proportionality*.

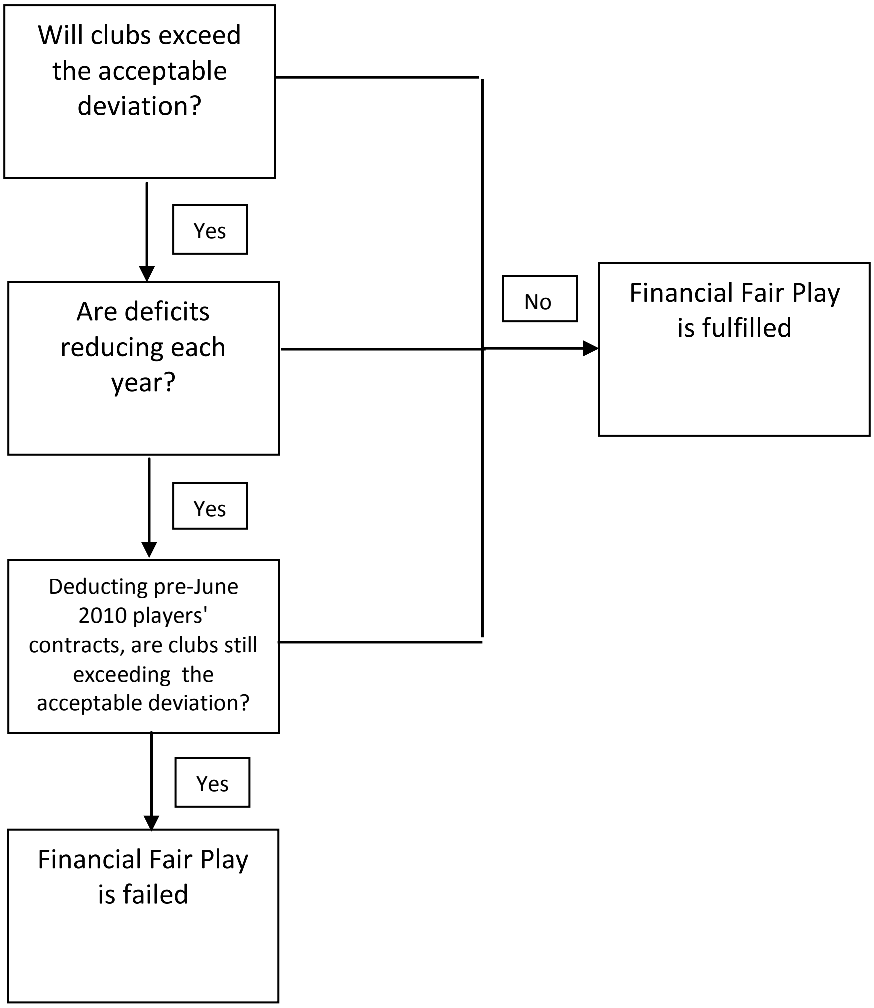
Therefore, from these facts, it is possible to state that a cons of FFP could be the risk that this measure distorts or restricts competition. At the same time, there is the other side of the coin that presents an advantage about the same topic: UEFA can be sure and proud for the endorsement ensured by the Commission. All the documents, publicly available, guarantee the strong relations between UEFA and the European Institution, this link can be also interpreted as a kind of protection UEFA has wanted to assure to itself, preventing the expected complaints by damaged clubs.

1.3.2 The economic assessment

For what regards the economic assessment, the most consistent benefits from an economic point of view are the following. First of all, the most remarkable effort by UEFA is the graduated manner used for the implementation. It is appreciable that UEFA isn't insisting on immediately having the achievement of break – even requirement by clubs, this gives them the possibility to organize and improve their accounts in order to comply with the rule.

Even if UEFA is implementing this efficient tool to help the recovery of the sector, at the same time the proposed method lists some factors with the aim of softening the strict regulations in order to foster the clubs' commitment in complying with the measure. The first softening issue is the computation of adjustments to the result before tax: the aim is to stimulate expenditure for youth and infrastructure programs, representing the biggest lacks in the sector. Then, UEFA is available to accept some deviations from the break – even requirement until clubs are able to guarantee a diminishing loss overtime, this approach not only helps clubs to reach the goal but it also allows to introduce the measure in a gradual manner so that it would be better accepted by stakeholders. Lastly, Annex XI lists some important factors that could help clubs: for instance, the ability of the firm to guarantee a reducing loss each year will be taken into account during the checks, indeed, a softer approach will be applied if clubs are able to demonstrate an improving trend in the annual break - even result even if they suffer a deficit. But the most sizeable support given by Annex XI is the possibility for clubs of deducting from the break – even result of the first two monitoring periods (s.s. 2013/2014 and s.s. 2014/2015) the expenses of players' contracts before 1 June 2010.

A diagram could explain to what extent UEFA is pandering to football team.



Source: www.financialfairplay.uk.com, Will City pass the FFP test? Part 1

Returning to pros of the FFP, there is a necessary condition to pass from theory to practice, that is all accounting rules would be uniform and comparable in order to ensure the accounts equilibrium. To the current state-of-art, European clubs are not fighting on an even footing. For instance, listed football clubs are just twenty in all the European scenario and only they are using IAS/IFRS principles while the others are using national principles, different from country to country. Another example of divergence among leagues is the fact that some countries, mainly the

Eastern Europe ones, don't require the check of a third party for the approval of financial statements while other leagues need the approval by auditing companies before laying down the documents. FFP regulations will be surely more comparable if the homogeneity of accounting principles is ensured in all countries, above all in view of the break - even computation; the adjustments will have stronger effects, starting from the same base. So, the attempt to uniform the accounting standards has to be evaluate as an appreciable effort, stimulated by the FFP rules.

On the other hand, some economic drawbacks threat the effectiveness of the rules. The other side of the coin is that the softer approach used by UEFA at the beginning, considered an advantage in the first part of the paragraph, can also be viewed as a worrying drawback. UEFA should focus its attention on the big lack constituted by the possibility of circumvent the measure because clubs could find escamotage in order to avoid the strict obligations imposed by the measure. What it could facilitate these stratagems are all the provisions implemented by UEFA, aimed at helping clubs to reach the break – even; unfortunately the potential tricks are several and the literature will provide a deeper support to this statement. Further, the most consistent concern is provided by Manchester City that, as it will be deepened later, is exorbitantly amplifying its relevant income though a sponsorship deal, covered up by a related party transaction and so legally justified by the rules. What should raise worries is that there is not a warrantor who ensures that the enormous sponsorship deals are masked by related party transactions.

Even the UEFA itself knows that the document is not perfect and that some loopholes exist but they have declared that there is the intention to correct lacks and improve the document step by step. This effort is confirmed by the replacement of UEFA Club Financial Control Panel by the more powerful UEFA Club Financial Control Body: it is a concrete proof that UEFA is constantly trying to amend the policy in order to enhance it.

However, a complete economic analysis has to also consider the effect that the FFP has on the competitive balance, even if UEFA has always declared that the objective of the measure is not to protect this kind of competition.

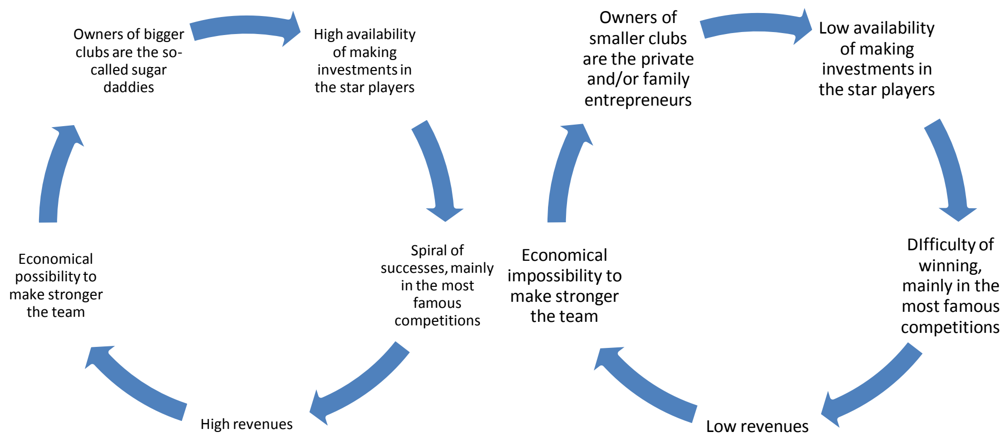
1.3.2.1 The competitive balance

In the matter of the economic assessment, the analysis of the competitive balance is necessary to analyze whether it represents a pro or a con of the FFP.

Balanced competition is a type of competition where everyone has an equal chance. The equal chance means that there is uncertainty of outcome and it is the crucial element that makes people interested to matches. An imbalance among teams could deteriorate the quality of the product offered by football, if everybody ex ante knows who is going to win, the fundamental of football would be destroyed. Further, if the competitive balance stops to dominate, some teams would be excessively stronger than other ones and fans, even those of the winning team, would lose their interest in following the performance of teams. So the competitive balance has to be prevented at all costs. Nowadays, considering the bad conditions of the sector, the competitive balance constitutes the main cause of the market failure in sports leagues and it is the main cause of the financial instability, spread out in the football.

To the purpose of this work, the question is whether FFP negatively affects the competitive balance. As it has already been highlighted, UEFA has decided to intervene also to try to contrast the excessive disparity among rich and poor clubs, mainly caused by the different status of teams' owners. The following figure helps understand the difficulty of being drawn from the two vicious circles, due to structural differences among poor and rich clubs.

Figure 1.1: The vicious circles of the richest and poorest clubs



After the implementation, the risk is that FFP strengthens the dominant position of rich clubs. This would be due to the fact that poor clubs could find still more difficult to compete with the giants of the competitions. For the same reason, FFP represents a barrier to entry for low and mid-level teams and this fact would reinforce the position of rich clubs and would worsen the one of poor clubs.

Since FFP could cause the decline of CB, it could be considered a big drawback of the measure; but, again, it was necessary to get at the root cause so the crucial point is whether the rules are worth the downsides they entail.

1.4 The literature overview

FFP is a topic recently introduced in the literature but it has been immediately considered innovative and revolutionary, for this reason it has sparked interest in academics, researchers and other stakeholders who have devoted a lot of studies to deepen the effectiveness of the measure. The analysis of the existing literature will be divided in the two fields that are mostly investigated: the legal and the economic assessment that includes the competitive balance issue. Given that pros and cons and literature overview are strictly related, considering that the main benefits and costs are identified in the literature, this paragraph's structure replicates the one used in the previous section.

1.4.1 The legal assessment

Starting from the legal evaluation, as it has been introduced in the pros and cons' paragraph, the interest has been mainly focused in understanding if the remedy is against the European law. The first example may be found in the Budzinski's investigation (2014) that carefully tries to understand whether FFP causes restrictive effects, risking to violate the European competition rules. What he considers being dangerous in this sense is the break-even rule because it actually introduces a "relative budget cap". The most alarming implication is the "discriminatory cap": the already existing gap among rich and poor clubs is emphasized because clubs with higher relevant income may afford to sustain higher expenses than clubs with lower relevant income that have to spend less. This mechanism triggers a vicious circle that becomes more and more difficult to solve.

The relative budget cap activates several consequences that restrict competition, such as the salary reduction effect, the incumbent protection effect, the consolidation effect and the investment security effect. The first one regards the fact that the highest relevant expenses football clubs have to take into account are those on player salaries and on transfer activities; with the FFP's restriction, clubs are obliged to reduce these sizeable costs in order to meet the break-even constraint, causing a domino effect that continues with a deflating force on salaries and transfer payments that, still, could compel players to leave European competitions to seek more profitable extra-European clubs: the last dramatic effect of the domino chain would be the reduction of the level of talent quality in European contests.

According to the second effect, FFP is considered dangerous because it could create entry barriers for new clubs that want to challenge the incumbents on the top. It is strictly related to the discriminatory cap above mentioned, indeed, the richest clubs can easily maintain the highest position because they may afford to suffer higher costs, being more competitive in the races. On the other side, the poorest clubs have to spend according to their low level of relevant revenues and this prevents them to become newcomers competitors. This effect leads to the last one, the consolidation effect, according to which, FFP could "cements the market structure on the top level of European football"[17], slowing changes and improvements.

However, if the principles of legitimacy, inherence and proportionality, regarding the European competition law, are met, the restrictive negative results would be compensated.

Similarly, Lindholm (2011) believes void and null the rules under Article 101 TFEU, having divided its exam into four steps. The first regards the fact that the Court has stated that since professional football constitutes an "economic

[17] Budzinski O., The competition economics of Financial Fair Play, Contemporary Research in Sports Economics, 2014

activity", teams have to be considered "undertakings" and UEFA an "association of undertakings"; secondly, FFP could be considered an action that may affect the pattern of trade between Member states. The third step is de minimis doctrine, according to which, a decision is considered de minimis, and so not verifiable under Article 101 TFEU, when the parties involved collectively have less than 10% of the relevant market; since UEFA is the sole body regulating the sector in Europe, its activities occupy more than 10%, therefore the de minimis doctrine can't be applied. Finally, since FFP is able to reduce the salary cost, and so it has an anticompetitive effect, it is clearly contrary to Article 101 TFEU. For all these reasons, Article 101 TFEU is applicable to the case. Nevertheless, he continues saying that the rules should be considered void and null unless they can be justified, existing a legitimate aim. This would the case only if the FFP regulations were directed to improve financial and competitive balance and in the author's perspective, it is not their purpose.

Long (2012) lists and explains again the most relevant issues to understand whether the rules can be considered violating the EU competition law, such as relevant markets, economic activity and Article 101(1) TFEU. What he adds new are the two main defenses UEFA could use against potential above mentioned article violations. The most immediate one is the fact that clubs gave their approval to the FFP regulations. The second one is the Article 101(3), representing an exception to the Article 101(1). To confirm that, the author starts its work with two questions: "Has the Commission extended an exemption from EU competition law scrutiny to the FFP rules?" and "Are the FFP rules legal under Article 101 TFEU, which prohibits anticompetitive agreements between undertakings?". The answer to the first question is "no" since in the joint statement, the Commission has just given the approval for what concerns state aid law, omitting opinions about the compatibility with competition law. Indeed, the Commission has the power to extend EU competition law at any time, so that the rules wouldn't violate it anymore. Referring to the second question, the author believes that FFP is anticompetitive, being illegal under Article 101 TFEU.

A different opinion is advanced by Longhi (2012) who considers surmountable the prima facie doubts related to the incompatibility with the EU law. Further, the remedy is not illegal under Art. 101 TFEU because UEFA hasn't to be defined an "association of undertakings" but rather a Community Institution. However, he adds that this measure is a appreciable point of departure but it has to be amended in order to be compatible with the EU competition law also in the long term; indeed, the author proposes that the next step UEFA has to undertake is the harmonization of fiscal systems among the different leagues. It is inadequate that some countries exploit fiscal benefits, to the detriment of the other ones, for instance, Spanish clubs could attract the strongest players, exploiting an advantageous tax rate, produced by the so-called "ley Beckham".

Thompson (2013) confirms the most common reflection, according to which there are high probabilities that the regulations fall within the scope of EU trade law with the main intention of restricting economic activities of clubs. In this case, a justification under EU and competition laws is required.

The most persuasive opinion is given by Vopel (2013) in his legal assessment of FFP. He affirms that the rules should be rejected because they are not sufficiently justifiable, being neither necessary nor adequate; he confirms they should be considered incompatible with fundamental provisions of EU law.

What it is worth deducing from the legal assessment is that the most part of the literature sides with stating that the rules violate the European framework, even if UEFA exploits the support of the European Commission. The evident lack from a legal point of view could be balanced by the economic analysis, dealt with in the next paragraph.

1.4.2 The economic assessment

The analysis of the economic assessment is the other topic that has been investigated in the literature for what concerns the adequacy of the FFP.

Considering a sport economic prospective, Muller et al. (2012) provide a theoretical justification to the reason why UEFA has decided to intervene, they analyze the regulation of both financial stability and external funding. Regarding the former, the concept of hyperactivity is introduced to justify the need of different measures useful to damp the extent of financial instability; indeed, hyperactivity is the inclination to inefficiently overinvest in players contracts to result highly competitive. The two approaches, reflected in the FFP Regulations, justified by the authors are "regulatory requirements called licensing systems to adhere to financial stability and input rationing, which corresponds to both sporting and financial motives of hyperactivity"[18]. For what concerns the external funding, FFP regulations are justified because they have been issued with the aim

[18] Muller c., Lammert J., Hovemann G., The Financial Fair Play regulations of UEFA: an adequate concept to ensure the long term viability and sustainability of European football club?, International Journal of Sport Finance, 2012

of defending integrity that should ensure equal starting conditions in competitions. If integrity doesn't stand over competitions, meaning that a participant are violating equal opportunities, the reputation of competition wouldn't assured anymore. Just a strict regulations could help recover that conditions, like FFP may do. Moreover, the authors consider the rules an efficient tool to stop excessive funding and financial doping, defined as "financial means not earned by a club directly or indirectly through its sporting operations but provided by an external investor, detached from sporting merit"[19].

Nevertheless, the answer to the work's question "Are UEFA's Financial Fair Play Regulations an adequate concept to ensure the long term viability and sustainability of European club football?" is provided by the practical investigation, demonstrating that the interventions are promising but they would need amendments and enhancements depending on the future reaction of clubs.

Preuss et al. (2014) suggest that the measure is not convenient making a costs – benefits analysis: UEFA is assessing 236 football clubs from different countries and with different accounting systems, the costs of monitoring could be consistently higher than the potential benefits deriving from the checks.

Before recommending some alternatives that could replace the FFP regulations, some limits and critics specified in the literature are examined.

Geey (2011) identifies two loopholes that represent two limits that UEFA should manage to overtake in order to make the measure more distinguished. The first one appears in Annex XI where it is affirmed that CFCB will evaluate positively

[19] Muller c., Lammert J., Hovemann G., The Financial Fair Play regulations of UEFA: an adequate concept to ensure the long term viability and sustainability of European football club?, International Journal of Sport Finance, 2012

those clubs that “report a positive trend in the annual break – even results” and “prove that the aggregate break – even deficit is only due to contracts with players undertaken prior to 1 June 2012”, even if their deficit exceeds the acceptable deviation. The same author believes that other problems could rise in the definition of “related party”: Annex X specifies that the difference between relevant income and relevant expenses has to be computed by considering also the fair value of any related party transactions. These specifications aim at avoiding exorbitant sponsorship deals with the goal of swelling the relevant income and thus allowing higher relevant expenses. The problem will rise when UEFA will have to evaluate the bona fide of the deals, defined by the author “a particularly thorny issue”; this is the case of Manchester City FC, analyzed in detail in the third chapter of the work.

In addition, there are other paths, suggested by Preuss, clubs could undertake in order to circumvent the obligation. For instance, regarding the amortization of money for players transfers, Geey explains that because the amortization of the transfer fees lasts for the length of the contract, also the transfer shopping spree of the 2009/2010 season could have an impact on the computation of the break - even of the future monitoring periods. Making an example, if a club acquired a player in January 2010 for a transfer fee amortizable each year for 5 years, the amount accrued to any year will have a lowering impact on the relevant expenses, starting from the first reporting period (s.s. 2012/2013). For this reason, football clubs could divide the total amount of the transfer fee in several years in order to consistently reduce the sum that accrues to any year. Further, benefactors could offer to pay part of the players wages so that part of these costs wouldn't appear in the official documents of the company.

These points can be considered loopholes and therefore ways for clubs to bypass the strict regulations, and in more serious terms, attempts of evasion, as it is in the Geey and Preuss' points of view, but at the same time, they can be considered a kind of help UEFA has wanted to grant to clubs in order to facilitate the achievement of the break – even requirement, mainly in the first time of the monitoring action.

Conversely, Mancin (2013) identifies some real limits that the regulations present and proposes valid solutions to overtake them. He proposes again the biggest limit represented by the possibility of raising the relevant income though sponsorship deals: it is well known that football companies have available different forms of sponsor whose evaluation could be difficult in terms of fair value. The proposal advanced by the author is fixing a cap to resources a firm could generate in any form.

An innovative limit that he underlies is that the relevant income involve profits on disposal of player exchanges. This could represent an escamotage for clubs in order to exaggerate this item with the only aim of increasing relevant income to allow higher expense. This mechanism of creative accounting will be realized by augmenting the value of both players but keeping unchanged the difference. A valid solution could be including in the relevant income just the profits on disposal of player registrations and excluding profits deriving from exchange of players. Finally, also in this case, the biggest concern is represented by the fact that there is not a clear explanation of how sanctions will work; UEFA could be afraid of the risk that the appeal of competitions will be reduced by the exclusion of some of the most appreciate clubs.

Solutions to these limits will be proposed in the last paragraph of the chapter, also taking as example the US leagues. Tracing out the route followed by the analysis of pros and cons, the literature review about the competitive balance is made in the following section.

1.4.2.1 The competitive balance

Lastly, the competitive balance is strictly related to the economic assessment of the FFP and the literature has focused its attention on the topic.

For instance, Lindholm believes that FFP doesn't seek to improve competitive balance, making more difficult for small clubs to compete with the large ones. The former earn less revenue and are more dependent on overinvesting.

Preuss et al. state that the CB is not ensured because FFP will contribute to make bigger the biggest club and smaller the smallest clubs. Indeed, they have demonstrated that the measure is favorable for rich clubs and the opportunity of advancement for poor clubs is reduced because the budget constraints will hit the poor ones that cannot afford extra costs.

Sass confirms that the implementation of FFP causes a competitive imbalance in the long run, indeed, big clubs totally would dominate small clubs that wouldn't be able to stop the process in which a more successful club attracts more fans, increasing its future success, while a poor club would suffer the break - even constraint, being unable to invest for the future.

The clever economic analysis by Vopel finds out that FFP negatively affects the CB because it makes impossible that the smallest clubs reach the biggest ones without external funding. The situation is worsened by the fact that the richest clubs become richer and the consistent prize of European competition contributes to widen the gap. In his opinion, FFP could even make worse the situation because an agreement aims at limiting investments in the long run represents collusion and act a barrier to entry.

To sum up, the most authors negatively consider the effects of FFP on CB and thus this could represent the biggest problem for its approval.

1.5 Alternatives

As the legal assessment of the literature overview has outlined, it is possible to demonstrate that the FFP regulations don't violate the European law also though the proportionality test. It is able to demonstrate that the FFP rules are legitimate under EU law if potential existing alternatives, that have the goal of reducing the problem of European clubs' overspending, are identifiable. Extra - European sports leagues have offered a wide range of policies in order to protect the competitive balance of their competitions and European leagues could borrow them to guarantee again the uncertainty of outcome.

Given that the easiest and sufficient FFP's improvement would be to require fully guaranteed overspending (e.g. by means of bank guarantees), making not necessary to prohibit it, in the following, the main potential alternatives are examined.

Referring to the Akerlof's metaphor of a "rat race", revenue sharing could be used to redistribute the "cheese". This mechanism allows to allocate revenues between clubs, representing a solution to the enormous gap existing between rich and poor teams. If revenue were equally redistributed, poor clubs wouldn't need to overinvest to try to compete with rich ones. This method would have uncertain effect on the competitive balance but it would surely positively affect the problem of overinvestment.

Lindholm (2011) also introduces other alternatives. For instances, the action of reducing club compensation could be implemented by UEFA in order to make less attractive European competitions, reducing prizes that clubs win when participate to those contests. This action would lead to moderate efforts that clubs make to increase likelihood of taking part to prestigious matches. For instance, if UEFA were distributed lower prizes, football teams wouldn't be available to pay enormous wages to acquire the strongest players who, in a certain sense, would guarantee the participation to Champions League or Europa League. At the end, the reduction of club compensation could be a valid alternative to FFP, locking the vicious circle triggered by the strong connection in European football between sporting and financial success.

An additional tool could be borrowed by North American leagues where there is the habit of banning teams from trading players for cash. It would contribute reducing club debt, helping reach break-even requirement without affecting competition.

Still, a salary cap, a popular cost control mechanism used in US sports, could be also applied in the European scenario. It fixes a threshold to revenues that can be spent on players wages. While FFP would be an ex post remedy because it would tempt to solve the problem when the damage has already happened, the measure of salary cap would be applied ex ante, when the problem has not yet happened. Indeed, this alternative of imposing a cap to salaries prevents from spending huge amounts of money to acquire the star players, blocking the growing indebtedness of clubs.

Existing studies[20] show that imposing a salary cap would imply growing club profits, social welfare and above all enhanced competitive balance because the largest clubs would decrease their salary payments more than the smallest ones; fewer studies find out the opposite, that is imposing a salary cap reduces competitive balance, eliminating increasing marginal costs of talent, which would bring greater benefits to the biggest clubs. However, although the analyzing remedy would negatively impact competition and player movement, like FFP also does, a salary cap would cause greater positive effects, so as preferring salary cap instead of FFP.

A particular example of salary cap is the luxury tax, a tax imposed on teams depending on the size of the league aggregate payroll. It aims at slowing down the growth of salaries because if a team exceeds a limit set by its league, it must pay the luxury tax and the money collected will be distributed among the financially weaker clubs. It allows the reallocation of revenue among clubs in a more efficient disposition, in this way, the CB would be defended because each club would obtain back equal chances to win, being there financial balances. It is different from salary cap because the former is a more relaxed form for limiting

[20] One of the most eteemed is Dietl et al., Are voluntary salary cap agreements self-enforcing?, in European sport management quarterly, 2007

overinvestment: the luxury tax is a tax levied on money spent above a threshold while the salary cap is a threshold of money that a club cannot exceed. In general, most studies demonstrate that imposing a luxury tax increases competitive balance, clubs profits and social welfare.

Lastly, the supporter share ownership is not really an alternative to FFP but it is just an efficient model that could support and reinforce the validity of the UEFA's regulations. This tool, also defined supporter trust or fan ownership, is a growing form of ownership where supporters become owners and managers of their supporting teams. The aim is again helping football to be drawn from the bad conditions in which it stands, in this way the initiative starts from the bottom since fans are available to gather funds to reduce the indebtedness and hope in a safer management of teams. This solution could be useful not only for the bigger clubs, strongly affected by FFP, but also for those smaller clubs of the minor leagues that should find a tool for recovery as well.

In Europe there are two models of supporter trust: the first is known by the name of Spanish supporter share ownership because it spread in four Spanish clubs (Barcelona, Osasuna, Espanyol and Real Madrid). In this form the fan directly becomes shareholder by acquiring a club's share. In the second form of fan ownership, spread in the rest of Europe, a real legal institute is created to regulate the relationship between club and shareholder. The democratic nature involved in the new association guarantees actions in the best interest of the team. Of course, the most common shareholders are the so-called not institutional investors and the ownership is widespread instead of being concentrated in the hands of a small group of investors. The ownership of even one share gives fan the same rights and duties provided by law for common shareholder.

To sum up, the aim of this section has been to demonstrate that the proportionality test could be satisfied, existing a lot of alternatives of controlling costs that not always reduce competitive balance, as FFP does. Maybe the most valued method could be the introduction of a luxury tax, triggering a safer financial and economic stability in European leagues and at the same time not negatively affecting the competitive balance.

2 CHAPTER 2. A COMPARISON AMONG THE MAJOR EUROPEAN LEAGUES

2.1 Introduction

This chapter aims at examining the main peculiarities of the European football in order to understand whether the differences among the European leagues may negatively impact on the Financial Fair Play. This means that the nonconformity of any models of business could result in the impossibility of applying the UEFA's rules since the measure wouldn't give fair outcomes. In order to affirm whether FFP is really fair, it is necessary to extensively analyze the characteristics of the major leagues. Indeed, the chapter is mainly composed of the distinct investigation on the biggest non-regulated European leagues, that is the Italian, English and Spanish ones. The examination is deepening the differences among the main items of the financial statements, their governances, the financial profile of clubs of each country and how the listing issue is dealt with. The decision of excluding the other two big European leagues, the French and German ones, is given by the fact that they are structured in a quite different way, due to the different structure of regulation provided by those countries. However, some hints on those leagues are considered useful to have a more complete framework on the topic. To sum up, the chapter is structured as follows. The first paragraph will provide some information and data in order to have an overview of the European football, then the two more regulated leagues will be quickly analyzed with the aim of better underling the differences with the other three most famous European leagues. Indeed, the real investigation will start in the third section with the analysis of the Italian, English and Spanish leagues.

Now let’s start with an introduction to the main issues that have brought to the current situation of the European football.

The point of departure for examining the European football is the fact that the enormous revenues that European clubs are able to collect makes football the most attractive industry in the world but they are not enough to avoid the tremendous losses caused by the as much huge wage costs[21]. So, although a crisis exists in the sector, it is not a crisis of income and in order to understand the causes of these troubles, the inquiry will start with the structural peculiarities of the field and then will carry on with the realized events that have modeled the sector.

Making a comparison with the North American situation, it appears clear that even if extra European sports have suffered difficult financial periods, the extent and the regularity have been very different. The structural reason that has led to this condition is that European clubs adopt a profit maximizing approach while the North American ones behave like win maximizers. This means that European teams are willing to spend more than they can afford in order to reach the best performance on the pitch, causing big losses in their financial statements. Moreover, empirical evidence[22] shows how the aggregate profit of profit maximizing clubs will be higher than that of win maximizing ones. This is due to

[21] Solberg H., haugen K., European club football: why enormous revenues are not enough?, Sport in society: culture, commerce, media, politics, 2010

[22] Solberg H., haugen K., European club football: why enormous revenues are not enough?, Sport in society: culture, commerce, media, politics, 2010

the fact that European clubs recruit more talents than North American ones in order to reach their goal of maximizing the financial performance, causing a boost in the wage rates and thus high losses, not covered by even enormous revenue.

Nevertheless, there are other contingent events that have shaped the European football as it now is.

The first one is surely the sharp increase of TV broadcasting rights. In 1990s TV rights started to be sold through intermediaries, the pay-tv broadcasters, that acquired the right of broadcasting football events and on behalf of the football teams sold the product to the end users, causing an explosion of income in the clubs financial statements for the following decades, mainly in the largest national markets. The most direct negative consequence was that the price that the television companies paid to the clubs depended on the size of the corresponding national market, leading to wide differential of income among clubs in the biggest and the smallest leagues. So the diffusion of new technology to broadcast football match has been one of the causes that have triggered the vicious circle in which before than the richest clubs become richer and the poorest one are not able to compete with them, what it happened was that the largest leagues became richest and the smallest ones poorest. In this sense, it could be affirmed that the commercialization of the game has had negative effects on the competitive balance.

The second event was the liberalization of the transfer market through the Bosman rule that led players to obtain a strong bargaining power. Indeed, when players became free to move across the Europe, they preferred to move towards leagues that offered the highest salaries, causing a huge increase in those.

Further, in the s.s. 1991/1992, Champions League (CL) was introduced in the European scenario. For the purpose of this work, the negative effects it has brought regard again the competitiveness raised to participate to the competition. National clubs desired to participate in order to win the attractive prizes that would have helped the club to strengthen its squad to become stronger for the next season. Indeed, CL has been considered responsible for the growing domination of the elite clubs, bringing negative effects on the CB. Indeed, again this is a further factor that has contributed to trigger the vicious circle in which just the richest clubs could afford to buy the strongest players and make a squad able to compete in the most desired competition.

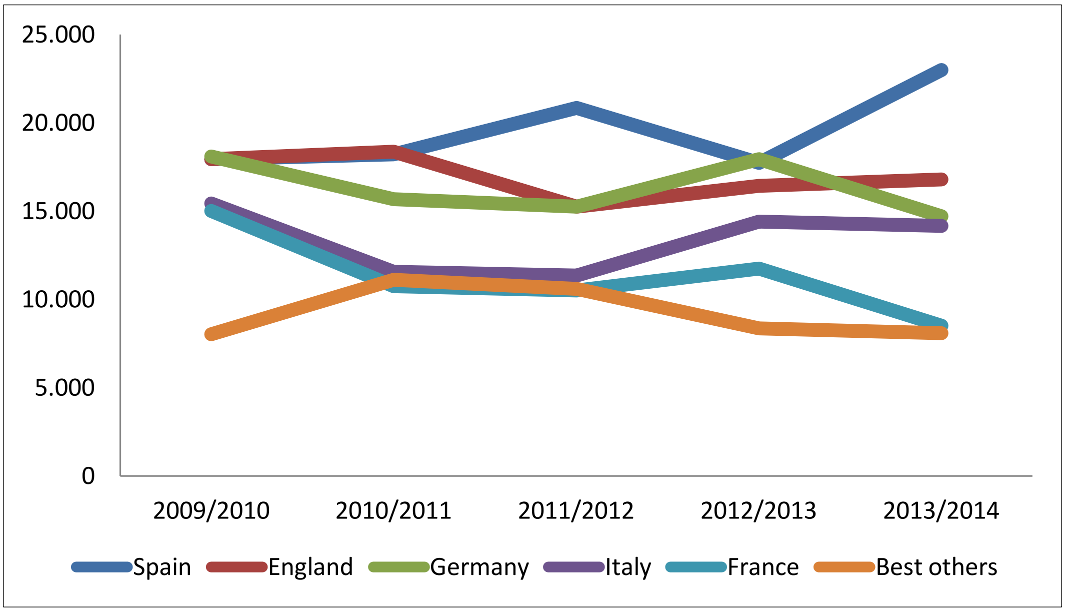
Then, in the last decades, there was an internationalization process in which clubs exploited their brands to increase its awareness also in geographical regions not belonging to their club. This phenomenon has contributed to reinforce and to make stronger the popularity of the biggest clubs, reducing further the power of the smallest ones.

2.2 Benchmark among the main European football leagues

The objective of this section is to make a comparison among the major European leagues, identifying points of commonality and diversity among them. By and large, in order to understand whether FFP will be affected by the different structures of clubs of each country, a generic benchmark of the European scenario is considered necessary.

In order to justify why these five European leagues are matter for discussion, one of the best indicators of sportive success at European level is considered, that is the UEFA league coefficient. This measure is based on the results of each club of a federation in the last five seasons of CL and EL. It is computed by considering the average between the total points of the club divided by the total of clubs of any federation participating to the two European competitions. This mean is added to the means of the previous four seasons.

Figure 2.1. UEFA leagues coefficients, from 2009 to 2014

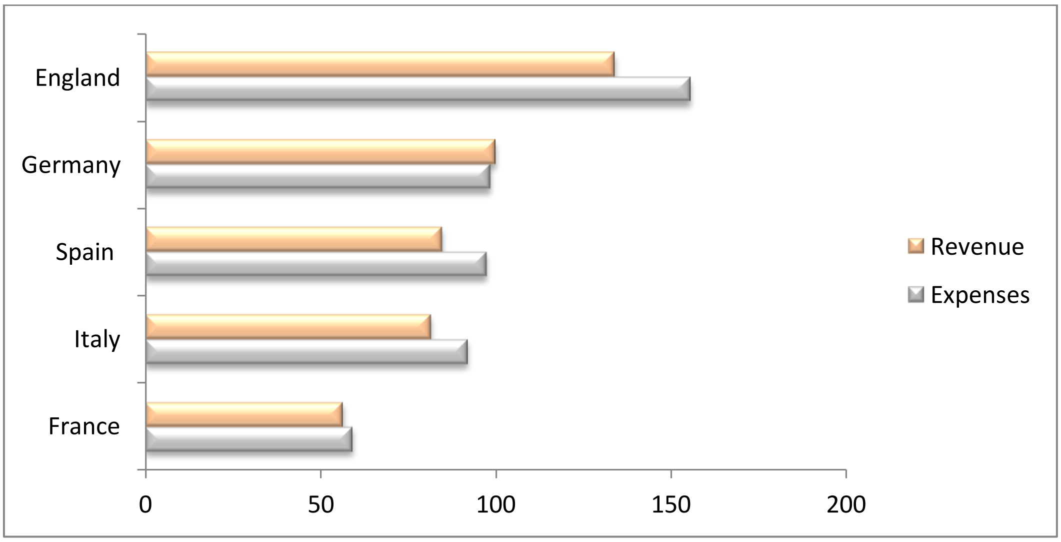


Source: http://it.uefa.com/memberassociations/uefarankings/country/index.html

The graph helps note that in this rank, Spain, England, Germany, Italy and France occupy the highest positions, compared with the other minor European leagues. Indeed, as it has been anticipated, the benchmark will consider the most sizeable differences among those leagues.

In turn, among the big five leagues, it is useful to rank them on the basis of the revenue they are able to obtain from their competitions.

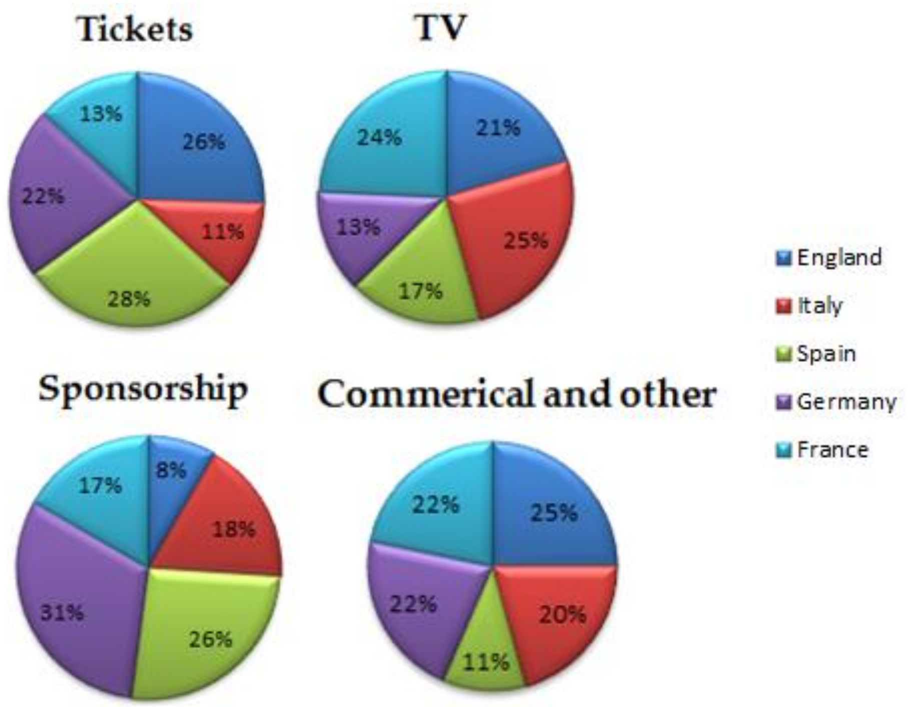
Figure 2.2. Club average revenue and expenses, 2011, (m€)



Source: PricewaterhouseCoopers, Report Calcio, 2013

From the graph, it emerges that from the revenue's point of view, England is the most virtuous country. But now it is necessary to breakdown the total revenue in order to understand in which category each country is more capable. An efficient management of the football teams should ensure a diversification of revenue in order to make the financial performance of the football company less dependent on its performance on the pitch.

Figure 2.3. Contribution of the big five to any category of revenue, 2010

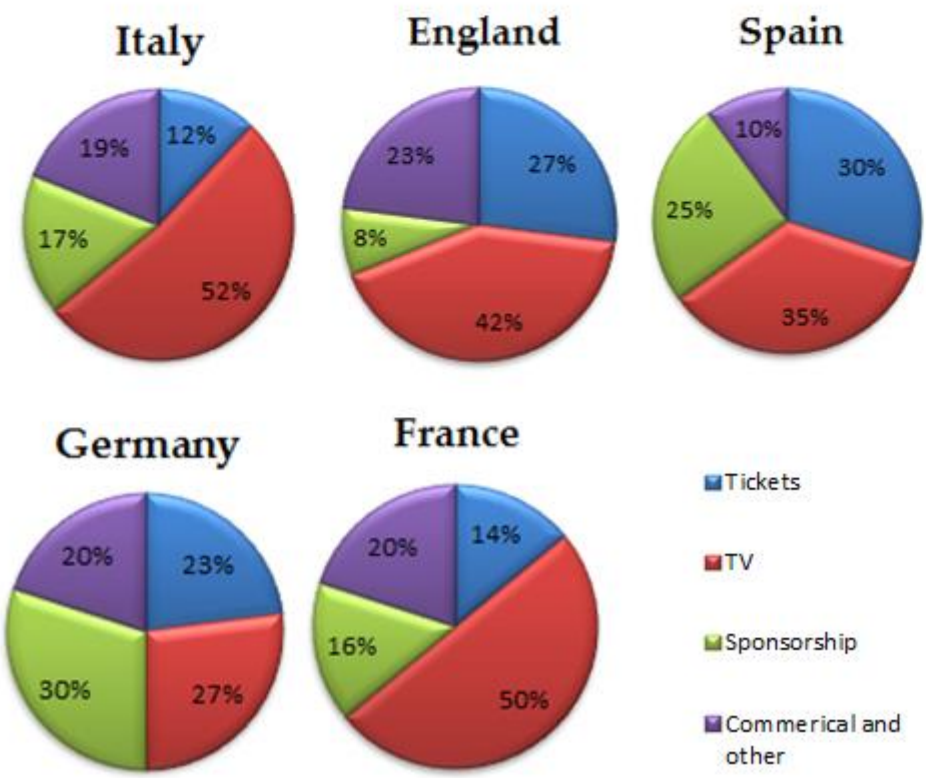


Source: UEFA, The European club licensing benchmarking report, 2011

The figure shows the different composition of revenue in the five major European leagues. The first common factor is that the largest proportion of revenue comes from TV rights, underling the importance of this factor for the clubs' financial statements since 1990s. Income generated by gate receipts, sponsorship deals and commercial activities change according to the countries' peculiarities and they will be analyzed in the next sections.

From another point of view, the same issue can be observed by analyzing how any kind of revenue is distributed among each different country.

Figure 2.4. Breakdown of revenue in the main European football leagues, 2010



Source: UEFA, The European club licensing benchmarking report, 2011

These pie charts show that Germany is the only country that can exploit a quite perfect allocation of revenue and this coincides with the results that will emerge in the section dedicated to that country. Its ability on the pitch also reflects its ability of managing the financial aspect. Further, it is noteworthy that TV rights represent the half part of the pie in any country, meaning that clubs are strongly dependent on this source of income.

Besides, there is another important factor that differently affects the five leagues, that is stadia. They represent a thorny issue because some countries suffer the fact the most national clubs haven’t the ownership of the infrastructure and this negatively and heavily affects their expenditure. But there is a further reason that contributes to make stadia a thorny issue. The bad conditions of infrastructure of clubs of some countries substantially reduce the attendance of fans to matches, worsening the gate receipts of their supporting team. In the following chart, what mostly emerges is that there isn't an homogeneous number of supporters who attend the matches and the countries where the level is higher are those that may exploit sportive infrastructures in better conditions.

Figure 2.5. Average match attendance in s.s. 2011/2012

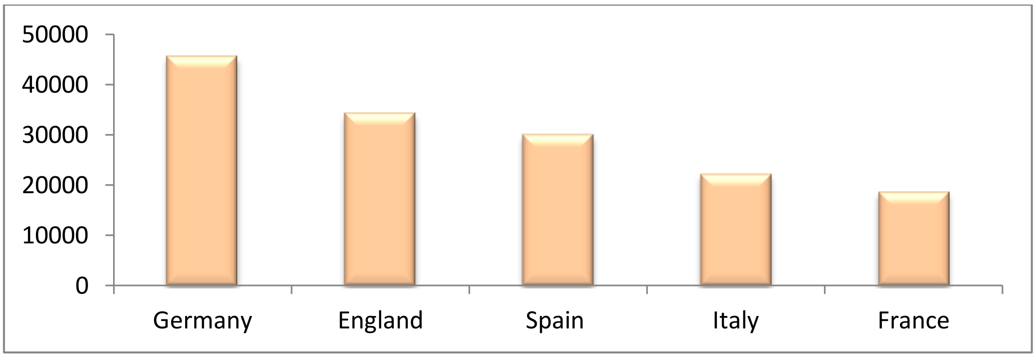


Figure. PricewaterhouseCoopers, Report Calcio, 2013

And lastly, the listing topic. This procedure has developed with the aim to satisfy the need of football companies to cover their investments with various forms of financing and the listing has been seen as an advantageous source. However, to undertake this path, the firm should ensure an opportune policy of diversification of revenue in order to make the share's trend less dependent on the performance on the pitch. Indeed, this source of financing is considered highly risky because there is a strict connection between the sportive performance and the revenue the club is able to gather. The high volatility keeps away institutional investors, making supporters more interested in this form of investment, they may be directly connected with their team in any moment. However, in Europe the topic has aroused an interest so high that in 2002 the first football index, the Dow Jones STOXX Index Football, was created and it is entirely devoted to football listed companies. In the following table, the number of listed football companies for each country is indicated.

Table 2.1. Number of European football listed companies

	England	Italy	Spain	Germany	France
Number of listed companies	0	3	0	1	1

Source: STOXX Europe football index

Now the chapter follows with a separate analysis in any non-regulated league. Before, brief hints to German and French football are provided.

2.2.1 French and German leagues: hints[23]

What France and Germany have in common between them and different from the other three is that they perform better financially but worse on the field, indeed, both the leagues have a strong financial control over clubs. Clubs owners aren't induced by financial control from using a win maximization model which may bring profit but worsening the competitiveness in CL, having constraints that block recurrent debts.

The French football governing body, the Direction Nationale du Contrôle de Gestion, has the power to limit even clubs of the lowest divisions, indeed, the French system is the only one where a big club has already been sanctioned because of excessive deficits, making regulation credible. The reasons of this

[23] Drut B., Raballand G., The impact of governance on European football leagues' competitiveness, Working paper no. 27, University of Paris, 2010

strictness could be found in the French professionalism that imposes ethical limits to the profit maximization model and in the strong involvement of public authorities in exerting strict financial regulation.

In Germany, the strictest limitation is mainly applied on the players wages even though control is generally exerted on all the financial issues; the main reasons are the important role of amateurs in the sector and the clubs antipathy to takeovers by financiers. The rationale to these explanations is strictly related to the ownership structure of German clubs. Indeed, the league governing body, Deutsche Fussball Bund, allowed clubs to organize according to the "50 per cent plus one rule": member associations retain 50 per cent plus one of the voting rights, restricting the power of clubs owners. The result is that since associations are non-profit organizations, they are not stimulated to make profit and thus it is unlikely to raise debt.

2.3 The European non-regulated leagues

As the introduction has already highlighted, Italy, England and Spain have in common the fact that they haven't been affected by strict regulation and they may exploit larger freedom. Indeed, these football clubs run as normal commercial companies free to borrow and since regulation doesn't impose strict controls and sanctions, they haven't too big concerns about the growing indebtedness. The problem is that the strong competitive imbalance rises between clubs that can afford to spend in order to maximize their competitiveness and clubs that can't. They are highly indebted compared to their French and German competitors but are highly competitive in European tournaments. This is the main reason why there is a so strong financial and sportive inequality between the two groups of European leagues.

So far, financial regulation hasn't appeared mainly for two reasons: the first is that the state has never played a role in football regulation because it has never been interested in and if it was, it brought financial assistance without restriction. For example, in Spain, during the crisis in 1980s, State helped clubs to eliminate their debts without setting up strict rules; also in Italy in 2002, the "save football" law provided several ways out. Then, a few powerful teams are dominant in championship and acquired the power in leagues, they are in a situation of moral hazard due to the certainty they will be saved in case of debt accumulation and are thus scared of financial regulation, which would eventually restrict their sporting hegemony[24].

Now a deep analysis for Italian, English and Spanish leagues is dealt with.

2.3.1 The Italian business model

The Italian football is characterized, more than other countries, by the imbalance among the different kinds of revenue. As the section about the benchmark among European leagues has underlined, the TV revenue represents the biggest slice of the total; of course, this is also true in all the other analyzing leagues but in Italy, this is a distinguishing factor. Let's identify the main reasons.

In 1990s, the Italian football has gone through a golden era in which it could afford to buy the best players and won European competitions; this lucky period has been soon interrupted by a severe state of crisis, never experienced before.

[24] Drut B., Reballand G., The impact of governance on European football leagues' competitiveness, University of Paris, Working paper no. 27, 2010

Thus, the last decades are characterized by low gate receipts because no attention was paid to tickets price policies to convince fans to attend matches, just in the last years, adjustments on ticket prices were made on the basis of the age of the purchaser, the importance of the matches and the team performance over the season[25]. However, the real explanation of the low level of gate revenue is represented by the conditions of the Italian stadia. First of all, they are owned by the municipalities (except the recent Juventus stadium) and football clubs have no power to decide how to use them. A process of stadia privatization is desirable even if facilities are very expensive and there are too many town-planning obligations. The ownership of sport facilities would be a notable opportunity to diversify revenue and to help gate receipts to grow, fans would surely be more motivated to attend matches and would surely be willing to pay tickets. Secondly, episodes of violence and hooliganism distance supporters from attending matches in stadia, preferring watching them in front of the TV. Government has been taking measures that are not enough for the size of the phenomenon.

The most important source of revenue for Italian football companies are the TV rights. In 1990s, pay TV and pay per view systems acted as a springboard to contribute to considerably increase the revenue in the sector. The following revolution arrived when football clubs were allowed to directly negotiate TV rights with broadcasters. Deloitte[26] defines the Italian football "heavily reliant on broadcast revenue", contributing 59 per cent of the total revenue while matchday

[25] Baroncelli A., Lago U., Italian football, Journal of sports economics, 2006

[26] Deloitte, Annual review of football finance - Highlights, 2013

revenue continue declining, representing just 12 per cent of Serie A clubs' overall revenue.

Lastly, to make quite complete the analysis of the Italian football clubs turnover, a quick overview on merchandising and sponsorship items is necessary. The former represent a limited slice to total revenue because there isn't the ability of brand exploitation. Marketing activities should contribute to create a sense of belonging among supporters that would have positive repercussions on the other kinds of revenue. Unlikely, the bad phenomenon that obstructs the merchandising revenue growth is the black market activity, the low government's control makes difficult for football companies to increase the sale of their gadgets. The other category of revenue is sponsorship, they are constantly increasing thanks to the big dimension that this sport is taking on: beverage and foods companies, but in the last time also telecommunications and electronic sectors, are always more interested in visibility that a football match ensures.

For what concerns the cost structure of the Italian football clubs' income statements, the biggest slice is occupied by wages and salaries of players and coaches, followed by the amortization of intangible assets. However, this doesn't represent a peculiarity of Italian football but it is a point of commonality among all the European leagues and this usage has triggered the vicious circle, more times mentioned in this work.

According to the governance, the first Italian Football Association was founded in 1898 but in 1909 it became the well-known Federazione Italiana Giuoco Calcio, with the goal of governing and organizing the football in Italy.

Regarding the ownership structure[27], before 1981, football clubs were organized as not-for-profit associations, after that, a new law imposed them to change into joint-stock companies with the condition that any profit had to be reinvested in the sport activity. So, football teams became for-profit entertainment companies carrying out any activities able to increase club's visibility and thus club's revenue. Going deeper in the ownership structure, Italian teams are mostly owed by family groups or individuals with activities in unrelated activities, some could argue that given the low chances of obtaining positive return from the sportive performance of teams, entrepreneurs are giving financial support with the aim of acquiring media exposure and social status that will improve the performance of their other business. It could be added that in Italy the pure economic rationale can't be applied to the football sector, on the contrary, it happens in England where the issue is a commercial decision, indeed, the first concern regards the availability of funding. This helps explain why a lot of English clubs are taken over by foreign businessman.

Lastly, the first squad listed on the stock exchange was S.S. Lazio in 1998. Now three Italian club are listed but in the long term the returns of stocks don't payoff. The rationale that only performance on the pitch has a considerable impact on the performance in the stock market has a strongest effect in countries that are not able to well diversify the sources of their income, and it is of course the case of Italy.

[27] Baroncelli A., Caruso R., The organization and economics of Italian Serie A: a brief overall view, Rivista di diritto ed economia dello sport, 2011

To sum up, the biggest structural problems are three[28]: there is a too big imbalance among TV revenue and the other ones, there is a too high level of players salaries and there is a lack of credibility in the Italian scenario, due to the large number of scandals that have damaged the sector in the country. The guilt could be attributed to the governance and the ownership structure[29]. Regarding the former, the dual system, in which FIGC and Lega Serie A have the same powers, is not able to safeguard the interests of stakeholders. According to the latter, single owners could be blackmailed by groups of supporters who with their behavior in the stadia may cause fines and penalties to the team.

2.3.2 The English business model

The breaking point in the English football seems to correspond to the launch of the Premier League in 1992. From that date, several changes have affected European football and in particular the English scenario, indeed, the commercialization of football started in connection of that period.

As in all the other European leagues, the revolution arrived in 1990s with the diffusion of the TV revenue. The profit maximization approach brought to the philosophy of preferring higher profits rather than a better sportive performance.

This is confirmed by the development of the listing process which several English clubs were undergoing. This is a connotative peculiarity of the English football: in 1990s numerous English football clubs have been floating on the stock market, gathering high revenue that were exploited to improve infrastructures and above

[28] Boeri T., Severgnini B., The decline of professional football in Italy, Discussion paper no. 7018, IZA, 2012

[29] Boeri T., Severgnini B., The decline of professional football in Italy, Discussion paper no. 7018, IZA, 2012

all stadia. The new stadia are even now representing the biggest source in the English scenario because the excellent conditions of the infrastructures are still inducing supporters to directly follow their teams in the stadia. The consequence is that England may exploit a more advantageous allocation of revenue since gate receipts are able to maintain their large share of total revenue; as the last sections have already investigated, an homogeneous allocation of revenue is able to guarantee an higher revenue's stability that means a right self- sufficiency of sportive results. However, the listing phase soon stopped. The difficulty of balancing financial results with sportive ones triggered the delisting of several clubs. However, the stock market has brought English football to a better condition than the other European non-regulated leagues, in particular because it has allowed clubs to build own infrastructures that still now represent the biggest source of wealth.

Furthermore, in England a second phase spread and it also contributes to distinguish this country from the other ones. Powerful business people took over English clubs, for this reason they could have always exploited enormous amounts of money to make investments in order to compete in the international scenario. Of course, the other side of the coin has been an excessive growth of the indebtedness level.

Nevertheless, the high increase of TV revenue has not meant a financial health for the national game because football clubs are not so able to transform revenue into profitability. Indeed, higher revenue, the inception of Champion’s League and the tycoons’ arrival have caused an excessive growth of wage costs that, despite the huge revenue, leads England football to constant financial difficulties.

For what concerns the governance, the Football Association (FA) was founded in 1963 and it is the governing body of English football, its importance is primary because it manages the development of the English football from the bottom line to the Premier League.

Regarding the ownership structure[30], the most common is the public limited company. In particular, with the commercialization of the game, thanks to this structure, owners could exploit the participation in the profitability of the business. It is noteworthy mention that some clubs are constituted under the form of bona fide cooperative societies or societies acting and trading for the benefit of the community. Their main peculiarities are the advantageous tax treatment, the non-distribution of dividends because profit must be ploughed back into the business. To this regard, in England associations of supporters actively influence the running of their club at which participate, acting as shareholders. Since there are several supporters organizations, a body encouraging the diffusion of these forms was especially established, the Supporters Direct. It not only manages these supporters trusts but also induces them to establish in form of Industrial an Provident Society, the legal entity for voluntary organizations.

2.3.3 The Spanish business model

The Spanish panorama presents the same characteristics already analyzed in the two previous leagues, therefore there is a too dependence on TV rights compared with the other sources of revenue and the enormous revenue are not enough to avoid financial losses, mainly caused by the excessive wages that football clubs are forced to pay in order to be competitive in the international scenario.

[30] Marshall P., Football and the big societies, Centreforum, 2011

However, in this paragraph, some peculiarities of the Spanish league are investigated[31].

First of all, when Spanish football clubs faced major financial difficulties in the 1980s, the Spanish government decided to make football clubs joint-stock companies with economic responsibility and legal status and helped clubs to cancel their debts even if without establishing a financial regulation for football clubs[32]. Indeed, a distinguishing factor is the difficulty of finding financial data of Spanish football clubs, the only official source is the Annual Reports of Liga that in any case is based on teams initial budgets and they are often very different from what is going to happen in reality, causing the impossibility of making reliable analysis of the sector. One reason could be considered that law doesn't oblige football teams to present their accounts; moreover, some clubs present their accounts with consistent delays and in some cases, there are grave omissions that make the documents unreliable.

Still, the largest Spanish clubs have to devote some parts of their budget to other sports covered by the same name of the football squad. Income and expenses deriving by those activities are included in the total amount of items in the financial statements of the clubs, contributing to make more difficult the identification of values of the football activity.

Another peculiarity is the exceptional income of which some Spanish clubs have exploited in the last decade, allowing them to relax their bad financial situation for

[31] Boscà J., Liern V., Martinez A., Sala R., The Spanish football crisis, European sport management quarterly, 2008 and Barajas A., Rodriguez P., Spanish football clubs' finances: crisis and player salaries, International Journal of sport finance, 2010

[32] Drut B., Reballand G., The impact of governance on European football leagues' competitiveness, University of Paris, Working paper no. 27, 2010

some years. Indeed, the exceptional results deriving from player transfers are replaced by the sale of material assets (stadium, sporting facilities..). This is the case of Real Madrid when it sold its sport complex, the "Ciudad Deportiva", to obtain liquidity necessary to repay accumulate debt and to pay all the players fees. This loophole has been followed by several other Spanish clubs. This is an irregular practice that can't cover the financial problems for ever, these clubs will soon finish the availability of cash and they will have to find alternative sources of income.

All the issues so far mentioned contributes to demonstrate the lack of transparency of accounting data in Spanish football and now the inspection follows with other common characteristics of European leagues, such as the ownership structure[33]. According to it, most of the Spanish football clubs are organized under the form of SAD (Sociedades Anònimas Deportivas, that is Sporting Limited Companies). With this form of company, the legislator has wanted to guarantee economical and juridical transparency of football companies that operates in this industry but at the same time the intention was to make easier the listing on the stock market for those clubs that would be interested. However, no club decided to undertake the listed path and further, some clubs didn't change their juridical form, remaining as members clubs (among them, Barcelona FC and Real Madrid CF). Indeed, Barcelona, Real Madrid, Atletic Bilbao and Osasuna involve supporter's trusts in which fans are ownership of the teams because they hold shares and actively participate to the company's life, exploiting rights and duties of a common

[33] Barajas A., Rodriguez P., Spanish football clubs' finances: crisis and player salaries, International Journal of sport finance, 2010

investor. Of course, fans buy shares of their supporting team with the aim of strengthening their sense of belonging more than with aims of obtaining gains.

Regarding the Spanish football governance, the governing body of the sport is the Real Federaciòn Española de Fùtbol (RFEF), founded in 1913. At the beginning of 1980, since Spanish clubs were suffering difficult financial problems and growing debt, the Liga National de Fùtbol Profesional was created in order to constitute an independent body from RFEF with the only aim of solving the interests of clubs. It is in this occasion that the juridical status SAD was established.

Last but not least, a notable peculiarity of the Spanish football is the undisputed supremacy of two clubs, Barcelona FC and Real Madrid CF, that are able to dominate the entire scenario and catalyze the attention on them. Deloitte[34] specifies that in 2011/2012, 56 per cent of total revenue are polarised by Bercalona and Real Madrid, of course, widening the already existing gap among the biggest two and the other small-medium size clubs; therefore, even if this is a distinctiveness of the European leagues, in Spain this feature is more accentuated by the presence of these two clubs. The consequence is the more difficult chance for small-medium size clubs of coming out from the vicious circle with negative effects on the competitive balance.

[34] Deloitte, Annual review of football finance - Highlights, 2013

3 CHAPTER 3. PRACTICAL CASES: MANCHESTER CITY FC, BARCELONA FC AND ACF FIORENTINA

3.1 Introduction

The goals of this chapter are twofold: the first one aims at simulating the computation of the break – even requirement in three European football clubs while the other one is to match the theoretical concepts of the first chapter of this work, where FFP regulations have been explained, with the peculiar characteristics of the European football in order to understand whether the FFP is really fair although the differences among the different leagues.

The clubs are Manchester City FC, Barcelona FC and ACF Fiorentina and they have been chosen because represent the three biggest differences characterizing their belonging countries: the ownership of sportive infrastructures and the kind of ownership structure. Indeed, Italy, England and Spain manage football in different ways and the analysis of three clubs of different countries could provide a food for thought whether they are really comparable as UEFA believes; or, on the contrary, the missing homogeneity could cause that the measure, aimed at comparing patchy groups, favors someone rather than other.

Going deeper in the choice of selecting those clubs, Manchester City represents a club held by the so-called sugar daddies that are willing to inject massive amount of money in order to make their squad competitive in the most rewarding tournaments; they are allowed to make it because in non-regulated leagues, there aren't so strict regulations that prevent owners from throwing excessive money, increasing the level of indebtedness.

Barcelona has been chosen because of its ownership structure. As in the second chapter it has been mentioned, the club has remained a member association and didn't transform itself in a SAD, preventing owners to increase the capital in order to cover the indebtedness, raised to buy the star players. This could be considered a sizeable drawback, compared with rich football companies, such as Manchester City, indeed, in 2011, at the 6th Dubai International Sports conference, the former president of Barcelona, Sandro Rosell, released an interview, declaring that "Something is wrong here. In Spain, our clubs are associations. We have elections. The new UEFA rules have to keep in mind there are two different types of clubs – associations and companies. [Abrahamovic] can decide to put €1,000, €2,000, €5,000 million into Chelsea, but that's not fair to Barcelona and Real Madrid that can't increase their capital whenever they want"[35]. Therefore, Barcelona has been chosen to represent all the teams that are not organized in form of companies and it will be useful to demonstrate whether UEFA has really acted favoring profit-oriented organizations at the expenses of associations.

So, the objective of the chapter is to verify whether in implementing the regulations, UEFA has taken into account all the needs of the different European leagues without penalizing some categories.

In other words "Are the European leagues comparable under the FFP in spite of their structural discrepancies?".

The chapter will start with indications about the methodology used for the practical part, the assumptions made and tools used will be indicated. Then in the

[35]http://www.totalbarca.com/2011/news/rosell-seeking-new-pastures-to-counter-billionaire-owners/

next part, the real computations are executed: a presentation of the squad, in terms both of brief history and main figures, will introduce the break - even computation of any club. The tables present the numerical analysis and they will be followed by the main results there emerged, further in this part concise information about the composition of turnover are provided. At the end, the discussions will involve the answer to the question and it will be make clearer whether FFP is really fair.

3.2 Methodology

To make the computation of the break – even requirement, the simulations made by UEFA have been considered. The first part of the computation, that is the reclassification of the income statement, the EBT was obtained through the difference between the so-called relevant income and relevant expenses, as UEFA explained in "UEFA Club Licensing and Financial Fair Play Regulations" and it has been repeated in the first chapter. Then, the EBT had to be modified by some adjustments and in order to avoid a subjective analysis and make it as reliable as possible, suggestions provided by UEFA in its simulations have been taken into account. Indeed, in the following, single specifications for any kind of item are provided, as UEFA advised.

In 2010, UEFA "presented a simulation based on historic club by club financial data which gave an idea of the scope of application of the club monitoring requirements and provided an indication of where clubs stood in relation to the break – even rule"[36]. Before explaining how the items have been taken into consideration, it is useful to underlie some issues.

[36] UEFA, The European club licensing benchmarking report, 2011

The monitoring period considered is the first one and it is an exception to the general rule, covering just two reporting periods, the ones ending in 2012 and 2013.

The simulations, both that of UEFA and that of this work, are indicative and they haven't to be considered corresponding to the reality, mainly because information are not always available and reliable and don't allow to gather exactly data needed for the computation of the break – even. The simulation prevents exhaustive conclusions.

Now, the specifications of any adjustments are provided. It is noteworthy that the impossibility of finding some information shouldn't be considered as limits to the simulation; their lacks shape a worst scenario that will be as much as possible covered by the information held by clubs that will contribute to improve the worst situation. Thus, the real computation of the break – even computation made by clubs will surely enhance any attempt of simulation.

The details are reported as UEFA made in its simulation[37]. Let's start with the adjustments to relevant income.

- ✓ Income transactions with related parties above fair value: no adjustments are made for above fair value contracts such as sponsorship;
- ✓ Non-monetary credits: existence are not available, albeit upwards non-currency-related revaluations are not normally expected, so no adjustments made;
- ✓ Income from non-football operations: adjustments only made for income completely unrelated to the club, facilities or brand, information not

[37] UEFA, The European club licensing benchmarking report, 2011

available historically, therefore other net non-operating income have been included in simulation as break – even revenues.

Now the adjustments to relevant expenses are specified.

- ✓ Expenses transaction with related party below fair value: no information are known and hence no upwards adjustments are made in simulation;
- ✓ Non-monetary debits: existence are not available, albeit downward non-currency-related devaluations are not normally expected, so no adjustments are made;
- ✓ Expenses from non-football operations: adjustments are only made for expenses completely unrelated to the club, facilities or brand, information are not available historically, therefore other net non-operating expenses have been included in simulation as break – even expenses.
- ✓ Directly attributable youth development expenditure: detailed calculation necessary and financial disclosures of youth sector are generally limited or non-existent so assumption included within simulation are equivalent to 8% of total other relevant costs for clubs, with <€5m revenues and 4% of relevant expenses for clubs with revenue >€5m; this calculation is based on knowledge of youth sector spending gathered from information supplied for UEFA solidarity distributions and disclosure of youth expenditure within UEFA benchmarking templates of more than 200 clubs; where youth sector costs are disclosed, they are removed and replaced by standardized simulation assumption;
- ✓ Expenditure on community development activities: are rarely historically disclosed despite being central to the concept of social and community

importance of football clubs – no adjustments are made as are considered the 8/4% of youth expenses adjustments;

- ✓ Finance costs attributable to construction of tangible fixed assets: this type of finance is rare due to low club financed stadium construction – nature of finance charges/losses are not known from reported data so no adjustment made in simulation.

It is necessary to also scrutiny the items that a club may include in case of the adjusted EBT exceeds the acceptable deviation.

- ✓ Depreciation/impairment of tangible fixed assets: adjustment are made in full and excluded from relevant expenses;
- ✓ Amortization of non-player intangible fixed assets: adjustment are made in full and excluded from relevant expenses;
- ✓ Tax expenses: it is assumed that all reported tax expenses are related to taxable income/profit and hence are excluded from relevant expenses for purpose of simulation – the nature of tax income are not known and to apply consistency on recognition/non-recognition in carrying forward of taxable losses, all reported tax incomes are assumed to be non-monetary and have not been included in simulation.

For the computation, the financial statements of the three clubs were used. It is noteworthy to specify that Manchester City and Barcelona close their financial statements at the end of the sportive season in June while Fiorentina is one of the Italian squads that close the financial year in correspondence of the end of the solar year.

Moreover, instead of considering the single categories composing revenue, that are difficult to compare and different from a club to the other one, the general item of turnover has been inserted. The analysis of the breakdown of revenue is later dealt with.

Finally, the last noteworthy issue is that the excess proceeds on disposal of tangible fixed assets, being one of the element included in the relevant income, have all been considered in simulation since replacement nature is not known, as UEFA suggests.

After the computation of the adjustments, any club will follow different paths in order to arrive to the final result, depending on the condition of its adjusted EBT and any relative case will be explained in detail later.

The main issues that have shaped the computation have been reviewed, now the analysis is split in the three practical cases.

3.3 Manchester City FC

Manchester City FC is an English football club, established in 1880, instituted as a limited company and owned by Abu Dhabi United Group for Development. It is one of the strongest squads of the English Premier League and of course the series of its successes started when the club was acquired by the sheik Mansur bin Zayd Al Nahyan who has been willing to acquire the best players at exorbitant costs. The clubs returned in the best European competitions and in the s.s. 2011/2012, it was able to win in the domestic league. Indeed, in the last edition of the Football money league (2013), Deloitte assigns the 7th position to the club out of 20 in the rank of “Captains of industry”.

In the s.s. 2003/2004, the clubs started to dispute matches in its own stadium and in the summer 2011, Manchester City and Etihad Airways signed a sponsorship agreement that granted to the airline company the naming rights on the stadium, become the Etihad Stadium. From the other side, the club has been receiving £150m for 10 years: this has been the richest commercial deal in the sport history[38].

In the following paragraph, the break – even computation and the explanation of the values used in the analysis will be provided. Then, the section "Evidences" will involve the procedure followed in order to make a simulation complying with the UEFA regulations.

3.3.1 The break - even requirement

The expected break – even result of Manchester City was strictly depending on the wealth of its owner. Indeed, as the former president of Barcelona anticipated, it was expected that, at first sight, Manchester City, being a company and not an association, would have exploited an aggregate surplus for the first reporting period. This forecast was due to the club's possibility of increasing the capital in any moment in order to cover potential debts. However, the results of the computation are really different from the expected ones and are reported in the following table[39].

[38] http://www.theguardian.com/football/2011/jul/08/manchester-city-deal-etihad-airways

[39] The Manchester City's financial statement is denominated in pounds and in order to convert the values in euros, the average exchange rate of the reporting period, as provided by the European Central Bank, has been used

Table 3.1: the Manchester City's break – even requirement

RELEVANT INCOME	2012/2013	2011/2012	Δ
Turnover	326.236	274.707	19%
Revenue - Other operating income	57.456	15.213	278%
Profit/income on disposal of player registrations	7.069	12.654	-44%
Excess proceeds on disposal of tangible fixed assets	0	0	
Finance income	280	2.157	-87%
TOTAL RELEVANT INCOME	391.042	304.730	28%
RELEVANT EXPENSES			
Expenses - Cost of sales/materials	8.225	8.088	2%
Expenses - Employee benefits expenses	280.619	239.823	17%
Expenses - Other operating expenses	58.441	43.268	35%
Amortization/costs of acquiring player registrations	97.352	98.681	-1%
Finance costs and dividends	8.548	3.254	163%
TOTAL RELEVANT EXPENSES	453.184	393.114	15%
EBT	-62.143	-88.384	-30%
ADJUSTMENTS TO RELEVANT INCOME			
Income transaction with related party above fair value	0	0	
Non monetary credits	0	0	
Income from non-football operations not related to the club	0	0	
ADJUSTMENTS TO RELEVANT EXPENSES			
Expenses transaction with related party below fair value	0	0	
Non-monetary debits/charges	0	0	
Expenses of non-football operations not related to the club	0	0	
Expenditure on youth development activities	18.127	15.725	
Expenditure on community development activities	291	275	
Finance costs directly attributable to the construction of tangible fixed assets	4.050	5.156	
ADJUSTED EBT	-39.675	-67.229	
ITEMS THAT MAY BE INCLUDED			
Depreciation/impairment of tangible fixed assets	6.963	7.827	
Amortisation/impairment of intangible fixed assets	0	0	
Tax expenses	0	0	
BREAK EVEN REQUIREMENT	-32.712	-59.402	
ANNEX XI			
Contracts with players prior to 1 June 2012	0	62.395	
BREAK EVEN REQUIREMENT	-32.712	2.994	

Source: own elaboration

The first part of the investigation is constituted of a reclassification of the income statement, therefore, the items used could easily be connected to the financial statement.

The subjective examination starts from the second part, where the EBT had to be adjusted. The reasons why all the adjustments to relevant income and the first three ones to relevant expenses haven't been made are provided in the part where the methodology is explained: the rationale used by UEFA in its simulation has been applied here.

What it is worth deepen is the computation of the last three adjustments to relevant expenses: first of all, the expenditure of youth development activities are equal to the 4% of the total relevant expenses, being revenue higher than €5m, as specified by UEFA. Secondly, the expenditure on community development activities is an information often not provided by financial statements inasmuch in some countries, the law doesn't impose it but Manchester City is the only case in which this item is publicly disclosed, contrary to Barcelona and Fiorentina. Lastly, finance costs are related to the finance lease on Etihad Stadium.

For what concerns the items that may be included, apart from the theoretical concepts reported in the methodology, what it is peculiar of this case is that the depreciation/impairment of tangible fixed assets is an item easily noticeable in the official documents.

Lastly, in the matter of the players contract prior to 1 June 2012, estimations available on internet[40] have been considered reliable to the purposes of this analysis.

Now the investigation continues with the procedures used to arrive to the final break – even result.

3.3.2 Evidences

Contrary to any expectations, Manchester City presents critical accounts. The support, that UEFA has wanted to grant to clubs through the adjustments,

[40] http://swissramble.blogspot.co.uk/2011/12/manchester-city-masterplan.html

improves the final result but it is not still enough; indeed, expenditure on youth development activities, expenditure on community development activities, finance costs directly attributable to construction of tangible fixed assets positively adjust the EBT but it is still lower than zero. But the club has even another chance provided by Annex X[41] of the "UEFA Club Licensing and Financial Fair Play Regulations" where it is specified that depreciation/impairment of tangible fixed assets, amortization of non-player intangible fixed assets and tax expenses may be excluded from the calculation of the break – even result.

Nevertheless, surpluses continue being negative. The club is allowed to resort to a provision of Annex XI where it is stated that what UEFA would take into account in a favorable way is the condition in which "the licensee proves that the aggregate break – even deficit is only due to the annual break – even deficit of the reporting period ending in 2012 which in turn is due to contracts with players undertaken prior to 1 June 2010"[42]. This means that for the reporting period 2012/2013, the break – even requirement may be upward corrected by the sum of the contracts with players undertaken till then. In this way the final result is finally positive while that of the following year remains negative because it can't exploit the subtraction of players contracts.

However, what accounts for avoiding sanctions is that the aggregate result is positive and it is given by the sum of the results of each reporting period covered by the monitoring period. Because the aggregate break – even result doesn't exceed the acceptable deviation of EUR 45 million, borne for the first two monitoring periods, UEFA could show itself permissive.

[41] Letter C, number 2

[42] UEFA Club Licensing and Financial Fair Play Regulations, Annex XI

The thorny question regards the astonishing sponsorship deal that Manchester City has closed with Etihad Airlines and that could pass off as a "income transaction with related party above fair value" in order to be allowed to artificially inject cash. The swelled relevant income mean that the club may allow higher relevant expenses. The CFCB will attempt to check whether the deal is in line with the market rates and it can decide either to classify these agreements as related party transaction or to not consider them relevant income and thus to exclude them from the break – even test. In this case, the relevant expenses that the club can afford will be considerably lower. Furthermore, there are several other controversial transactions, as image rights deals, naming rights agreements, sponsorship deals also from connected parties. It is the CFCB that has the task of evaluating how to consider these deals that at first sight look like loopholes to circumvent the rules.

Completed the analysis of financial statements in regard of FFP, a brief digression on the main evidences emerged from the examination is made. Starting understanding the reasons why some items suffered so large percentage variations, what it soon emerges is that the elements “other operating income” and “finance costs” are associated to the biggest changes.

Lastly, a breakdown of revenue is useful to confirm that the theoretical differences among the three leagues underlined in second chapter are evident also in the practice, this part aims at concluding whether the countries may be comparable.

Table 3.2: the breakdown of Manchester City’s revenue

TURNOVER	2012/2013	2011/2012	Ratio
Revenue – Gate receipts	47.690	42.244	15%
Revenue – Broadcasting rights	106.411	104.740	33%
Revenue – Commercial activities	172.136	127.723	53%
TURNOVER	326.236	274.707	

Source: own elaboration

The ratios are relative just to the s.s. 2012/2013 and they indicate the proportion of any category of revenue over the total.

The main evidences are that the commercial activities represent the fastest growing item, it is an exceptional fact due to the commencement of the new partnership with Etihad Airways[43]. However, the general evidence is that the TV rights occupy the biggest slice of the total, as it was expected, being this category the most sizeable of the turnover all over the Europe. Exceptionally, gate receipts constitute a small part but it is linked to the fact that for the s.s. 2012/2013, the commercial activities overtake all the other sources of revenue.

3.4 Barcelona FC

Barcelona FC is a Spanish football club, established in 1899, instituted as a member associations and thus owned by its supporters. Indeed, this is one of the reason why it is well known over the world. It is the biggest example of supporters trust, boasting hundreds of thousands of shareholders - supporters: they have an active role in running the association because they have the right to vote every few years for a new president and to dissolve the club through the approval

[43] Deloitte, Football money league, 2013

of the general assembly of its members and in that case the unmovable assets are donated to the Catalan government[44].

Further, it has been competing in the first division since its constitution and it is one of the most qualified squads in the world. Of course, it is one of the richest and most loved clubs in the world.

Moreover, Barcelona and Real Madrid occupy the biggest market share of football industry in Spain. Indeed, in the last edition of the Football money league (2013), Deloitte assigns the 2nd position to the club out of 20 in the rank of "Captains of industry", behind Real Madrid for the fourth successive year. The same document underlines that they have signed one of the most lucrative shirt sponsorship agreement in the world, with Qatar Sports Investments.

Lastly, the club owns its stadium, the Camp Nou, inaugurated in 1957.

In the following paragraph, the break – even computation and the explanation of the values used in the analysis will be provided. Then, the section "Evidences" will involve the procedure followed in order to make a simulation complying with the UEFA regulations.

3.4.1 The break - even requirement

What it could be expected from the Spanish club's analysis was a quite deviated break – even result from the acceptable threshold. Referring again to the speech of the former president of the squad in occasion of the 6th Dubai International Sports conference, the ownership structure would seem a consistent obstacle for the achievement of the break – even. Being a members association where the

[44] Marshall P., Football and the big society, Centreforum, 2011

ownership is held by several supporters, there isn't the possibility of increasing capital in any moment, so the club would more suffer the indebtedness. but again the results differ from the expectations and they are reported in the table.

Table 3.3: the Barcelona break – even requirement

RELEVANT INCOME	2012/2013	2011/2012	Δ
Turnover	443.767	438.041	1%
Revenue - Other operating income	36.858	43.820	-16%
Profit/income on disposal of player registrations	-9.708	-6.167	57%
Excess proceeds on disposal of tangible fixed assets	0	0	
Finance income	1.888	1.992	-5%
TOTAL RELEVANT INCOME	472.805	477.686	-1%
RELEVANT EXPENSES			
Expenses - Cost of sales/materials	5.619	5.573	1%
Expenses - Employee benefits expenses	237.817	233.312	2%
Expenses - Other operating expenses	111.113	112.312	-1%
Amortization/costs of acquiring player registrations	70.496	72.031	-2%
Finance costs and dividends	6.222	6.894	-10%
TOTAL RELEVANT EXPENSES	431.267	430.122	0%
EBT	41.538	47.564	-13%
ADJUSTMENTS TO RELEVANT INCOME			
Income transaction with related party above fair value	0	0	
Non monetary credits	0	0	
Income from non-football operations not related to the club	0	0	
ADJUSTMENTS TO RELEVANT EXPENSES			
Expenses transaction with related party below fair value	0	0	
Non-monetary debits/charges	0	0	
Expenses of non-football operations not related to the club	0	0	
Expenditure on youth development activities	17.251	17.205	
Expenditure on community development activities	690	688	
Finance costs directly attributable to the construction of tangible fixed assets	0	0	
ADJUSTED EBT	59.479	65.457	
ITEMS THAT MAY BE INCLUDED			
Depreciation/impairment of tangible fixed assets			
Amortisation/impairment of intangible fixed assets			
Tax expenses			
BREAK EVEN REQUIREMENT			
ANNEX XI			
Contracts with players prior to 1 June 2012			
BREAK EVEN REQUIREMENT			

Source: own elaboration

Also in the Barcelona's case, the computation of relevant income and expenses is a reclassification of income statement disclosed by the company. Contrary to any expectations, the EBT is consistently positive and the adjustments to relevant expenses even enhance the final result.

The only adjustments to relevant expenses taken into account are the expenditure on both youth and communities development activities. The former has been calculated as suggested by UEFA and as made for the Manchester City's case. Having Barcelona revenue higher than €5m, the youth activities constitutes the 4 per cent of the total relevant expenses. For what concerns the latter, since the financial statement doesn't disclose this data, the computation recommended by UEFA has been used and thus they are the 4 per cent of the youth activities adjustments. About the last item, no adjustments are needed because Barcelona has the ownership of its stadium and it hasn't to suffer finance costs directly attributable to it.

In the following paragraph, comments to the break – even requirement are provided.

3.4.2 Evidences

Thanks to its efficient management leading to positive measures, the adjusted EBT is already positive and it doesn't need to apply all the softening provisions provided by UEFA, such as items that may be included, players contracts prior to 1 June 2012 and the acceptable deviation. Its financial conditions make the club safe in terms of possible sanctions.

Now comments on the main evidences resulted by the analysis of income statement identify the peculiarities of the club in order to understand whether they favor or obstacle the achievement of the UEFA's measure. So, the comments regard justifications to the bigger percentage changes in the income statement's items and the composition of turnover.

About the former, the highest percentage change corresponds to the item "Profit/income on disposal of player registrations" and it is due to the transfer windows effects, it is not an indicative value, being always very variable. It is important to underlie just the consistent running, highlighted by the values' uniformity, reflecting again the efficient management of the club.

Table 3.4: the breakdown of Barcelona's revenue

TURNOVER	2012/2013	2011/2012	Ratio
Revenue – Gate receipts	115.624	115.208	26%
Revenue – Broadcasting rights	161.669	160.472	36%
Revenue – Commercial activities	166.474	162.361	38%
TURNOVER	443.767	438.041	

Source: own elaboration

Regarding the latter, in the table, the ratios of any category of revenue over the total are reported and they are relative just to the s.s. 2012/2013. The table demonstrates the homogeneous allocation of revenue among all the categories. As it is emerged from the previous analysis of the Spanish football, in the Barcelona's revenue, TV rights income don't occupy the biggest slice as they do in the other countries but there is a good balance between it and the other sources. Indeed, tickets revenue have a similar percentage to the others while they are usually consistently lower. In conclusion, the efficient distribution of revenue that Barcelona can exploit makes the financial results less dependent from the sportive performance.

3.5 ACF Fiorentina

ACF Fiorentina is an Italian football club, established in 1926, instituted as a limited company and owned by Italian entrepreneurs with business in unrelated activities, being owners of Italian, famous and luxury fashion brand. In 2002, they acquired the club after that it was declared failed and they was able to bring back it in the highest Italian division and in the top European competitions.

In Italy, Fiorentina is less famous than the other two clubs are in their countries because it is less strong and it has won less titles, however it is an example of a virtuous club that is able to maximize its limited resources in order to compete with stronger ones.

The clubs doesn't own a stadium because that where the squad disputes its matches is owned by the municipality.

In the following paragraph, the break – even computation and the explanation of the values used in the analysis will be provided. Then, the section "Evidences" will involve the procedure followed in order to make a simulation complying with the UEFA regulations.

3.5.1 The break - even requirement

The reason why Fiorentina has been chosen as symbol of Italy is that it has all the most common characteristics of the most Italian clubs. That are the ownership of the stadium by the municipality and the ownership of the club held by an entrepreneur with activities in unrelated activities. These factors brought to expect a critical management of the club followed by the difficulty of reaching the break – even requirement.

Also in this case, the practical examination has revealed discrepancy between the expectation and the reality, as showed in the following table.

Table 3.5: the Fiorentina's break – even requirement

RELEVANT INCOME	2012	2011	Δ
Turnover	60.734	62.247	2%
Revenue - Other operating income	11.530	4.072	-65%
Profit/income on disposal of player registrations	36.795	757	-98%
Excess proceeds on disposal of tangible fixed assets	0	0	
Finance income	3.003	6.254	108%
TOTAL RELEVANT INCOME	112.062	73.330	-35%
RELEVANT EXPENSES			
Expenses - Cost of sales/materials	17.853	15.805	13%
Expenses - Employee benefits expenses	52.396	54.404	-4%
Expenses - Other operating expenses	10.602	12.937	-18%
Amortization/costs of acquiring player registrations	26.980	33.489	-19%
Finance costs and dividends	747	527	42%
TOTAL RELEVANT EXPENSES	108.578	117.162	-7%
EBT	3.484	-43.832	-108%
ADJUSTMENTS TO RELEVANT INCOME			
Income transaction with related party above fair value	0	0	
Non monetary credits	0	0	
Income from non-football operations not related to the club	0	0	
ADJUSTMENTS TO RELEVANT EXPENSES			
Expenses transaction with related party below fair value	0	0	
Non-monetary debits/charges	0	0	
Expenses of non-football operations not related to the club	0	0	
Expenditure on youth development activities	4.343	4.686	
Expenditure on community development activities	174	187	
Finance costs directly attributable to the construction of tangible fixed assets	0	0	
ADJUSTED EBT	8.001	-38.958	
ITEMS THAT MAY BE INCLUDED			
Depreciation/impairment of tangible fixed assets			
Amortisation/impairment of intangible fixed assets			
Tax expenses			
BREAK EVEN REQUIREMENT			
ANNEX XI			
Contracts with players prior to 1 June 2012			
BREAK EVEN REQUIREMENT			

Source: own elaboration

The reclassification of the income statement made in the first part of the computation gave two different EBT: this of the first reporting period is negative while the other one is higher than zero. The adjustments improve both the results but still the anomaly persists. However, skipping the explanation of relevant income and expenses, expenditure on both youth and community development activities have been founded according to the UEFA's simulation: the former is the 4 per cent of the total relevant expenses and the latter, being not directly disclosed, have been considered as the 4 per cent of the youth activities. The finance costs directly attributable to the construction of tangible fixed assets may not be found because, as it has already been said, the Fiorentina's stadium is owned by the municipality.

The evidences on the break – even requirement are reported in the following section.

3.5.2 Evidences

Fiorentina shows different results from the other two cases: the EBT of the two reporting periods have opposite signs. However, this fact doesn't undermine the club's ability to reach the goal, being the aggregate break – even included in the acceptable deviation. So, like in the Barcelona's case, Fiorentina also doesn't need to benefit from softening help provided by UEFA.

Fiorentina presents an anomalous situation in which there is a sizeable difference between two near reporting periods. Indeed, after having reclassified the income statement, the resulting EBT are really different each other, due to the large percentage variations of profit on disposal of player registration and finance income.

Furthermore, the breakdown of revenue confirms the theoretical evidences of the Italian football analysis made in the second chapter.

Table 3.6: the breakdown of Fiorentina's turnover

TURNOVER	2012	2011	Ratio
Revenue – Gate receipts	6.947	7.541	11%
Revenue – Broadcasting rights	40.941	40.485	67%
Revenue – Commercial activities	12.846	14.221	21%
TURNOVER	60.734	62.247	

Source: own elaboration

The ratios are relative just to the s.s. 2012/2013 and they indicate the proportion of any category of revenue over the total. Again, this kind of analysis allows to confirm what has been found in the previous chapter. The Italian football is characterized by a wide difference between the tickets revenue and the TV rights ones, revenue of Fiorentina replicate this situation: gate receipts is really low due to the bad conditions of Italian stadia and the Italian culture of watch matches in front of TV, justifying the so high percentage of broadcasting rights. Contrary to Barcelona, the table shows a bad allocation of revenue, meaning that financial performance is strictly related to the one on the pitch.

3.6 Discussions

The analysis of three different clubs corresponding to three different countries have been made in order to answer to the question "Are the European leagues comparable under the FFP in spite of their structural discrepancies?".

What mainly emerges from the investigation is that all the results of the break - even requirement diverge from the expectations. On the basis of the first two chapters, an expectation was that FFP would have favored clubs that have the possibility of receiving massive amount of money by their wealthy benefactors at the expenses of clubs organized in form of associations that can't benefit from this privilege. But by comparing the results of Manchester City and Barcelona, being the representatives of the two ownership structures, what can be noted is that Barcelona is more virtuous than Manchester City in implementing the regulations although the former is organized as a members associations and shareholders aren't induced to put money.

Another expectation was related to the fact that FFP was introduced without considering that some clubs don't own their sportive infrastructures and for this reason, they are victims of a difficult management of club where expenses are too high to be covered by even high revenue. So, it was expected that Fiorentina was obstructed by the vicious circle triggered by the non-ownership of the stadium in achieving the break - even requirement, in particular if compared with its colleagues owning their stadia. For example, by making a comparison between Fiorentina, not owner of its stadium, and Manchester City, owner of its stadium, it was expected that the former couldn't fulfill the requirements while the latter could. But the results have again reversed the suppositions: Fiorentina is more virtuous than Manchester City.

Therefore, on the basis of these considerations, the main conclusion is that UEFA has been able to impose a measure that doesn't negatively affect the clubs on the basis of their structural factors but that strongly depends on the managing ability of the owners. So, the answer to the question "Are the European leagues comparable under the FFP in spite of their structural discrepancies?" is yes. Structural discrepancies don't affect the break - even requirement as an unable management do.

UEFA has been able to find an effective remedy for restoring the football industry from damages caused by the widespread mismanagement without undermining the normal and unavoidable weaknesses that any club suffers. Another noteworthy factor is that UEFA has launched the regulations by softening as much as possible their strictness and it has shown itself flexible in accepting deviations.

CONCLUSION

The main evidence of this work is that UEFA has been implementing an impartial regulation that is an attempt of restoring the football industry. The need of finding a solution has emerged from the analysis of the European leagues that has helped understand that the indebtedness is the biggest problem in the European scenario. The high level of debt is triggered by the desire of making the own club competitive at international level at the expenses of a correct financial performance. Thus, those clubs that are owned by rich businessmen may exploit higher availability of money.

The critical situation has worsened around two decades ago when the Champions League and the pay TV system have raised. They contributed to widen the gap among the richest and poorest clubs since just the most competitive (and thus richest) clubs could participate to the European competition having more chances of winning and the most famous (and thus richest) clubs obtain the highest broadcasting revenue.

In this context, UEFA intervened with the Financial Fair Play regulations. The concern could be that the remedy wasn't really fair because it seemed not consider the discrepancies among the leagues, hit by it. To this purpose, after the analysis of the main structural factors characterizing the European clubs, three teams were chosen in order to make the simulation of the break - even requirement. These three clubs have been chosen with the belief that strong differences in results would be emerged due to the different structural characteristics among them: the English club is owned by a rich sheik, the Spanish team is a members associations with limited availability of putting money in any moment and the Italian squad is owned by an Italian entrepreneur without the ownership of the sportive infrastructure.

The outcomes have been that Manchester City presents a large negative result but the flexible attitude of UEFA toward the sanctions could help the club to be not excluded from the European tournaments. Barcelona is able to run its company in an efficient way, having positive results that makes it surely safe. Lastly, Fiorentina, in spite of its difficult structural factors, such as the non ownership of the stadium, is able to ensure a surplus for the first monitoring period.

Therefore, contrary to any expectations, the peculiarities of the three clubs haven't negatively affected the break - even results, depending just on the ability of the management to run the company.

In conclusion, UEFA has been able to find an efficient measure that has to be considered a point of departure with a lot of point of deficiencies to be covered in the next future but what it has to be laudable is the effort of the association of starting convicting those club whose owners have made football a business from which just obtaining profit and not a sport that wants to give entertainment and emotions.

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