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Financial Fair Play in Professional Football

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Abstract

In the recent years, the football sector has achieved an outstanding revenue growth, that has increasingly gained pace mainly thanks to large deals for broadcasting and commercial rights. Nevertheless, such growth was often the result of irresponsible financial management and large financial gearing, that caused many clubs to take on great amounts of debt. As a consequence, clubs that could rely on wealthy ownerships gained an “unfair” advantage and, on the other hand, vicious cycles of increased, irresponsible spending were triggered, generating an arms race that was having detrimental impact on club finances, often jeopardizing their going concern. After having acknowledged the importance of tackling such concerning trends, UEFA decided, in 2009, to introduce a regulatory regime of “Financial Fair Play” (FFP), in order to heal club finances and ensure the long-term sustainability of the sector. The rules are aimed at ensuring rational and responsible spending, and a more disciplined financial management by clubs. The goal of this thesis is to gain a better understanding of how the European football industry evolved after the regulation was introduced.

In order to do so, the development of the industry will be analysed from two perspectives: financial soundness and balance of competition. The former will be evaluated by analysing the trends of five different financial health indicators – net revenues, net profit/loss, net debt-to-net revenues, wage-to-revenues and net equity – with a particular attention to their evolution after FFP was introduced. The latter will be analysed with the aid of two competitive balance indicators – the C5 Index of Competitive Balance (C5ICB) and the Herfindahl Index of Competitive Balance – with a focus on their evolution over the last 23 years, and on the comparison of their values before and after the regulation was introduced. The dissertation will be enriched with considerations on the most critical aspects of the framework, as well as with some suggestions for its further improvement.

The results show that, even though it is not possible to prove that the evolution of the football industry is mainly dependent on the effects of FFP, there has been a significant improvement of club finances in all the analysed aspects since the introduction of FFP. On the other hand, the disparity of growth between top clubs and the rest of them has widened the gap existing among them, consolidating the hierarchies and causing a general deterioration of competitive balance across the top five leagues.

1. Introduction

The history of football is a history of evolution and revolution. What was once just a niche game has gradually developed, until becoming the world's most popular sport and, while the rules valid inside the pitch have not quite changed, those to be followed outside the pitch indeed have. The sport has evolved together with the society - mostly affected by the same factors - and has developed, from being just an entertaining game to becoming a fully-fledged business of huge proportions. Throughout its history, the sport has been inevitably affected by a number of innovations, more or less relevant, that have left a sign of their passage, changing the rules of the game (on and off the pitch) and transforming the football environment, shaping it into the industry we can observe today. The game became a professional sport, and the market for players soon started playing an important role in in shaping the development of the football environment. With football clubs gradually becoming enterprises, the managerial shift towards profit-making translated into a focus on a team performance driven by the ability to attract and retain the best players, able to attract large audiences. The bargaining power players were starting to enjoy increased even more with the "Bosman ruling" in 1995, that changed the transfer market by allowing for private negotiations between clubs and free agents. In parallel, another revolution took place, with the advent of the broadcasting of sports events (and pay-per-view in particular), that contributed to a widening of the audience and allowed for the monetization of sports events, causing the revenues of football clubs to skyrocket. As the football environment was getting filled with more and more money, the importance of clubs' financial power started becoming increasingly important: the clubs were striving to guarantee themselves high revenues, particularly through the channel of broadcasting and commercial rights, and the stream of income they were able to generate, depending on their visibility and sporting success, served as an incentive for substantial investments in players. The players in fact represent the ultimate input for a football team, and are able to drive performances on the pitch, but also affect the overall business off the pitch, given their impact on the audience and on the visibility of their clubs. The last 30 years, where football has turned from being just a sport to also becoming a television event, have been characterized by large increases in monetary flows to the business and its participants, although the distribution occurred in a rather disproportionate way. Every industry has its key players, and football makes no exception. The top, historical clubs that were able to exploit football's growth spurt and monetize on an increasingly wide business found themselves at the top of the hierarchies, and with the economic means to maintain and consolidate their dominant positions. The revenue-generating mechanism, in fact, tends to favour the richest and most famous clubs, those that have a strong and famous brand, many fans, and are capable of investing in the best players. On the other hand, smaller clubs, that can rely on smaller audience and weaker brand, are left little space to try to fill the gap with their own means, and the distance ends up widening instead. In this context, numerous concerning trends emerged from the European football environment in the early 2000s, with a surge in spending, conditioned by an inflationary spiral of player transfer fees, that caused many clubs to resort to debt. Despite the wealth of the ownerships, the lack of result certainty in sports gives no guarantee of a return on investment in players, and the amount of debt that clubs started taking on grew rapidly, becoming, in many cases, unsustainable. As the pursuit of revenues and the attempt to overcome distances caused more and more clubs to start facing serious financial distress, the top levels of UEFA, responsible for European-level policymaking, decided to act, motivated by serious concerns as to the health of the European football sector. The volume of aggregate losses, as well as the clubs facing serious distress and continuity issues was in fact a problem not just for the individual entities, but also for the wider set of stakeholders having any kind of interest in the well-being of the clubs, including employees and fans. It is for such reasons that UEFA decided, in 2009, to enhance its licensing mechanism with the introduction of the so-called Financial Fair Play (FFP), a set of rules aimed at preserving the financial soundness of clubs, with the aim of protecting the long-term outlook of the whole European football sector, ensuring its sustainability and viability. The framework has undergone significant evolution since its inception and the regulations have been modified multiple times in order to ensure the economic and financial sustainability of clubs, promoting wise management, revenue-based cost control, responsible spending and discipline. Virtuous investments are incentivized, and excessive spending for short-term objectives is discouraged, as well as an exaggerate reliance on debt, in order to protect club finances and their creditors, and ensure stability and long-term sustainability of the industry.

The aim of this thesis is to assess whether FFP has been successful in achieving its primary goal – the stabilization and healing of club finances. The evaluation is carried out with the aid of a set of financial indicators, and their evolution is assessed, placing particular attention to the trends observed prior and subsequently to the introduction of FFP, in order to determine whether there has been an impact, as well as its nature.

Financial solidity is the primary goal underlying the implementation of FFP, but not the only one.

The ability of a sports industry to generate interest and, consequently, revenues depends on the degree of competitive balance it is characterized by, which is an important driver for audience engagement. Despite being considered a secondary objective, the safeguarding of competitive balance in European football was never overlooked by policymakers and is regarded as a crucial factor for the protection of long-term viability of the European football sector. Nevertheless, the FFP was widely criticized for having attained the opposite result, consolidating hierarchies and lowering the degree of balance.

The existence and nature of any kind of impact in this respect will be assessed by means of the analysis of the evolution of two competitive balance indices, again, comparing the pre- and post-FFP trends.
The remainder of the thesis is organized as follows: first, a brief narration of the history of football will be provided in section 2, highlighting the evolution from game to worldwide business and illustrating the modern-day characteristics of such business. Second, a detailed explanation of the regulatory framework will be provided (section 3), including its features, its evolution and the rationale behind its implementation. Section 4 will serve to introduce the research question, as well as to provide a brief review of the existing literature on the matter. After a description of research design and methodology (section 5), empirical analysis will be conducted (section 6) to investigate the research questions. Section 7 will include an overview of the main criticisms and drawbacks of the regulatory system, with the aid of two case studies, as well as suggestion for possible future modifications of the framework. Conclusions will be presented in section 8.

2. History and evolution of football

2.1 Forerunners of Football

The origins of football reach way back in human history. Thousands of years ago, at the outset of human civilization, there were already the first examples of games showing substantial analogies with what is nowadays the world's most popular sport.
Several prototypes of the game can be found in many ancient civilizations, from all over the globe. The most ancient of them is *Tsu-Chu*, an activity that was part of Chinese military training under the empire of Xeng Ti, in the 25th century b.C. and that was based on keeping possession of a rudimental ball, made of plants and animal hair, with the objective of throwing it beyond a sort of goal, made of two bamboo sticks pitched in the ground.
In a similar way, one millennium later, *Kemari* became a very popular game in Japan, with the difference that it was not part of military training, but it was performed for the amusement of the noble class. It was played on a rectangular field, delimited in the four corners by trees, usually a pine, a willow, an almond tree, and a cherry tree, and with a ball measuring 22 cm in diameter, which was played using hands and feet, in a way that might resemble modern-day rugby.
A similar game can be also found in the American continent, when Mexico hosted the Maya civilization. It is the case of *Tlachtli,* a ball game that was played mostly in religious occasions and that involved two teams of usually ten players each. The objective was to keep possession of a heavy

rubber ball by hitting it with any part of the body, except hands and feet, such as thighs, elbows, or shoulders, and throw it through an overhead circular ring in order to score.
Around the 10th century b.C. in ancient Greece, there was a popular game, called *epískyros,* that was later adopted, similarly to many ancient Greek customs, by the Romans, although with some differences. In fact, the Roman version, called *harpastum,* was far more violent than its Greek forerunner, and consisted in trying to pass the rival team's goal line carrying a small ball made of wool or oakum, resisting the attempts of the opponents of taking away possession, which usually occurred with any possible means. The game was very popular among the legionaries, which used to play it while stationed in the colonies of Britain, causing the local populations to come into contact with it. In such way they probably planted the seed of the game in the land that, many centuries later, would be destined to give birth to football as we know it today.
Alike most other recreational activities, ball games were harshly banned during the Middle Ages, also because they often caused violent unrest in the population, as well as distracting soldiers from military activities, and they only came back in vogue during the Renaissance, also thanks to the revaluation of the Classical world. The game found a cradle in the city of Florence, during the reign of the Medici family. They encouraged this activity as a way to keep the population entertained and help them vent their discontent, contributing to its diffusion. The *Calcio Fiorentino,* despite being a brutal and violent full-contact sport, presents many similarities with modern football, some of which are evident. In fact, the team members are divided in positions that resemble the modern ones (for instance, attackers and defenders), and there is a goalkeeper that, unlike the other players, is allowed to use his hands to throw the ball, and not just to catch it. The objective of the team was to score a goal, called *caccia,* kicking the ball in the back of the opponent team's net. From the 18th century onwards, *Calcio Fiorentino* suffered a decline in popularity, only briefly interrupted during the twenty years of fascism, whose propaganda tried to subtract to England the paternity of football and is now only played during historical re-enactments.

2.2 The Birth of Football

The game of football as we know it today was born in England, and its origins are likely to be tied to the aforementioned influence of Roman culture, back when Britain was a province of the Empire. There are several examples of pieces of literature mentioning a rudimental version of the game being played by the population, still characterized by violent contacts and brutal injuries, but it is only in the 19th century that the game began to climb the social hierarchy and started to be a popular activity among the higher classes, whose members were competing among themselves in the context of the colleges, and in particular in the campuses of Charterhouse, Rugby and Harrow. The earlier versions of the game were, however, characterized by a disparity in the set of rules, that would vary from one college to another. For instance, the rules of Charterhouse did not allow players to use their hands, leading to a predominance of the so-called *dribbling game*, where a single player tried individually to get rid of as many opponents as possible, while the games played in the Harrow college were more centered towards team play, the so-called *passing game.*

The lack of a uniform and standardized set of rules was an evident obstacle for the diffusion of the game: every school had its own rules and, whenever people coming from different colleges played together this often resulted in confusion, as anyone would play according to the rules he was accustomed to. For this reason, in 1848, an important meeting took place in Trinity College, Cambridge: fourteen representatives coming from the main colleges spent the whole day debating and putting together their respective schools' sets of rules, in order to shape a single rulebook that could finally be the reference framework for future football matches. One of these gentlemen was Mr. Henry C. Malden, who is considered one of the fathers of Association Football, and the first rules mainly concerned the number of players, the size of the field and length of the match, and some rudimental version of the offside.

There were subsequent upgrades to the so-called *Cambridge Rules,* and the 1856 version in particular was probably the most important attempt of codification, as all the following versions of the rulebook were stemming from it, obviously with some modifications and additions. Thanks to a more uniform set of rules, the game started to become more and more popular, also spreading outside of the university context: Sheffield Club, the first non-university football club, was founded in 1857, and five years later Notts County was born in Nottingham. From that moment on, football clubs began being established all over the country, as football was starting to spread.

The historical date the birth of modern football is traced back to October 26th, 1863, when the representatives of the 11 London clubs met in a tavern in order to uniform their rulebooks. Back then, two were the predominant views: one was in favor of allowing the use of both feet and hands, also maintaining the physical contact characteristics of the earlier versions of the game, while the other, in contrast, advocated for a much less violent setting, in which the ball could be touched exclusively with the feet. The proponents of the latter merged during the foundation of the FA (Football Association), the first football federation ever (Cárdenas, 2014).

A couple of decades later a major innovation took place, determining a leap forward in the world of football, that would help shape its environment as we know it now. In fact, as the fame of the sport kept spreading, and numerous clubs were being founded, the number of players involved kept growing and growing, and the FA, in 1885, finally recognized the possibility for clubs to grant a form of remuneration to their players, as a compensation for their performances. It goes without saying that this early form of "professionalism" (the fees the players received were rather small, and only formed an integration to the wage they earned from their jobs) was destined to change the sport forever, and it was not long before its earlier effects were visible, as the wealthier clubs were able to attract the best players more easily. This, for example, translated into a long-lasting leadership of Aston Villa, that, thanks to its notable economic capabilities, was able to become one of the most successful teams at the turn of the two centuries.

A further step towards professionalism was taken when, in 1897, the first association of football players was established in London, a sort of labor union that would have subsequently transformed into the PFA (Professional Footballers' association).

Another crucial moment for the development of the sport is represented by the establishment, in 1886, of the IFAB, the International Football Association Board. The original proponents were the four existing football associations (English, Welsh, Scottish and Irish), the purpose was that to further harmonize the rulebook that still had some differences across the countries, and, to this day, the institution represents a sort of supreme authority for what concerns the rules, a gatekeeper that is still in charge of any decision regarding changes or improvements to the framework.

At the time, the thriving industrial setting enjoyed by Great Britain translated into the need for a flourishing network of cross-border trades, and English ships were sailing all over the world. In such way, during the last three decades of the 19th century, the sailors that were often seen playing football during their leisure time exported the game in several coastal countries in Europe (the first clubs in France and Spain date back to the 1870s) and South America, while Switzerland, thanks to college exchange programs that saw many young students travelling to England, is responsible for the diffusion of the game in continental and eastern Europe.

Despite the rapid wide spreading of the game, Great Britain was jealous of its predominant position in the newly born sport and was rather reluctant to making their secrets available to the rest of the world, hence it took a long while before the proponents of a supra-national federations were able to convince them to participate. The representatives of the four British nations were already involved in a tournament called *Home Championship* and were not enthusiastic about the idea of sharing the sport they had invented with other national federations. Much of the initiative for the creation of an international football system came from France, that hosted in 1900 the second edition of the Olympic Games, including in the program a small football tournament that had great success. In the wake of this, several advocates of an internationalization of football, including the French journalist Robert Guerìn, approached the FA, with the intention to convince them to join a confederation that regulated and coordinated the operations of each individual national federation. All they received were harsh

rejections, until, in 1904, on the occasion of the international match that saw France and Belgium facing each other, Guerìn invited to Paris the delegates of eight federations (France, Belgium, Denmark, Spain, Germany, Switzerland, Sweden and the Netherlands) and founded the FIFA (Fédération Internationale de Football Association), of which he was appointed chair. Following the adhesion of numerous other national federations, they finally convinced the British federations to join in 1905, and the chairman of the FA, Daniel Burley Wolfall, that became president of FIFA the subsequent year, managed to include football in the program of the CIO, the international Olympic committee, starting from the 1908 London Olympics.
The possibilities to give birth to a world tournament, as originally advocated by the founders of FIFA, were still very limited, mainly due to the difficulties South American national teams met as it came to travel to Europe, but the worldwide diffusion of modern football was already under way.

2.3 The Evolution of Football as a Business

If we look at its earliest days, when football was a niche game, and we observe its rapid diffusion and its ability of thrilling the masses, the reasons why it became the world's most popular sport (Bell, Brooks, Matthews, & Charles, 2009) appear rather clear and simple to identify. The engagement it is able to generate and the emotions it arouses are transversal to the different classes of society and the passion it inspires across the world is exceptional when compared to other sports. It is hence not surprising that, on the basis of such an ability to generate involvement, football has grown to transcend the barriers of the game and has evolved taking the shape of a global business.
At the outset of the game, football associations primarily existed in order to organize matches and coordinate competitions, granting the possibility to play regularly. Nevertheless, as the game grew in number of participants and size of the audience, competition became a crucial driver for the evolution of the game; clubs began having vast fanbases of passionate supporters, and they soon started investing in services for the public that required considerable expenses.
The teams were able to fund themselves through the sale of tickets for the matches, thus the satisfaction they managed to offer to the fans, and the quantity of paying spectators they were able to attract became central objectives for them. Winning soon became more important than participating, and it was not long before the biggest clubs started seeking the best players, those that attracted more fans, offering more generous fees or facilitating their quest for a job, in order to assure themselves a roster able to deliver successful performances and, hence, to generate appreciation among the supporters. The aforementioned case of Aston Villa, one of the first clubs to exploit their wealth in order to secure the best players, is just one example of a practice that rapidly took over the football

world, and we must notice that, despite an early form of professionalism was only recognized in 1885, compensation for athletic performance already existed in 1876, only two decades after the stipulation of the *Cambridge Rules.*

Competition is a natural, intrinsic characteristic of any game, but, in the case of football, it became a key driver for the evolution of the sport as a business, also thanks to the vast appreciation of the sport and the numbers it was able to generate in terms of audience. Teams began investing in the construction of stadiums, as well as facing more expenses as the environment grew in complexity and geographical extension, and at the early stages they had to rely on the inflows granted by the sale of tickets to fund their operations. The latter, in turn, depended on the results they obtained, which were affected by the ability to line up the best players. We can already see how this takes the shape of a proper business that, with the evolution of professionalism, grew to become the industry we are able to observe today.

In this context of increasing industrialization and popularity of the sport, the expenses necessary to run a team grew together with the revenues it granted, causing an increase in attractiveness for investors willing to accept the challenge and step in a business that was showing huge and growing potential in terms of visibility and return. Such developments caused a significant change to how football teams were perceived. In fact, they went from being associations meant to organize matches and coordinate competitions, to effectively taking the shape of proper businesses, which is also testified by the fact that, for example, Italian football federation (FIGC) issued in 1966 a regulation imposing the transformation of clubs from associations to private limited companies.

Professionalism, from its early stages, evolved rapidly; eventually, the signing of foreign players was allowed, compensation for players started becoming a proper salary and a transfer market for the exchange of players was born. Initially, players signing for a club were tying their performances to that club only, and there was no possibility for the transfer. Soon the market for players became increasingly fervent, given the importance of the return teams obtained by signing the most spectacular players, and the monetary volumes involved grew accordingly.

A decisive factor in the development of the football transfer market came with the December 1995 “Bosman ruling” of the European Court of Justice, that represented a revolutionary event for the football industry, and a significant milestone for its development. On the basis of the ruling, players were allowed to play for clubs in any EU member state, and the previous limit imposed to the signing of non-EU players was removed. In addition, the ruling provided for the possibility for free-agent players to sign with any club of their choice by means of an agreement on salary and other contractual terms with the club itself, and without any transfer costs. This was a game-changing revolution that significantly affected the nature of the relationship between clubs and players, as well as the mechanism of financial management of clubs.

1996 was a revolutionary year also because the ban that previously existed to the distribution of club revenues among its members (any income was to be reinvested in the club itself) was lifted, and it goes without saying that the addition of a profit-making purpose triggered major changes in the industry through a series of direct and indirect consequences. Clubs, in fact, started to take the shape of an actual company with a strategy and a management mechanism that were aimed at the remuneration of investors. This has entailed considerations about financial soundness (also in the long-term) and cost reduction and even greater attention to revenue drivers.

In this context, the evolution of the football industry is also tied to a series of innovations that affected the mechanisms and priorities of club management. One of the most important ones is related to the invention of television, and the advent of the broadcasting of sports events. In fact, while the broadcasting of sports events was initially conducted by public television, with the consequence that the attached revenues were mostly negligible, the picture changed rapidly together with the popularity growth of the game. Football teams began to record revenues related to broadcasting rights already in the 1980s, and the advent, in the mid-90s, of pay-tv and commercial broadcasters caused the monetary volume related to broadcasting rights to skyrocket, until reaching the huge proportions it has nowadays. Thanks to television broadcasting the popularity of football grew even more, and it was not late before the first advertising initiatives were launched in order to exploit the increased visibility that the clubs' brands were enjoying. Technical sponsors were actually born already in the 70s, with the kit suppliers beginning to pay the teams to wear their products and to have their logo displayed on jerseys instead of the other way around. Indeed, with the visibility boost granted by commercial broadcasting and other media from the mid-90s onwards, the advertising initiatives carried out by clubs started growing in number and scope, contributing to the transformation of football into a fully-fledged business.

2.4 Football Club Business Models

Football clubs have nowadays taken the shape of proper businesses, and, despite some differences, they are to be considered full-blown companies that, as such, are run according to a business model. The lawyer and FIFA Agent Jean-Christophe Cataliotti, together with Dr. Tommaso Fabretti, defined during a 2012 interview with the online magazine calciomercato.com four models for the management of a football club:

1. Public business;

2. It’s my party;
3. Popular club;
4. Family affair.

The first category includes the largest clubs, that have become large companies and have listed their stocks on an exchange. Such types of firms are open to the public, and anybody, from the larger investors to the individual supporters, can choose to purchase a stake in the ownership of the company. Example of such clubs are Juventus F.C. and S.S. Lazio in Italy, and, among the others, Manchester United F.C., Borussia Dortmund and A.F.C. Ajax. Juventus F.C. shares, for instance, are owned for the 63.8% by Exor N.V., a holding company controlled by the Agnelli family. Out of the free float, 6.95% is owned by Lindsell Train Ltd, while the remaining shares are held by over 40’000 investors of different type and size, going from pension or sovereign funds (for example, Border to Coast Pensions Partnership Ltd.) to investment funds and companies such as BlackRock, but also including individual retail investors and club supporters.

The open market trading of ownership shares grants the possibility to have quicker and wider access to capital from investors all over the world. However, the listing of shares entails the requirement for greater transparency and clarity when it comes to the reporting of financial results and the setting of future strategic orientation. At the same time, the risk is that, being the club a listed company, the financial results can take prominence over the sporting results, potentially causing goal misalignment.

The second category describes a business model according to which the club belongs to a unique, wealthy, and powerful owner. Such owner is able to confer to the club large financial resources and runs it as if it was his personal enterprise, often providing huge amounts of capital in order to buy the best players and make the team successful. Emblematic examples of such type of model are the historical former owners of A.C. Milan (Silvio Berlusconi), F.C. Internazionale Milano (Massimo Moratti) and Chelsea F.C. (Roman Abramovich). The main advantages of such type of model resides in the large spending capacity of the owner, that is ready to put big sums of money on the table in order to invest in the transfer market and fill in with additional personal capital any losses reported in the financial statements. On the other hand, however, this model is not free from important shortcomings. In fact, it makes the company and its owner prone to significant financial risk and, especially in case of mismanagement, the club can find itself facing serious distress. This often results into devaluation, to the point that the owner might want to exit from the investment and dispose of his shares, often selling the whole business at a discount and leaving the club in bad waters. This case has occurred multiple times in the past, and this type of ownership is lately decreasing in popularity.

The third model, the so-called “Popular club”, describes a club whose ownership is communal and distributed among a large number of public investors, on a low-denomination base. This type of

ownership is called “Popular shareholding”, and it has proven to be successful in many cases, including some of the biggest and most famous clubs in the world, such as F.C. Barcelona, Real Madrid C.F., and F.C. Bayern Munchen. The shares of the clubs are held by a vast public of non-institutional investors, most often fans of the club itself, and the biggest clubs can count on hundreds of thousands of supporters contributing to the club’s finances and project with their capital, out of pure passion. F.C. Barcelona, for example, has over 233’000 shareholders worldwide, while F.C. Bayern Munchen, following a 1999 German law that bans any shareholder to detain more than 50% of shares in a football club, is divided as follows: Allianz SE, Adidas AG and Audi AG each hold 8.33% of shares, while the remaining 75% is owned by the fans. The positive aspect of this model is tied to the dispersed and passion-driven nature of the ownership. When the shareholders are fans of the club, they will put the success of the team before anything else, including profit, and a large number of shareholders has an important influence on the election of the executive board and the chair of the club. The downside of such model, however, is represented by the fact that dispersed ownership comes along with frequent and sometimes unforeseeable changes in the governance composition and/or in the election of board members and chair, which may destabilize the club’s organic and strategic orientation.
The fourth and last business model is the “Family affair”, and it is usually found in smaller and less important clubs. It resembles the classic model of a family business. The investments in the club are carried out by the owners thanks to the family’s resources and there is a coincidence between ownership and management, as the owners run the club personally, with the help of a few participants. The emotional involvement of the owners translates into a passionate management of the club, and the chairman often defends the interest of his team with any possible resource. However, the modern developments of the football industry have made it an ever-changing and dynamic environment, and this most often leads to the need for rapid strategic adjustments, which sometimes are not contemplated by such traditional-type owners.

2.5 Football Business Overview

Football is considered the most popular sport in the world. The engagement and the passion it is able to generate know no geographical nor demographical limits, as testified by a number of surveys conducted globally. Different estimates have been conducted on the number of people interested in football worldwide, numbers ranging from 3.5 up to 4.3 billion people. According to the Nielsen 2022 World Football Report, football generates powerful interest in more than 40% of the global population, and the recent 2022 FIFA World Cup has been characterized by the highest level of awareness for any sporting event (on par with the Olympics), reaching 95% of sports fans.

Nielsen conducted in 2022 a survey among 13 countries (Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, South Korea, Spain, U.K. and U.S.), including the top ten economies in the world, and found football to be one of the three most popular sports in 10 countries out of the 13 surveyed, and never outside the top 10 (Figure 1).

Top 3 sports in each country | Interested population

Australia	Australian rules football - 36%	Tennis - 34%	Cricket - 32%
Brazil	Football - 65%	Volleyball - 50%	Extreme sports - 42%
Canada	Ice Hockey - 43%	Figure skating - 31%	Snowboarding - 29%
China	Basketball - 44%	Badminton - 41%	Football - 40%
France	Football - 43%	Tennis - 34%	Rugby - 33%
Germany	Football - 51%	Ski jumping - 40%	Biathlon - 37%
India	Cricket - 73%	Football - 56%	Badminton - 55%
Italy	Football - 57%	Motorsports (+F1) - 43%	Athletics (e.g. Track & Field) - 42%
Japan	Figure skating - 35%	Baseball - 35%	Football - 28%
South Korea	Short track speed skating - 51%	Football - 50%	Figure skating - 47%
Spain	Football - 57%	Tennis - 44%	Basketball - 43%
U.K.	Football - 52%	Boxing - 31%	Motorsports (+F1) - 30%
U.S.	American football - 51%	Basketball - 40%	Baseball - 39%

Data source: Nielsen Fan Insights, January-April 2022

Figure 1: Top 3 sports for level of interest in 13 surveyed countries – Nielsen Fan Insights report, 2022

Despite its popularity being prominent in Europe, where it was born, it can count on a massive appeal worldwide, particularly in the Asian continent (Figure 2), most of all in the Southeast. This demonstrates that the passion and involvement football is able to generate translate into a level of interest of huge proportions also in the nations whose national team has traditionally never qualified for the World Cup or other international competitions.

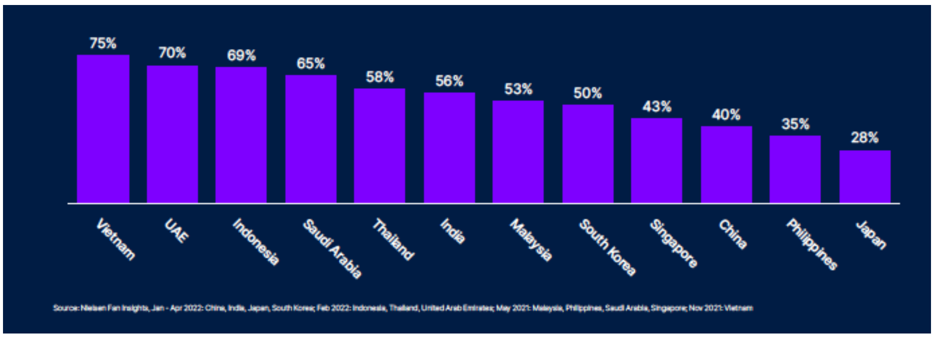

Figure 2: Interest for football in Asian countries - Nielsen Fan Insights report, 2022

The data collected and analyzed in the 2018 Nielsen World Football report testifies the nearly universal popularity of the sport worldwide. It goes without saying that a game capable to have such a massive impact across countries, culture, and demographic levels also represents a huge market characterized by a value to media and sponsors that has no rivals in the sports industry.
According to the Nielsen report, in the 18 global markets surveyed, 736 million people have declared to be "interested" or "very interested" in football in 2017, totaling 43% of the respondents and, despite the overall interest in sports has been relatively steady from 2013 to 2017, the interest in football has grown significantly in some countries. China and India, for example, have witnessed an increase in interest from 27% to 31% and from 30% to 45% respectively. Accounting for their large populations, this translates into 187 million football fans (more than in the "Big 5" European markets combined) for China and 125 million for India. The increase in interest for football in such countries was driven by important investments, such as the creation of the Indian Super League in 2013, that have been able to attract important players at global level, stimulating a significant boost in the appeal the sport enjoys. Also in the U.S., where there is an undisputed dominance of sports such as basketball, baseball and American football, significant investments to increase the appeal and the spectacularism of the Major League Soccer have increased the interest in football from 28% to 32%.
Interest in football is gaining ground in all the five continents, however, being Europe the motherland of the sport, its dominant position in the global landscape is solid. The development of the sport in the Old Continent has generated the most competitive and spectacular leagues, hosting the world's best and most famous players and teams that can count on millions of fans worldwide. Clubs such as Real Madrid and Barcelona reach out to over 300 million people, considering their followers inside and outside social media [1].
Figure 3, extracted from the 2022 Deloitte Annual Review of Football Finance, shows that the football market size of the "Big 5" leagues, namely the English Premier League, the Italian Serie A, the Spanish La Liga, the French Ligue 1 and the German Bundesliga have accounted for 56% of the global football market size in the 2020/2021 season, and their share of market size has steadily been in the 55%-60% range throughout the last decade.

[1] footgoal.pro, 2023 data

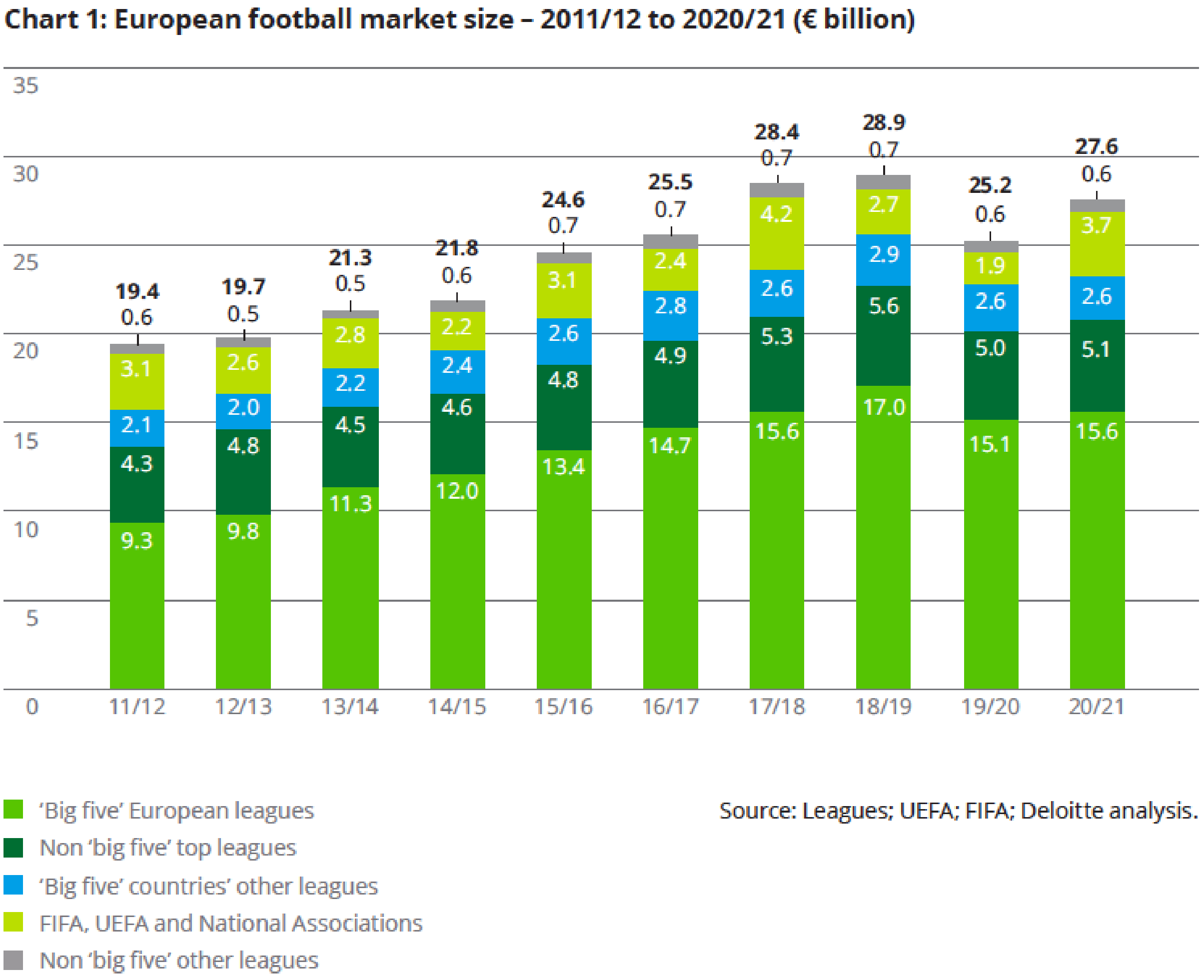

Figure 3: European Football Market Size - Deloitte Annual Review of Football Finance, 2022

After a significant decline in revenues caused by the impact of the Covid-19 pandemic, the "Big 5" leagues have dropped to 2017/18 levels but were capable of an outstanding recovery that grants them a positive outlook for the upcoming seasons. According to Deloitte, the aggregate revenues for the "Big 5" leagues are forecasted at €18.6 billion for the 2022/2023 season.

The important connection between the appeal of a league and its volume of revenues mainly exploits the channel constituted by broadcasting revenues. The English Premier League, that has been able to arrange the most profitable contracts for broadcasting rights, has been the dominating league for over three decades and it will seemingly be so also for the incoming fourth decade.

Figure 4 below illustrates the revenues in the 2020/2021 season for the top 5 leagues, testifying the clear superiority of the Premier League, but also showing the importance of broadcasting income and the role it plays in awarding such dominance to the English first division.

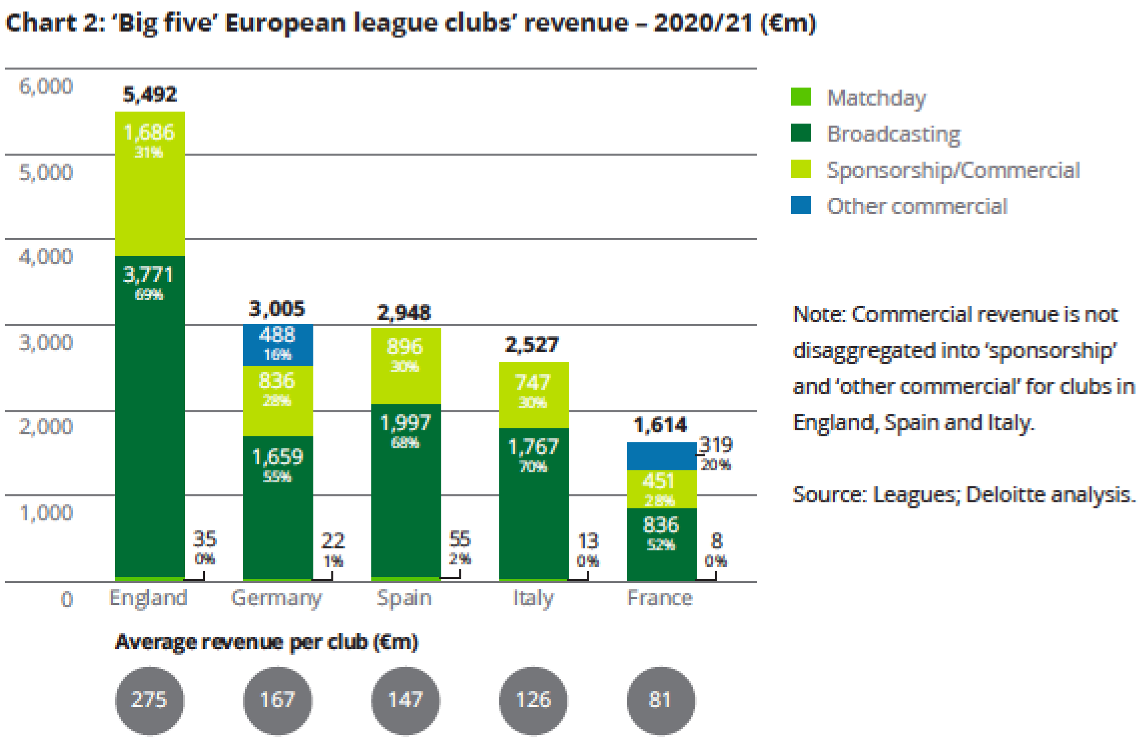

Figure 4: "Big 5" European League Clubs' Revenues 2020/21 - Deloitte Annual Review of Football Finance, 2022

The Deloitte 2022 Annual Review of Football Finance is based on data from 2020/2021. During such season, the impact of the pandemic on matchday revenues delivers an unfaithful picture for what concerns the impact of gate receipts on club finances. On the other hand, in the latest years, the main five leagues have closed increasingly profitable agreements for the distribution of broadcasting rights, that have boosted the contribution of such component on overall revenue. For this reason, I propose to analyze in parallel the data coming from the 2020 and 2022 report, covering the 2018/19 season (pre-Covid) and 2020/2021 season (post-Covid), respectively.

Figures 4 and 5 testify that, regardless of the above considerations on matchday revenues, they nonetheless represent the smallest portion of income for the "Big 5" leagues, while the most significant revenue driver is undisputedly represented by broadcasting rights.

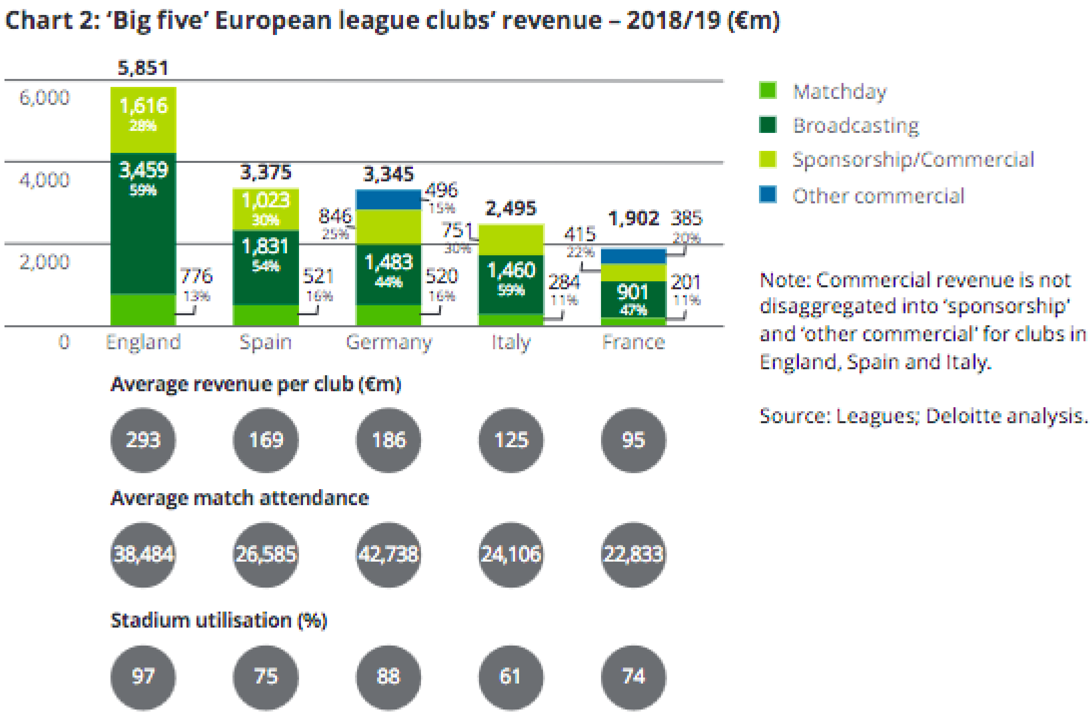

Figure 5: "Big 5" European League Clubs' Revenues 2018/19 - Deloitte Annual Review of Football Finance, 2020

Broadcasting rights account for 69% of total Premier League revenues and represent an income that is greater than the total revenues of any other of the "Big 5" leagues. The hierarchy of the revenue components is equal across the five leagues, and broadcasting rights account for 55%, 68%, 70% and 52% of revenues for Bundesliga, La Liga, Serie A and Ligue 1, respectively. If we look at the 2018/19 picture, matchday revenues have a significantly greater impact for the aforementioned reasons, but remain the smallest component nonetheless, while broadcasting rights are still the main revenue driver. The second most important contribution is given by sponsorship and commercial revenues, totaling 28% (France, Germany) to 30% (Spain, Italy), up to 31% (UK). This latter type of revenue driver is the one experiencing the most important growth at club level, and is going to cause significant uplift, according to Deloitte, for the inflows of many clubs. One famous example is represented by the partnership between F.C. Barcelona and Spotify, or the increasingly frequent partnerships between football teams (e.g., Atletico Madrid, Inter) with cryptocurrency or foreign exchange trading platforms. On the other hand, despite being the main revenue driver, broadcasting rights display a growth problem, due to problems such as piracy or increased complexity of the commercial broadcaster landscape. The German Bundesliga, for example, has managed to achieve a value for the 4-years rights cycle 2021/22 to 2024/25 which is 5% lower compared to the previous cycle, and also the Italian Serie A has suffered a decline in the value of the rights for the 2021/22-2023/24 cycle compared to the previous agreements.

Overall, the revenues for the "Big 5" leagues have grown steadily in a continuous uptrend that was only temporarily halted by the Covid-19 outbreak. Figure 6 below shows past and projected future results, highlighting the superiority of the English Premier League that has constantly been able to outpace the other four leagues, despite following a similar trend.

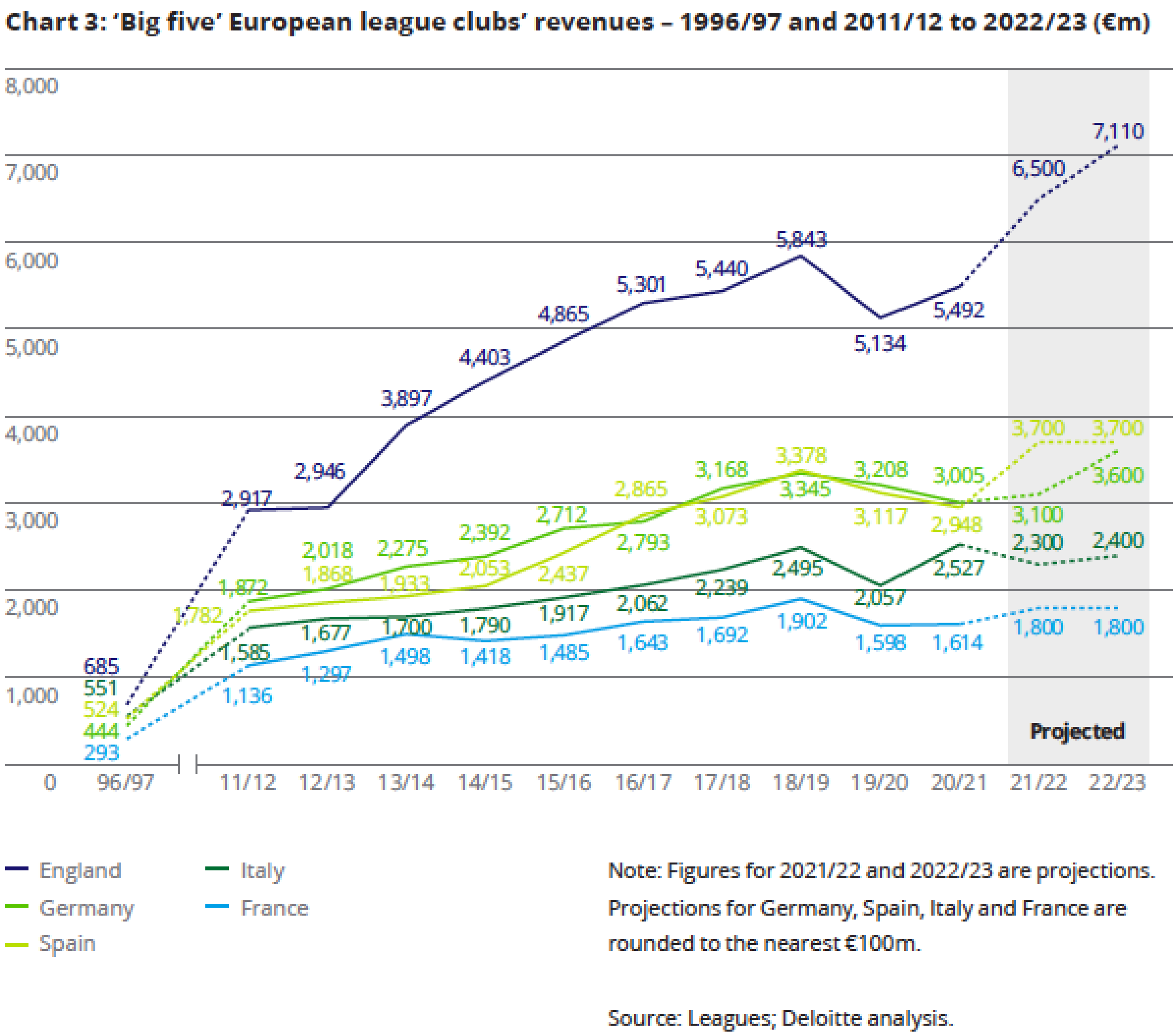

Figure 6: "Big 5" European League Clubs' Revenues 1996/97 and 2011/12-2022/23 - Deloitte Annual Review of Football Finance, 2022

The Deloitte Football Money League is an annual report analyzing the profile of the highest revenue-generating clubs, and it gives useful insights on the state of football clubs and the overall football industry from a financial standpoint. The 2023 edition is based on data referring to the 2021/2022 season, and offers several takeaways that give important indications on the state of the football market.

According to the report, revenues for the top-20 clubs in the 2021/22 went back to the pre-pandemic levels, totaling €9.2 billion. This represents a 13% increase compared to the previous season, primarily driven by the return of fans after the pandemic (matchday revenues were only €111 million in 2020/21 and went back to €1.4 billion in 2021/22), but also by an 8% growth in cumulative commercial revenues (from €3.5 billion to €3.8 billion), thanks to new partnerships and non-matchday events. The increase in such revenues was however offset by an 11% drop in broadcasting revenues, but this is due to the fact that, during the previous year, many revenues were recognized after being deferred in 2019/2020. This is another exceptional event attributable to the Covid-19 pandemic and might not deliver a faithful representation of the underlying trends in this case.

Nonetheless, Figure 7 below depicts the growth of average revenues (decomposed in its sub-components) for the top-20 clubs, and shows that, except for the drop caused by the pandemic, there has been an overall uptrend.

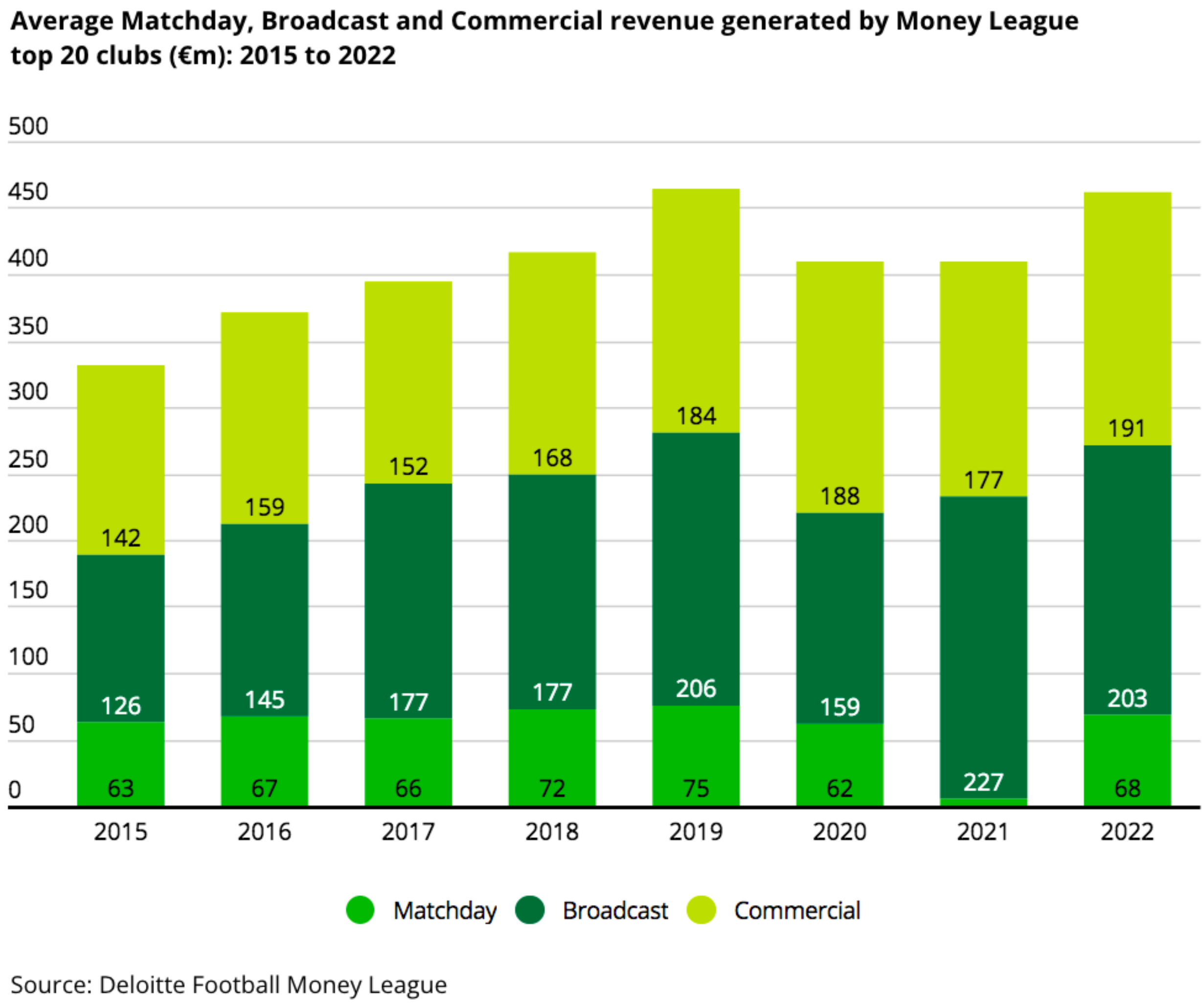

Figure 7: Average Portion of Main Revenue Drivers 2015-2022 – Deloitte Football Money League, 2023

Revenues have always steadily grown and now are back to pre-Covid levels, with positive forecasts for the future outlook. Moreover, while some clubs, such as Real Madrid and Barcelona are struggling to get back to pre-pandemic levels, other teams like Liverpool, Chelsea, and Paris Saint-Germain have grown to outperform their pre-pandemic levels. The overall picture shows that, despite the recovery is less smooth for some clubs than for others, the upcoming times are forecasted to be rather bright for the top clubs, and, again, the Premier League confirms to be an absolute leader. English clubs have in fact been able to overcome the Covid-19 wave, as well as having better exploited team-owned stadiums and broadcasting rights, and they display a clear financial superiority when compared to teams from other leagues. This is testified by the fact that, for the first time, 11 out of the 20 top clubs come from the Premier League, and if we consider the top-30 clubs, 80% of the Premier League (16 clubs out of 20) are part of the list.

The main takeaway offered by the Deloitte report confirms that the major revenue drivers are again broadcasting rights (44%) and commercial revenues (41%), but it is true that these percentages are different for smaller clubs. The biggest and most famous teams can count on greater visibility due to their success and participation to the most important competitions, such as the UEFA Champions League, and on a huge number of fans globally. This translates into the possibility of exploiting their brand by means of commercial partnerships and sponsorship deals. Indeed, this is less true for smaller clubs, whose brand is not strong enough to guarantee equal revenues from commercial deals, and their revenue will be mainly steered by broadcasting rights.

2.6 Revenue Composition for Football Clubs

To better understand the revenue drivers of European football clubs, I will briefly analyze them individually, based on the 2021 edition of the European club footballing Landscape, a report draft by UEFA covering several aspects regarding the sportive and financial performance of European clubs. Most of the data considered is however referred to 2020 and is hence impacted by the effects of the Covid-19 pandemic.

2.6.1 Broadcasting Rights

As previously stated, broadcasting rights represent the greatest portion of club income regardless of the size of the clubs, despite this factor is influential in the overall weight of such revenue source on the total income.

As a matter of fact, the history of football has been impacted by television and broadcasting media probably more than by any other factor. The birth of television and of sports broadcasting was decisive for the growth spurt of the game between the 60s and the 80s, allowing the sport to reach out to more and more people and to increase in popularity, and the advent of pay-tv and pay-per-view in the mid-90s represented a real game changer. The revolution brought by broadcasting caused the teams to cease relying only on gate receipts, and to start exploiting the communication media for massive gains in monetary terms, but also in terms of appeal and popularity. A popular Italian journalist, Michele Serra, wrote an article back in 2002 for the Italian newspaper *La Repubblica*, where he was highlighting the "genetic mutation of football from game to television event". It was clear already back then that a revolution was taking place, and this was going to inevitably change the sport radically. In fact, as we have previously mentioned, broadcasting rights are nowadays the largest revenue source for football teams, without exceptions.

Considering all of the 711 clubs part of the UEFA environment, domestic TV rights and UEFA club competition TV revenues have accounted for, respectively, €7.1 billion and €2.4 billion, representing 34% and 12% of the overall revenues, while, considering the early reporting clubs that had already made 2021 data available, domestic TV rights accounted for a 38% share of the total revenues, while UEFA club competition TV rights for 19%.

The distribution of television rights across the clubs competing in a league differs among the different leagues, with different portions being distributed according to different metrics. We consider three broad categories: equal distribution (on average, across the leagues, just over half of the revenues is distributed equally among members), distribution based on sporting merit (on average, this is the case for just over a third of revenues), distribution based on other metrics (in roughly 10% of the cases).

In the case of the Italian Serie A, for instance, the subdivision of broadcasting rights is as follows (data is referred to the 2021/2022 season):

- 50% of the rights are equally distributed among the 20 teams (€25.5 million per team, for a total of €470 million);
- 30% are distributed according to sporting merits, broken down as follows: 5% based on the results in the seasons going from 1946/47 to the sixth season prior to the current one, 10% based on the results of the last 5 seasons, 12% according to the final standings in the table of the last season, 3% according to the total points achieved during the season;
- 20% are distributed according to the social grounding of the clubs, where 12% depends on the number of fans attending the matches at the stadium in the previous three years, and 8% is based on the certified TV audience (Sky-DAZN) each team is able to record.

This division of rights is however less equal than the ones we can find in other leagues, and it significantly favors the top-of-the-table clubs over the ones in the lowest positions. After the 2020/2021 season, in fact, Inter, who was sitting at the 1st place, received more than three times the amount Venezia (sitting in the last place) received.

Other leagues, such as the Premier League, have been able to achieve a fairer distribution of revenues, reducing the gap between top and bottom-of-the-table clubs.
The distribution of revenues can in fact be interpreted in the context of the competitive equilibrium, which will return as a key topic later in the dissertation. The bottom line of the consideration is that the spectacularism of the show a team is able to offer has an undeniable impact on the portion of broadcasting rights it will receive, and this constitutes a huge incentive to invest (and sometimes over-invest) in players that are able to guarantee the achievement of successful results and high audience shares. As long as the biggest and better performing clubs will be able to generate greater broadcasting revenues thanks to the better quality of the show they offer, they will keep investing in it, and this cycle will go on to the continuous detriment of smaller clubs.

2.6.2 Sponsorship and Commercial Revenues

The second most important source of revenues for football clubs is represented by sponsorship and commercial rights. This broad category includes the activities that exploit the visibility of a club and its brand in order to generate income. Revenue from commercial rights includes, among others, proceeds from sale of jerseys, merchandising and branded products, as well as advertising. The first sign of commercial exploitation of the visibility football clubs enjoy started back in the 70s, with the first examples of technical sponsorship. Prior to that, the clubs were buying their kits from the suppliers, and hence were paying them. Football clubs, thanks to the popularity and visibility they were gradually able to achieve, managed to turn the tables and invert the direction of the deal. Kit suppliers started paying the clubs to use their products, and display their logo on team jerseys, instead of the other way around, and in such way the so-called technical sponsors were born. Football regulators, such as domestic federations and leagues, were initially reluctant to allowing football teams to advertise commercial brands on their jerseys, and at the first moment only technical sponsors were allowed. However, clubs were rather creative in finding ways to circumvent the ban imposed by the federations. In Italy, for instance, the practice of the so-called “pairing” was in place already during the Second World War. By means of this stratagem, clubs were able to pair their name to the name of a firm, whose owner was usually the owner of the club itself, and hence guarantee a visibility spillover to the company. The most famous example is Lane Rossi Vicenza, that saw the name of the team being paired to the name of its owner’s wool factory for almost 40 years, from 1953 to 1990. Nonetheless, pairings were often more of a matter of economic survival of clubs (for instance, in the case of Juventus and Torino during the War), rather than an actual attempt to exploit the visibility for commercial purposes.

Starting from the mid-70s, several clubs across different European national leagues began signing deals with companies. The first example is represented by Kettering Town, that started the trend in 1976 by signing a deal with the local company Kettering Tyres, despite being subsequently fined by the FA. Following Kettering Town's example, the idea that this practice could be an excellent opportunity started pervading clubs around Europe, and it was not long before the first large sponsorship deals were signed, such as the 1979 agreement between Liverpool F.C. and the Japanese company Hitachi.

In many leagues, however, only technical sponsors were actually allowed. In Italy, for instance, the Federation gave green light in 1978/79 to the presence on team jerseys of the logos of kit suppliers only. The prospect of remunerative sponsorship deals was however very tempting, and this stimulated many clubs to use creativity and exploit the blind spots of Federation regulations in order to be able to advertise companies on their matchday kits. The first example of such practice in Italy is provided by Udinese, whose chairman was, back then, Teofilo Sanson. Taken literally, the norms regulating the kits were, in fact, only prohibiting the display of sponsor logos on the jerseys to be worn during the match, and not on any other piece of clothing. The owner of the club hence thought of an *escamotage* and started printing the name of his homonymous food company on the shorts that, in his opinion, were not mentioned in the rules. This creative interpretation of the provisions was not viewed favorably by the Federation, and Udinese was fined for it, but the increased visibility the Sanson brand gained from the event and its subsequent legal aftermath resulted in a noticeable increase in sales. It was not long before other clubs started imitating this example, including sponsor logos on training jerseys, on match tickets, or on clothes worn by ball boys, and soon enough the process became unstoppable, until finally convincing the Federation, in 1981, to open up to non-technical sponsorships.

From the 1990s on, also thanks to the development of sports broadcasting, there was a considerable escalation in the development of sponsorships. Soon, company logos started filling up any piece of gear a club had, and more than one sponsor was allowed to be displayed on kits. The evolution brought to the distinction between sponsors, divided in premium, gold, and silvers sponsors and official partners, with different degrees of visibility, and sponsorship deals gained more and more importance, until reaching the massive proportions they have nowadays.

At the modern day, in fact, commercial and sponsorship deals represent a huge portion of club revenues. According to the Deloitte Football Money League, they accounted for over 41% of the revenues of the top 20 revenue-generating clubs in the 2021/2022 season, and the picture does not change if we consider the leagues as a whole. According to the 2022 Deloitte Annual Review of Football Finance, sponsorship and commercial revenues make up at least one third of the revenues in all of the “Big 5” European leagues. In absolute terms, the leading league is once again the Premier League, that totaled an aggregate commercial revenue of almost €1.7 billion (31%), while the French League 1 and the German Bundesliga are the leading leagues in terms of relative weight of commercial and sponsorship-related income, that made up, respectively, 48% and 44% of the total revenues. In Spain and Italy, commercial revenues represented in 2021/2022 the 30% of total revenues. Relative proportions of revenue drivers for the 2021/2022 season are distorted by the drastic reduction in matchday revenues caused by the Covid-19 pandemic, but if we take a look at the 2020 edition of the Deloitte Annual Review of Football Finance, the picture does not change much. Commercial and sponsorship deals, in fact, accounted for 28% of revenues in the Premier League, 30% of revenues in La Liga and Serie A, 40% and 42% of revenues in Bundesliga and Ligue 1, respectively, confirming themselves as the second most meaningful revenue driver for clubs. Not only that, sponsorship deals proved to be rather advantageous also for sponsors themselves, as 67% of football fans find brands participating to sponsorships more appealing, compared to the 52% of the general population, while 59% of football fans would pick a sponsor’s product over a rival’s product with the same price and quantity, compared to the 45% of the general population [2].

2.6.3 Matchday Revenues

Initially, gate receipts were the only revenues football teams could count on. Fans started gathering at the stadium already at the very outset of the game, and the proceeds from the sale of tickets represented the first actual income clubs started to earn. This consequently triggered the need to offer a show of the best quality in order to attract the largest audience possible, hence financing by means of gate receipts the increasing expenses clubs had to face. Matchday revenues in fact have represented the only source of earnings for clubs for a long time.

Nowadays, with the advent of commercial broadcasting and sponsorship deals, matchday revenues have fallen in the hierarchy of the main income drivers and are currently the component of the three that accounts for the smallest portion of revenues. The most recent data we have at the present date refers to seasons 2019/2020 and 2020/2021. However, from the point of view of matchday revenues, both seasons were severely affected by the consequences of Covid-19. Government lockdowns, social distancing and general restrictions made sure most of the games were played behind closed doors or with a heavily reduced audience being admitted inside the stadium, and for such reasons the data referring to these two seasons provides a distorted depiction of the contribution of matchday revenues.

[2] Nielsen World Football Report, 2022

In order to assess their importance, we will refer to the 2020 Deloitte Annual Review of Football Finance that, examining pre-Covid data from the season 2018/2019, shields our considerations from the adverse effects of the pandemic. According to the report, matchday revenues (that include stadium tickets, but also overall hospitality and food and beverages consumed at the stadium during matches) accounted for 11% of revenues in Italy and France, 13% in England, 16% in Germany and Spain. Although there is no official data available yet for the 2021/2022 and 2022/2023 seasons, matchday revenues seem to have bounced back at pre-pandemic levels, probably even to higher levels, and many teams are recording in the 2022/23 season all-time high gate receipts (although this is true in nominal terms, mainly due to the high inflation pervading Europe).

The size of this revenue stream is affected by the quality of the infrastructures (for this reason, many clubs, also encouraged by UEFA, as we will later see, are investing considerable amounts in modernizing and improving their stadium), but also from the engagement of fans. This in turn is strongly conditioned by the performance the team is able to offer, particularly in home games, and by the historical moment the club find itself into. This makes this revenue stream more volatile than the other two, which are usually based on multi-annual deals. Nevertheless, many stadiums are still not owned by the clubs, but have to be leased from the municipality, resulting into an important loss of revenue. At the same time, there are several examples of stadiums that could be modernized, enlarged, or improved in order to grant larger attendance and a better quality of the overall matchday experience. These two factors make sure there is a wide margin for the enhancement of the monetization of club infrastructures, both during match days and during the week.

3. Financial Fair Play

3.1 The Rationale of Financial Fair Play

Ever since the birth of the game, Europe has always been the cradle of football, being home of the most competitive leagues and the biggest and most important clubs. The quality of the entertainment offered by European football competitions and the vast fanbase enjoyed by the clubs of the old continent allowed the teams to attract not only the best players, but also large investments, also favored by the worldwide broadcasting of matches. Notwithstanding that, the history of European football has been studded with clubs facing serious financial problems, which have also led to their failure in many cases.

At the same time, as the inflow of investments grew bigger and bigger, this has also resulted in a sort of distortion of competition, due to the fact that the wealthier sides, that usually enjoy the greatest visibility, were often able to finance their operations by means of financial debt. This is mostly made possible thanks to extremely wealthy ownerships (mostly represented by Arabian or Chinese funds) that are usually able to easily back any type of leverage.

We can already see that there are at least two major problems caused by this trend. On the one hand, the fact that the biggest clubs are able to rely on virtually endless fortunes (the most notable cases are Paris Saint Germain and Manchester City) significantly hinders the ability of smaller teams to compete at national or European level, and to have the possibility to grow thanks to their results rather than the pockets of their owners. On the other hand, the increasing resort made to debt financing and the reckless spending perpetrated by those that have the possibility to do it have placed significant stress on the sustainability of the football system as a whole. In fact, there is no guarantee that spending a lot of money in transfer and wages for the best players or managers will automatically result in sporting success; after all, to quote the football legend Johan Crujiff: "I have never seen a pile of money scoring a goal", and this is proving more true than ever, with the recent past providing several examples, including the aforementioned Paris Saint Germain, or the English club Chelsea that, despite having spent €610 million in only two transfer windows ended the 2022/23 season sitting in the bottom half of the table. It is important to point out that football players are human beings and not machines, and as such are subject to uncountable, unobservable factors that can affect their performance, providing no certainty about sporting success. Having an ownership that is ready to back virtually any expense, and that is able to take on massive debt takes away the incentives for an efficient and sustainable resource management, and it is not uncommon for big clubs to have problems when it comes to the bottom line. The recent past has provided numerous cases of clubs that seemed to appear healthy, often boasting of a glorious history, facing bankruptcy because they failed to refinance important investments, or because the expectations of success and increased inflow from broadcasting rights or prizes were not met. Not only is this a delusion for heartbroken supporters, but it is also, more importantly, cause of significant delays in the payment of employees, or mass lay-offs when a club shuts down.

Furthermore, while the supporters of a wealthy club are likely to be happy when their teams secure themselves big signings, the fans that love the sport as a whole have never been particularly enthusiastic about the idea of a winning team owing more of its success to the depth of its owner's pockets rather than to being able to put together a virtuous group of players that propose good football. Let aside that, as long as the bigger clubs are able to lever up and take on massive debt to assure themselves the performances of the best players, hence securing greater income from broadcasting rights, sponsorships and sale of stadium tickets, this will inevitably and systemically increase the gap with smaller sides, that will not be able to compete on financial grounds and can only rely on exceptional performances to try to bridge the distance. This leads to a hard-to-escape vicious cycle, that can jeopardize the appreciation football enjoys, and this in turn can potentially have negative consequences also on sponsorships, media coverage and overall popularity of the sport. What is an issue mainly for smaller sides in the short term can become a problem also for the bigger clubs in a longer time horizon.

3.2 The Introduction of Financial Fair Play

The first proponent of Financial Fair Play was Michel Platini, former football legend that, at the time, was serving as UEFA chairman. Back in 2008, in the occasion of the Champions League final between Manchester United and Chelsea, he surprised the audience of a press conference stating that his hope was to never witness such a game again, and that he wished to extirpate the idea that the winning teams are those that take on the most debt. At the time, football clubs had already begun taking a path that saw a sharp increase in indebtedness, translating into increasing player transfer prices and aggressive financial management, and the trend that was taking place was cause of concern among European football policymakers, due to the uncontrolled spending and the lack of self-discipline and foresight characterizing football clubs. For this reason, one year later, during the March 2009 UEFA Ordinary Congress, Platini formally proposed the idea of Financial Fair Play (abbreviated as FFP), with the objective of ensuring greater discipline and transparency in the clubs' finances, thus granting more fair competition and a more sustainable financial management approach. The idea was that clubs should not be able to spend more than what they earn, adopting a more sustainable management of resources based on the revenues they are able to generate thanks to, for instance, sporting success, broadcasting rights or property stadium income rather than on the borrowing capacity of increasingly wealthy owners. Success had to be earned by means of wise and effective management together with the actual creation of "sporting value", rather than thanks to reckless spending, inconsiderate risk-taking and repeated creation of red ink. We recall that, according to Franck and Lang (2013), net losses among the over 700 European member clubs had increased by 760% from 2006 to 2011.
The reasons that caused such concern at the UEFA upper levels, motivating the introduction of financial regulation among clubs can be depicted by the following data, extrapolated from a UEFA report referring to the year 2008:

- Almost one half (47%) of European clubs had reported losses, and in the 22% of such cases the losses reported exceeded 20% of revenues;

- 35% of clubs had negative equity, and in 44% of cases such negative equity had worsened compared to the previous year;
- Aggregate operating losses for European clubs were totaling €578 million and, despite a 10.6% YoY increase in revenues, losses had increased by 11.6%;
- Costs had increased by 9.3%, with a non-negligible impact on the profitability of football clubs;
- The aggregate amount of debt in the Premier League reached roughly €4 billion.

Moreover, management consulting firm A. T. Kearney released in 2010 a study focused on in and out flows related to transfers, which appeared to be supporting the concerns. The results are displayed in Table 1.

	TOTAL INVESTMENT IN PLAYERS (€M)	TOTAL PROCEEDS FROM SALE OF PLAYERS (€M)	NET TRANSFER BALANCE (€M)
PREMIER LEAGUE	580	489	-91
LA LIGA	502	245	-257
SERIE A	498	460	-38
BUNDESLIGA	243	125	-118
LIGUE 1	270	208	-62

Table 1: Net Transfer Balance in "Big 5" European Leagues – personal elaboration of data extracted from A.T. Kearney report, 2010

The numbers emerging from the investigation highlight the lack of sustainability characterizing the economic management of clubs, that was mostly based on large investments aimed at obtaining returns in terms of image rather than a wise and balanced employment of financial resources. This type of behavior led to increasing indebtedness that was seriously jeopardizing the future of the football system in Europe, and for this reason, FFP talks did not last long before a favorable decision was taken, probably also aided by the pharaonic transfer campaign Real Madrid conducted in 2009, where a whopping sum of €255 million was spent to acquire 7 players (Cristiano Ronaldo, €94 million, Kakà, €67 million, Benzema, €35 million, Xabi Alonso, €35 million, Raul Albiol, €15 million, Negredo, €5 million, Arbeloa, €4 million) in the span of a summer window.

The approval of the UEFA Executive Committee came on May 27th, 2010, and the decision was also endorsed by the European Commission, that happened to share the same concerns. The provisions were set to enter into force starting from the following year (2011) and were included by UEFA as a part of the eleven fundamental points to be promoted in European football. Nevertheless, the clubs asked and obtained more time to adjust to the new requirements, and the strict entrance into force of some of the rules was delayed until season 2014/2015.

The main objective of FFP is to aid and ensure the financial stability and economic sustainability of the football system, preventing excessive indebtedness and encouraging forward-looking investments in tangible assets (for instance, stadiums and training facilities) and the youth sector. The rules, updated four times since their approval (2012, 2015, 2018, 2022), highlight the importance of transparency and credibility by setting minimum disclosure requirements for clubs' financial statements, an aspect that is crucial for the monitoring and assessment of club compliance.

3.3 Key Players and Decision-Making Bodies

Figure 8: UEFA Logo

Within the FFP framework, three main players can be identified:

1. UEFA – it is responsible for setting the provisions of the regulation and the requirements to be met by clubs willing to obtain a license. UEFA aids the national federations to implement the framework and ensures that the framework is consistently applied in all associations. Moreover, it provides assistance and education to national federations and their member clubs to help them cope with the requirements, aiding the adaptation process. In addition, it monitors constantly the evolution of the European football environment, providing yearly reports and assessing the key trend patterns. The UEFA constantly works to identify the flaws of the system and address them with further regulation. National associations can count on the assistance of a team of 15 people in the UEFA National Associations Division that provide training and guidance and favor the alignment to regulations;
2. Licensors – the UEFA member national associations are responsible for the integration and implementation of club licensing and sustainability rules in their national regulation frameworks. They are given the power to decide whether to grant the license to a club or not, on the basis of the assessment of their compliance to the requirements. To carry out such task, they carefully and unbiasedly analyze the documents submitted by applicant clubs, ensuring fair and equal treatment and confidentiality. The licensor appoints a licensing manager that, with the aid of the deputy licensing manager and some licensing experts and assistants,

administers the licensing process, assessing football clubs' compliance with the criteria while supporting decision-making bodies and clubs.

3. Licensee/license applicant – it is the legal entity responsible for the football club applying for the license. It can consist in the club member of a UEFA member association and/or its affiliated league or a football company that has a contractual relationship with a registered member. The licensee has to submit the required documents in due form and time in order in order for the licensor to perform the assessment of criteria. If they are met, the licensee is granted the license.

Together with the introduction of FFP, UEFA set up a dedicated two-chamber body, the Club Financial Control Body (CFCB). It has the fundamental task to oversee the application of Club Licensing and Financial Sustainability Regulations (formerly, Club Licensing and Financial Fair Play Regulations), and to address any potential issues, evaluating consequences for non-compliance and correction processes. The body is composed as follows:

a) Investigatory Chamber – is in charge of the evaluation of the documents related to license applicants and monitors the licensing process ensuring it is carried out properly. It is composed by:

   - the Chief Investigator, leading the chamber and undertaking the required actions to ensure its proper functioning;

   - at least three other members, including the Chief Deputy Investigator.

b) Adjudicatory Chamber – is responsible for the judgment stage of proceedings. It is composed by:

   - the CFCB chairman, leading the chamber and overseeing its functioning in accordance to the regulatory framework;

   - at least three other members, including two CFCB vice-chairmen.

The CFCB is granted the power to investigate the application of requirements and impose disciplinary measures in case the criteria are not met. The only body that can appeal its final decisions is the Court of Arbitration for Sport (CAS), located in Lausanne, Switzerland. The CFCB is responsible for assessing whether both licensors and licensees have complied with the criteria set out in the UEFA regulatory framework and determine whether an applicant is eligible for the concession of the license. CFCB members are independent, and are only bound by UEFA statutes, regulation and the law.

The rules governing the decision-making process of the CFCB are provided for by the Procedural Rules Governing the UEFA Club Financial Control Body, that sets out its powers and responsibilities. Investigations are led by the CFCB Chief Investigator, and can be initiated upon request or *ex officio*. The monitoring and assessment process are carried out collecting all the necessary information and evaluating the facts. At the end of the investigation, after the members of the CFCB have been consulted, the Chief Investigator can:

a) Dismiss the case;
b) Conclude, upon the defendant's accordance, a settlement agreement;
c) Apply, with the consent of the defendant, disciplinary measures limited to warnings, reprimands or fines;
d) Refer the case to the Adjudicatory Chamber

Decisions taken by the Chief Investigator can be reviewed by the Adjudicatory Chamber that can confirm, reject or modify them. The Adjudicatory Chamber decides on case refereed to it by the CFCB Chief Investigator or chairman, or upon request of the affected parties, and the proceedings are conducted by the chairman of the CFCB.

3.4 Financial Fair Play in Detail

According to the provisions, any club willing to take part in UEFA competitions, such as the Champions League or the Europa League, see their participation to be conditional to the attainment of a license, which will only be granted upon compliance with certain key criteria.

The objectives of such a system, and the reasons underlying its adoption, according to UEFA, are enumerated as follows:

- Enhancing the economic and financial capabilities of clubs, increasing transparency and credibility;
- Guaranteeing effective protection to the creditors of football clubs, ensuring the settlement of any liabilities contracted towards players, employees, other clubs, institutions, and fiscal authorities;
- Encouraging greater discipline and rationality within the clubs' financial management;
- Incentivizing clubs to operate on the basis of their revenues rather than the debt they are able to contract;
- Incentivizing clubs to a more reasonable and sustainable spending, for the sake of longer-term benefits;
- Protecting European clubs' long-term profitability and sustainability.

These serve as general guiding principles but, on more practical grounds, the bottom line is that behind the decision to adopt FFP there is the intention to impose to clubs to operate on the basis of the revenues they are able to generate, in order to place all teams under the same conditions, and

regulate and limit the excessive capital outflow that has affected European clubs for years. This is meant also to avoid an inflationary spiral of transfer prices and salaries.
The pursuit of the stated objectives initially came into the form of the satisfaction of two fundamental criteria:

1. The absence of overdue payables towards other clubs, employees (players and staff), and social and fiscal institutions and authorities;
2. The break-even requirement for what concerns inflow of revenues and outflow from expenses.

By controlling such factors, the goal was to provide a capillary monitoring of the economic management of clubs, a sort of micro-prudential regulation aimed at ensuring that each and every club operates in a sustainable way, without jeopardizing its own financial soundness (and hence safeguarding those that would bear the consequences), but also without affecting the overall football environment. The two aforementioned criteria were part of the UEFA Club Licensing and Financial Fair Play regulations - 2018, and were modified in the subsequent framework, the UEFA Club Licensing and Financial Sustainability - 2022, that changed the break-even rule, replacing it with the “football earnings rule”, and added the squad cost rule to the monitoring requirements. Further on a more detailed explanation will be provided in this respect.
Financial Fair Play provisions are a part of the broader system of UEFA club licensing, according to which a club willing to participate to UEFA competitions is allowed to do so only upon the obtainment of a license, which in turn is conditional to the satisfaction of certain criteria. The licensing system was born in 1999 despite only entering into force starting from the 2004/2005 season, way before the FFP regulations were introduced to enhance it. From the point of view of my analysis, it is important to understand the rationale behind the UEFA monitoring system, the evolution of such practices, and what problems were still left to tackle, in such a way that the inclusion of FFP provisions proved necessary.
The introduction of Financial Fair Play regulations entailed the creation of a dedicated control organism, the UEFA Club Financial Control Body (abbreviated as CFCB). Its responsibilities cover the different stages of the application, approval, and monitoring process. First and foremost, an extensive check is performed on applicant clubs’ balance sheets referring to the three years preceding the application, in order to assess whether the clubs in question are respecting the provisions and complying with the requirements. In case of non-compliance, the Control Body is in charge for the adoption of sanctions towards clubs, but is also entitled to check whether the national federations have respected their obligations on the matter. Moreover, the Control Body is designated to the post-approval monitoring, and verifies that each licensed club is still complying with the requirements after obtaining the license.

According to the UEFA Club Licensing and Financial Sustainability Regulations, there are three categories of club monitoring requirements, namely:

1. Solvency requirements - The absence of overdue payables towards players, employees, other clubs, fiscal and social security authorities, UEFA, and the licensor. They must be fulfilled by all clubs admitted to the relevant competitions (art. 79.3);
2. Stability requirement – the football earnings rule. They must be fulfilled by all clubs admitted to the relevant competitions, except those that have employee benefit expenses below €5 million in the each of the reporting periods ending in the two calendar years prior to the beginning of UEFA club competitions (art. 79.4);
3. Cost requirements – the squad cost rule. They must be fulfilled by all clubs admitted to the group stages of relevant competitions, except those that have employee benefit expenses below €30 million in the reporting period ending in the calendar year in which the UEFA competitions begin and in the reporting period immediately prior to that (art. 79.5).

I will proceed to analyze them in detail in dedicated sections.
The UEFA Club Licensing and Financial Fair Play Regulations were replaced, in June 2022, by the UEFA Club Licensing and Financial Sustainability Regulations, which enhance the provisions of the framework thanks to a comprehensive review that considered the experience gained over the years. To better understand the rules of the framework, some of them will be illustrated initially referring to the UEFA Club Licensing and Financial Fair Play Regulations - 2018, and subsequently explaining the changes (if any) entailed by the current regulation (UEFA Club Licensing and Financial Sustainability - 2022). I find this comparison useful both to provide a better understanding of the norms, and to show their evolution in response to the changes in the economic environment of European football.

3.4.1 Net Equity Rule – Club Licensing

In order to obtain the license, the applicant must report in its annual financial statements (closing on December 31st prior to the deadline for the submission of the application) a net equity position that is either positive or has improved by at least 10% with respect to the previous December 31st. This rule is set by article 69, that also provides a definition of net equity. Net equity is the residual interest in club assets after the deduction of all its liabilities. When assets exceed liabilities, the applicant is said to have a net asset position, in essence a positive net equity. If the liabilities exceed the assets of the club, it will have a net liability position, hence a negative net equity. A club not satisfying the requirement as to December 31st can submit by March 31st an audited balance sheet to prove one of the aforementioned conditions have been fulfilled. This constraint is part of the licensing requirements and is not comprised in the club monitoring requirements.

3.4.2 No Overdue Payables Rule – Club Licensing and Monitoring

This first principle was already part of the licensing system, but was strengthened with the adoption of FFP provisions in order to be made more effective. In fact, under the prior framework, applicant clubs were to demonstrate, as to the day March 31st preceding the request for the license, the absence of overdue payables referring to any operation occurred before December 31st of the previous year. This requirement has been modified to be made more stringent, and the date of reference has become February 28th, instead of December 31st.

Articles 70-73 of the UEFA Club Licensing and Financial Sustainability are the reference for the matter and define the requirements set by the framework for club licensing. Articles 80-83 refer to the monitoring of clubs, whose compliance with the solvency requirement is verified to ensure that no breaches are taking place.

Overdue payables are defined as economic liabilities, be it transfer payments towards other clubs, or liabilities towards employees, fiscal/social authorities, or UEFA/the licensor, that are not settled timely with respect to the agreements. Payables are not to be considered overdue in three cases:

1. The applicant club demonstrates that full and timely payment has taken place;
2. The applicant club stipulates an agreement with the creditor counterparty allowing for an extension of the deadline for the payment;
3. The applicant club is able to demonstrate in an appeal the absence of own fault for the non-performance of the payment.

Article 70 defines the application of the requirements in case of liabilities towards other clubs. In particular, it provides that the applicant club must demonstrate the absence of unsettled obligations as at March 31st preceding the license season, for any transfer market operation carried out up to February 28th of the same year. Article 80 is the reference article for the monitoring of club compliance, and states that the licensee club must have no overdue payables as at July 15th, October 15th and January 15th, referring to any transfer market operation occurring within, respectively, June 30th, September 30th and December 31st. Payables include all amounts due to clubs as a result of:

1. transfer activities, including any amount due upon fulfilment of certain conditions;
2. training compensation and solidarity contributions as defined in the FIFA Regulations on the Status and Transfer of Players;

3. any joint and several liability decided by a competent authority for the termination of a contract by a player.

The licensee is required to disclose information related to their transfer activity regardless of whether or not there have been new signings, including:

1. all the new registrations for players acquired, be it for transfers or loans, occurred during the 12 months prior to June 30th, September 30th or December 31st;
2. all the transfers for which there is an outstanding amount to be paid, irrespective of when they were undertaken, as at June 30th, September 30th, or December 31st;
3. all transfers subject to a claim pending before the competent authority under national law or proceedings pending before a national or international football authority or relevant arbitration tribunal, as at 30th June/30th September/31st December.

For each transfer, other than the basic information such as the name of the player and his former club, minimum disclosure requirements include any paid or payable transfer fee plus any other related direct costs and respective settlement dates, specifying the balance payable as to 30th June/30th September/31st December regarding each transfer. In addition, disclosure is also required concerning conditional amounts not yet recognized in the balance sheet as at 30th June/30th September/31st December and sums deferred or disputed (subject to claims or proceedings) as to the same dates. The resulting figure must be reconciled with the "Accounts payable relating to player transfers" item in the balance sheet, or any underlying accounting record, and all the information must be approved and signed by the club's executive body.

The mechanism is the same for what concerns payables towards employees (art. 71 and art. 81), social/tax authorities (art. 72 and art. 82), and UEFA and the licensor (art. 73 and art. 83): the licensee must disclose by the same deadlines a declaration confirming the absence or existence of overdue payables in the regards of employees, tax authorities and social security institutions, as well as UEFA and the licensor (including any financial contributions imposed by the CFCB), including any outstanding amounts or pending claims as to the deadline.

In addition to that, according to art. 95, the licensee is required to report any significant changes occurring subsequently, together with an estimate of their financial impact or a statement supporting the impossibility to make such estimates.

In case any of the requirements was not satisfied, article 96 allows the Control Body to take a consequent decision, including the possibility of a settlement agreement between the licensor and licensee.

3.4.3 Break-Even Rule – Club Monitoring

Valid from 2018 to 2022

The following explanation of the break-even rule is made in reference to UEFA Club Licensing and Financial Fair Play Regulations - 2018 for the sake of clarity. I will use this as a starting point to illustrate the current norms, which are included in the UEFA Club Licensing and Financial Sustainability - 2022 as an enhancement of the previous version. The second pillar of the 2018 FFP regulation is to be interpreted as the core of the framework, the most important provision in the perspective of tackling the issues that FFP aims at solving. Not surprisingly, it is also the one that caused the greatest upsetting in the usual economic acting of clubs, as well as the raising great criticism. The adoption of the rule comes as a response to a general trend that was cause of concern for the top levels of the UEFA decision-making mechanism. In fact, the introduction of the break-even principle stems from the results of the UEFA-draft The European Club Footballing Landscape – Club licensing Benchmarking Report Financial Year 2011, a document that, upon examination, highlighted the worrying state the European football system was facing in the previous years. In the period spanning from 2005 to 2011, several clubs were recording continuous and increasing losses, generating harsh consequences on the transfer market that were affecting most of the clubs in the European football landscape. The negative repercussions on the revenues of the whole movement created a vicious cycle that caused clubs to face severe financial unease when it came to the performance of economic operations, putting at stake the integrity and the sustainability of the whole system. For this reason, UEFA decided to adopt an analytical method that was able to assess the clubs' financial conditions on a multiannual basis, in the attempt of stimulating a long-term oriented and sustainable financial planning. According to art. 59, the controls performed by the UEFA Club Financial Control Body are in fact not limited to the current fiscal year, but take into exam a monitoring period composed by the three years prior to the beginning of the competition the application is submitted for:

1. the fiscal year ending in the solar year in which the competition in question is set to start, denominated as T;
2. the fiscal year ending in previous the solar year with respect to the one the competition is set to start, denominated as T-1;
3. the fiscal year referring to the solar year prior to T-1, denominated as T-2.

The computation of the break-even point is an analytical methodology that considers an organization's fixed and variable costs and production volumes, and puts them into relationship with total revenues, in order to understand whether the activities are resulting in a profit or a loss. The break-even point is reached when the sum of revenues is equal to the sum of fixed and total costs, and indicates the level at which a productive activity starts generating profits.

As far as FFP is concerned, however, the analysis presents some differences with respect to how it is usually conducted. In fact, instead of considering Income State items as a whole, the regulation provides for a distinction as to which elements to take into account. Art. 58 of UEFA Club Licensing and Financial Fair Play Regulations is the reference article prescribing a distinction of relevant income and expense, meaning that only the items classified as "relevant" are to be considered for the purpose of computing the Break-even point. Such items are to be presented in accordance to how they are reported in the audited financial statement, and those coming from related parties are to be adjusted to reflect the fair value of the transactions. Relevant income and expense items are listed in detail in Annex X. The items to be considered in the computation of relevant income are:

- Revenue from gate receipts;
- Revenue from sponsorship and advertising;
- Revenue from broadcasting rights;
- Revenue from commercial activities;
- Revenue from UEFA solidarity and prize money;
- Revenue classified as other operating income;
- Profit on disposal and/or income from disposal of player registrations;
- Excess proceeds on disposal of tangible fixed assets;
- Finance income and results from foreign exchange.

The items listed below are considered as non relevant income, if the above elements include any of them, relevant income must be accordingly adjusted downwards:

- Non-monetary credits/income, for instance, upward revaluations or D/A or impairment-related write backs for tangible fixed assets and intangible assets;
- Income transactions with any related parties above fair value;
- Income from non-football operations not related to the club. Income from non-football operations related to the club (stemming from operations based in proximity of a club's stadium or training facilities, such as hotels or restaurants) can be included if the related expenses are also included, in a way that is consistent across all reporting periods;
- Income in respect of a player for whom the licensee retains the registration;
- Credit in respect of a reduction in liabilities arising from procedures providing protection from creditors.

In addition, the following items are excluded from Break-even computations:

- Tax income
- Depreciation/impairment of tangible fixed assets or amortization/impairment of intangible assets other than player registrations;
- Profit or loss on disposal of tangible fixed assets or intangible assets other than player registrations

The exclusion of such items is to be considered as an attempt to incentivize virtuous behavior on the clubs' side. For instance, profits or losses on disposal and depreciation/impairment of tangible fixed assets are not included in the calculation because "the aim is to encourage investment and expenditure on facilities and activities for the long-term benefit of the club" (Annex X).

In a similar way, Annex X lists the items classified as relevant expenses, namely:

- Cost of sales/materials;
- Employee benefit expenses;
- Other operating expenses (e.g. stadium lease costs);
- Loss on disposal and amortization/impairment of player registrations;
- Finance costs and dividends.

On the other hand, non relevant expenses are:

- Expenditure on youth development activities;
- Expenditure on community development activities – includes expenses that are directly attributable to activities that promote participation to sport and advance social development for the public benefit;
- Expenditure on women's football activities;
- Non monetary debits/charges;
- Finance costs for the construction or improvement of tangible fixed assets;
- Costs of leasehold improvement;
- Expenses for non-football operations not related to the club.

Some of the expenses are in fact considered as virtuous and the reason behind their exclusion is attributable to the fact that FFP provisions aim at fostering a sustainable and forward-looking behavior, incentivizing clubs to invest in long-term oriented projects such as the development of the youth sector or new and cutting-edge facilities. This is, in fact, carried out in accordance with the objectives of the FFP framework, that advocates the sustainability of football club financing through the achievement of a sort of self-financing. The latter can be attributable, for instance, to the revenues from gate receipts of a club-owned stadium, or to the income state benefits related to the development

of the youth sector (thanks to the absence of amortization of transfer costs, or to gains realized on transfers).
Following the distinction of relevant income and expenses and the notion of monitoring period, art. 60 details the notions of break-even result (BER).
For each fiscal year, the BER is obtained as the difference between relevant income and relevant expenses. When relevant income exceeds relevant expenses for the reporting period, a break-even surplus occurs, while in the opposite case we have a break-even deficit. The aggregate BER is then obtained through the sum of the BERs of the single periods: a positive aggregate BER translates into a break-even surplus for the reporting period, while, if the aggregate BER is negative, the licensee has a break-even deficit for what concerns the reporting period. In this latter case, the applicant club can demonstrate that the aggregate deficit is reduced by a surplus (if any) resulting from the sum of the two periods prior to the monitoring period, T-3 and T-4. The emphasis on the break-even result stems from the aim of the regulation to limit the expense outflows that are not justified by commensurate revenue inflows, in order to prevent clubs from taking on debt to finance their operations, with particular reference to the transfer market. Nevertheless, the regulations allow for a certain flexibility, that is reflected by the notion of acceptable deviation. In fact, in case of aggregate deficit, FFP provisions allow for tolerance as long as such deficit remains within certain boundaries. Article 61 defines acceptable deviation as the maximum aggregate deficit a licensee can report to be still considered compliant. Such deviation is set at €5 million, but it can be extended to €30 million if and only if the excess is entirely covered with contributions by equity participants or related parties. Contributions must be made directly to the equity account and any type of loan, guarantee or financial operation of unclear nature is not allowed.
Each year, before the deadline (July) and in the form prescribed, the licensee club must prepare and submit (after approval by management, in the form of a brief statement signed by the executive body) the break-even information related to periods T-1 and T-2. In addition, break-even information referred to reporting period T must be communicated in case of breach of one of the indicators defined by article 62, paragraph 3, namely:

1. Going concern – it is necessary to demonstrate that the club enjoys solidity that can guarantee the continuity of operations and the settlement of future obligations, and that it is not investing money it does not own nor taking on debt it will not be able to repay. Going concern must be assessed by means of an auditor’s report, as to period T-1.
2. Negative equity – in the financial statements referring to reporting period T-1, there must not be a deterioration of the net liabilities with respect to the figure disclosed for the previous reporting period (T-2).

3. Break-even result – breach of such indicator occurs when the licensee reports a break-even deficit (as defined *ex* art. 60) for either or both periods T-1 and T-2.
4. Sustainable debt indicator (referred to T-1) – breach occurs when, at the end of reporting period T-1, the relevant debt (obtained after subtracting from net debt any amount of debt directly attributable to the construction or improvement of stadium or training facilities) exceeds €30 million and it is greater than 7 times the average of the relevant earnings in T-1 and T-2. Relevant earnings, in this case, are computed as the sum of total revenue and net result from player transfers, less the total operating expenses.
5. Sustainable debt indicator (referred to T) – identical to indicator 4, the only difference is that period T is taken into exam together with periods T-1 and T-2 when computing the average of relevant earnings.
6. Player transfer balance – this indicator is breached when the licensee exhibits a player transfer deficit exceeding €100 million in any player registration period ending during the license season. Player transfer balanced is calculated as the net of the aggregate costs (paid or payable) of acquiring each players' registration and the aggregate proceeds (received or receivable, net of any cost of disposal) from transferring out players' registrations.

Moreover, the UEFA Club Financial Control Body has the right to demand disclosure of break-even and additional information referred to reporting period T at any time, in particular if the financial reports show that:

a) Employee benefit expenses exceed 70% of total revenues;
b) Net debt exceeds 100% of total revenue.

In addition, if the licensee is in breach of any of the 6 indicators defined in art. 62, it must submit a report covering the 12-month period immediately after reporting period T (hence, period T+1) containing the projected break-even information. This information has to be consistent with the previous periods' audited annual reports and has to include contributions by any equity partners, a budget of balance sheet, cash flow statement, profit and loss account and break-even result, and an explanatory note that puts the result in comparison to that of reporting period T and states the risks and the assumptions.

After all the due investigations, the BER is considered fulfilled if the licensee club reports, for the current reporting period and, if applicable, for the projected reporting period, either an aggregate break-even surplus, or an aggregate break-even deficit that does not exceed the acceptable deviation.

In case of failure to fulfill the break-even requirement, the UEFA Club Financial Control Body can consider other factors provided for by Annex XI, including:

a) Magnitude and trend of the break-even result – the larger the magnitude of the break-even result in relation to the club's relevant income, the less favorably it will be viewed. At the same time, a worsening trend in the break-even result will be seen less favorably, while an improving trend will be viewed more favorably;
b) Projected aggregate break-even result – UEFA Club Financial Control Body may review the projected aggregate break-even result for periods T-1, T and T+1. If such result is within the acceptable deviation, it will be viewed favorably. In addition, the Body may also review the long-term business plan, including break-even information for periods up to T+4, in order to assess the long-term strategy of the licensee club;
c) Impact of currency conversion of accounts into Euros – only the break-even result is examined (impact of currency exchange differences on transactions is not considered) to assess the impact of currency exchange rate changes and its quantum. In principle, if the break-even result is positive in the local currency, the club should not be sanctioned;
d) Debt situation – additional information that can be asked covers aspects such as the source of the debt, its maturity, the covenant compliance, and the ability to pay principal and interests. In addition, the Control Body can consider debt ratios such as the degree of leverage (level of debt relative to revenues and underlying assets), coverage ratios or cash flow adequacy ratios;
e) Force majeure – events or circumstances that are beyond the control of the licensee club are taken into account;
f) Major and unforeseen changes in economic environment – the financial impact of temporary and extraordinary economic events (that the club has no possibility to mitigate) are taken into account;
g) Operating in structurally inefficient market – the inefficiency of a football market is assessed by means of a comparative analysis concerning gate receipts and broadcasting rights revenues for clubs, in relation to the population of the territory of their association;
h) Squad size limit – the Financial Control Body may view more favorably clubs that have used a maximum of 25 players (excluding under-21 players) in between any one of the two annual registration periods.

3.4.4 The Football Earnings Rule – Club Monitoring

Valid from 2022

The UEFA Club Licensing and Financial Sustainability came into force in June 2022, and provides for some modifications of the pre-existing break-even rule, which was made simpler in order to facilitate its comprehension. The so-called football earnings rule came into force as part of the stability requirements and substitutes the pre-existing break-even rule. The break-even result was replaced by the concept of "football earnings" that are calculated as the difference between relevant income and relevant expenses in a reporting period. In a similar way, the aggregate break-even result was replaced by the aggregate football earnings, and the same goes for the concept of break-even surplus and deficit (now, football earnings surplus and deficit), according to article 86. Article 87, in turn, provides for a €5 million acceptable deviation, that can be extended up to €60 million if the excess is entirely covered by either contributions made in the reporting period T or equity at the end of the reporting period T. Moreover, according to article 87.3, the acceptable deviation can be further increased by €10 million for each reporting period in the monitoring period in which:

a) The licensee has not been subject to disciplinary measures in respect to club monitoring requirements;
b) The licensee is not subject to a settlement agreement with CFCB;
c) The licensee complies with four financial conditions, namely:
   - positive equity at the end of the reporting period;
   - going concern: the auditor's report for the reporting period must not contain doubts regarding the going concern;
   - quick ratio (total current assets less inventories divided by total current liabilities) equal to 1 or greater at the end of the reporting period;
   - sustainable debt ratio: at the end of the reporting period, the club's net debt (less any amount directly attributed to construction or improvement of stadium and training facilities) must be less than three times the average of relevant football earnings of the reporting period and the period immediately preceding it.

Relevant income and expense items are listed in detail in Annex J. The items to be considered in the computation of relevant income are:

- Revenue from gate receipts;
- Revenue from sponsorship and advertising;
- Revenue from broadcasting rights;
- Revenue from commercial activities;
- Revenue from UEFA solidarity and prize money;
- Revenue classified as other operating income;
- Profit on disposal and/or income from disposal of player registrations;
- Excess proceeds on disposal of tangible fixed assets;
- Other non-operating income;

- Finance income and results from foreign exchange.

Relevant income must be adjusted downwards if any of the aforementioned elements include one of the following items:

- Non-monetary credits/income, for instance, upward revaluations or D/A or impairment-related write backs for tangible fixed assets and intangible assets;
- Income transactions with any related parties above fair value;
- Income from non-football operations not related to the club. Income from non-football operations related to the club (stemming from operations based in proximity of a club's stadium or training facilities, such as hotels or restaurants) can be included if the related expenses are also included, in a way that is consistent across all reporting periods;
- Credit in respect of a reduction in liabilities arising from procedures providing protection from creditors.

The following elements are to be excluded from the computation of relevant income:

- Profit/loss on disposal and depreciation/impairment of tangible assets;
- Profit/loss on disposal and depreciation/impairment of intangible assets others than player registrations and other personnel's release costs;
- Tax income/expense.

Similarly, relevant expenses are defined as the sum of the following elements:

- Cost of sales/materials;
- Employee benefit expenses (players and other employees);
- Other operating expenses (e.g. stadium lease costs);
- Loss on disposal of player registration or amortization/impairment and/or cost of player registrations;
- Amortization/impairment of release costs for other personnel or release costs for other personnel;
- Other non-operating expenses;
- Finance costs and dividends.

Relevant expenses must be increased if any of the aforementioned elements includes the following item:

- Expense transactions below fair value

Relevant expenses may be decreased if any of the aforementioned elements includes any of the following items:

- Non monetary debits/charges;

- Expenditure directly attributable to non-football operations not related to the club;
- Financial contribution set out in a settlement agreement with the CFCB and/or imposed by the CFCB in respect of stability and/or cost control requirements.

Article 89 of the UEFA Club Licensing and Financial Sustainability defines the notion of relevant investments, that are listed in detail in Annex J. They are costs club incur when they invest for the long-term benefit of football, and aggregate football earnings may be adjusted upwards if the relevant expenses include any of the relevant investments listed as follows:

- Expenditure directly attributable to youth development activities;
- Expenditure directly attributable to community development activities – includes expenses that are directly attributable to activities that promote participation to sport and advance social development for the public benefit;
- Expenditure directly attributable to women's football activities;
- Expenditure directly attributable to non-football operations related to the club, net of the corresponding income;
- Finance costs for the construction or improvement of tangible fixed assets;
- Costs of leasehold improvement.

According to art. 90, a licensee is in compliance with the football earnings rule if it has, for the monitoring period, either a football earnings surplus or a football earnings deficit that is within the acceptable deviation. In case of an aggregate football earnings deficit exceeding the acceptable deviation, the club is considered to be in breach of the requirement. The six indicators provided for by article 62 of the UEFA Club Licensing and Financial Fair Play Regulations are not part of the subsequent framework, and the same goes for the requirements for the disclosure of additional information that were previously valid.

At the same time, the provisions regarding the preparation and submission of football earnings information do not change with respect to the requirements for break-even information provided for by the previous framework.

Also the factors to be considered by the CFCB in case of failure to comply with monitoring requirements have been slightly adjusted in accordance to the changes in the framework. They are listed in Annex M and the non-exhaustive list includes:

a) Quantum and trend of non compliance – similarly to the previous framework, an evaluation of the magnitude of non-compliance in respect to a monitoring requirement can be considered in the decision of the CFCB, that can also take into account the past trend of the club in respect of a monitoring requirement;

b) Football earnings surplus – when assessing the squad cost ratio, the CFCB can view more favorably a licensee that demonstrates, on the basis of audited financial statements, a football earnings surplus in each of the reporting periods T and T+1
c) Impact of conversion of accounts from local reporting currency into Euro;
d) Short-term forecast and long-term business plan – the CFCB may request the submission by the club of a short-term forecast and long-term business plan, comprising a balance sheet, a profit and loss account and a cash flow statement based on reasonable and prudent assumptions. A long-term business plan that indicates the licensee's ability to comply with the club monitoring requirements will be viewed favorably by the CFCB;
e) Debt situation – additional information that can be asked covers aspects such as the source of the debt, its maturity, the covenant compliance and the ability to pay principal and interests. In addition, the Control Body can consider debt ratios such as the degree of leverage (level of debt relative to revenues and underlying assets), coverage ratios or cash flow adequacy ratios;
f) Force majeure – events or circumstances that are beyond the control of the licensee club are taken into account;
g) Major and unforeseen changes in economic environment – the financial impact of temporary and extraordinary economic events (that the club has no possibility to mitigate) are taken into account;
h) Operating in structurally inefficient market – the inefficiency of a football market is assessed by means of a comparative analysis concerning gate receipts and broadcasting rights revenues for clubs, in relation to the population of the territory of their association;

We can notice that, despite having been made smoother and simpler, the norms related to the football earnings rule have been only slightly changed. With the introduction of the concept of relevant investments, UEFA stresses the importance of the expenses club face in order to invest in the future development of the football environment, underlying the importance of such aspect for the long-term outlook of the industry.

3.4.5 Squad Cost Rule– Club Monitoring

Differently from the football earnings rule, that came into force as an enhancement of the pre-existing break-even rule (and hence presents only slight differences), the squad cost rule is a new provision, introduced by UEFA with the UEFA Club Licensing and Financial Sustainability Regulations as a cost control requirement. Article 92 defines the notion of squad cost ratio, which is computed as the sum of:

- Employee benefit expenses in respect of relevant persons;
- Amortization/impairment of relevant persons' costs;
- Cost of agents/intermediaries/connected parties.

Divided by the sum of:

- Adjusted operating revenue, and
- net profit/loss on disposal of relevant persons' registrations and other transfer income/expenses.

The relevant period for the first four elements is the 12-month period until the 31st December during the license season, and 36 months to the 31st December during the license season, prorated to 12 months for the fifth element. The licensee club must prepare and submit within the deadline all the information relative to the calculation of the squad cost ratio, and such information must be reconciled to the annual financial statements and approved by management, in the form of a brief statement confirming the completeness and accuracy of information, signed by club executives. The rule states that, for the license season, the licensee club's squad cost ratio cannot be greater than 70%, otherwise the club is to be considered in breach of the rule. Annex L of the UEFA Club Licensing and Financial Sustainability defines the implications for the failure to comply with the squad cost rule. A club whose squad cost ratio exceeds the limit will be subject to a financial disciplinary measure which is proportional to:

- the extent to which the squad cost ratio exceeds the limit;
- the number of breaches of the indicator by the licensee club in the current and in the previous three licensing seasons.

UEFA will enforce the disciplinary measure by withholding the UEFA solidarity and prize money the club earns from participating to UEFA competitions in the license season. In case the amount was not sufficient to cover the measure, the club will have to pay the remaining amount within the deadline set by the CFCB. Annex L also provides the definition of significant breach, for which an additional disciplinary measure will be applied by the CFCB. A significant breach of the squad cost ratio rule occurs if:

a) the squad cost ratio of a club is more than 20% points above the limit defined in art. 93;
b) the squad cost ratio of a club is more than 10% points above the limit defined in art. 93 and the club has exceeded the limit once or more in the previous three license seasons;
c) the squad cost ratio of a club is more than 10% points above the limit defined in art. 93 and the club has exceeded the limit twice or more in the previous three license seasons.

Table 2, extracted from the UEFA Club Licensing and Financial Sustainability Regulations, lists the levels of financial disciplinary measures as a percentage of the club's squad cost ratio excess. The squad cost ratio excess is to be interpreted as the amount by which the squad cost numerator exceeds the level that would have been required in order for the squad cost ratio to be equal to the limit (Annex L.3.2).

Squad cost ratio % points above defined limit	First time in breach	Second time in breach	Third time in breach	Fourth time in breach
>0 - ≤10	10%-25%	25%-50%	50%-75%	75%-100%
>10 - ≤20	25%-50%	50%-75%	75%-100%	
>20 - ≤30	50%-75%	75%-100%		
>30	75%-100%			

Table 2: Sanctions for non-compliance with the Squad Cost Rule – UEFA Club Licensing and Financial Sustainability Regulations, 2022

3.5 Sanctions for Non-Compliance

A club that has to take part to European competitions but does not respect the conditions and boundaries provided for by the FFP framework can be sanctioned by the UEFA Club Financial Control Body for its non-compliance. Different infringements correspond to different disciplinary measures that can be imposed, and they vary depending on the severity of the violation. Hence, consequences for non-compliance do not automatically translate into an exclusion from the competitions but, depending on the situation, may entail different measures (which can also be combined) that are listed, according to art. 29.1 of the "Procedural rules governing the UEFA Club Financial Control Body", in increasing order of severity:

a) Warning;
b) Reprimand;
c) Fine;
d) Deduction of points;
e) Withholding of revenues from a UEFA competition;
f) Prohibition of registering new players in UEFA competitions;
g) Restriction on the number of players a club can register for participation in UEFA competitions;

h) Disqualification from a competition in progress and/or exclusion from future competitions;
i) Withdrawal of a title or award.

According to art. 96.2 of the UEFA Club Licensing and Financial Sustainability, in event of failure to satisfy solvency requirements, if the licensee club has, at any payment deadline (15 July, 15 October, 15 January in the license season) outstanding payables that have been overdue for more than 90 days, this will be considered by CFCB as an aggravating factor, which may lead to the exclusion from future competitions, in line with the Procedural rules governing the UEFA Club Financial Control Body.

It is important to highlight that the view of the UEFA Club Financial Control Body is centered around an approach that is rehabilitative rather than punitive, in order to pursue the objectives of the FFP framework in a smoother and more collaborative way. Clubs are aided and guided towards compliance and financial rehabilitation rather than punished for their failure to respect the limits, and as a consequence, the CFCB opens up to the possibility of concluding agreements with the clubs in order to help them rehabilitate their financial situation to fit back into the break-even requirement in the short term.

3.6 Settlement Agreements and Voluntary Agreements

Settlement and voluntary agreements are two types of agreements that licensee clubs can arrange with the CFCB in order to rehabilitate their financial conditions and ensure compliance with the FFP framework in the medium term without having to incur sanctions. The two agreements are very similar in nature but present some key differences.

The settlement agreement is a measure that, according to article 96.3 of the UEFA Club Licensing and Financial Sustainability Regulations, can be undertaken as a result of a decision of the CFCB. After having assessed a non-fulfillment of the monitoring requirements, and after having considered the elements listed in Annex M, the body can opt for the conclusion of an agreement with the licensee club (upon its consent) in accordance with article 15 of the "Procedural rules governing the UEFA Club Financial Control Body". The conclusion of a settlement agreement is meant to guide the club towards compliance instead of punishing it for its failure to respect the provisions. In particular, this arrangement poses some restrictions to the club and sets some obligations that are valid until compliance is reached. The agreement can include any of the disciplinary measures listed in article 29 of the "Procedural rules governing the UEFA Club Financial Control Body", but the club does not incur other sanctions not provided for by the agreement, and is usually still allowed to participate to competitions, provided that it honors its obligations and reaches compliance within a deadline set by

the CFCB. The process through which the club implements the due steps towards compliance is closely monitored by the First Chamber that, if necessary, can enforce the disciplinary measures set in the agreement itself, which can be both conditional and/or unconditional.
The voluntary agreement, on the other hand, was introduced with the 2015 edition of the UEFA Club Licensing and Financial Fair Play Regulations (Annex XII). The key difference is that, while the settlement agreement stems from a decision of the First Chamber of the CFCB, the initiative for the undertaking of a voluntary agreement comes from the licensee itself. In this case, the club is well aware that it is not going to meet the break-even requirements in the near future and spontaneously offers an agreement to UEFA, setting the steps to follow in order to reach compliance. The agreement is tailor-made according to the financial situation of the club and its football earnings results.

3.7 UEFA Club Licensing System

The UEFA club licensing system is a regulatory package that was introduced as a tool allowing UEFA to exert control upon the clubs on the grounds of some basic requirements that are necessary for the proper development and preservation of the football system. The idea is that making the participation to European competitions conditional to the achievement of a set of criteria grants the possibility of both ensuring basic guarantees and sound practices at club level, and a generally healthy environment at league level, where sustainable and virtuous practices create a playing field that can allow its participants to thrive without being subject to vicious cycles and dangerous negative forces. The criteria the licensing system is based on aim at tackling a set of structural problems that were regarded as pathologic, from which the system as a whole was suffering. The scope is broad, as measures are targeted to issues ranging from bad governance and inefficient managerial guidance to the lack of investments in the youth sector and infrastructures. Moreover, among such problems, we can also find the overdependence of clubs from revenue flows that highlight their poor financial planning and lack of foresight that is proper of a long-term oriented management. The presence of data [3]supporting the alarming financial conditions characterizing the European football environment convinced the top levels to increase their focus on the economic conditions of clubs, in order to drive a rebalancing of the whole system, by forcing the clubs to engage in a wiser and more long-term oriented financial planning to avoid being excluded from the most important and profitable competitions.
The system of UEFA licenses revolves around three basic pillars, namely, transparency, integrity, and credibility, and among the objectives of the measures, the main ones are the following:

[3] Data emerging from the European parliamentary inquiry, addressed by Toine Manders to the Commission, having as an object the debts of European professional football

- Promoting and enhancing the qualitative level of European football in all its relevant aspects;
- encouraging the focus on the youth sector;
- fostering the improvement of infrastructures, with particular focus on safety conditions and quality of services offered;
- guaranteeing an adequate level of managerial competence and ability within the clubs;
- improving managerial efficiency of the clubs in order to heal their financial conditions;
- guaranteeing the integrity and smooth running of international competitions.

It is easy to notice that the points underlying the licensing system are, in a good measure, based on the same issues and objectives that later conditioned the introduction of FFP measures, and this is proven by the fact that the new FFP regulatory framework came to integrate the pre-existing discipline, rather than replacing or abrogating it. At the same time, it is important to highlight a major difference, since the aim of the licensing mechanism does not solely concern the economic aspect, but is rather aimed towards fostering an overall managerial upgrade allowing to improve all those aspects that were far from optimal. In fact, the process of approval of the license entails the verification of all the sportive, structural, and financial criteria provided for by the framework, being:

1. sporting criterion: includes the promotion of the youth sector, health protection, regular membership of players, relationships with the refereeing system and anti-discriminatory measures;
2. infrastructural criterion: entails the availability of a stadium and athletic infrastructures in conformity to the due certifications;
3. organizational criterion: provides for the presence of a sound organizational structure, including the presence of a manager responsible for the different areas of operations and governance;
4. economical-financial criterion: deals with the state of the clubs' balance sheets and their financial position, including the absence of overdue payables in the regards of players and employees, as well as other clubs and fiscal authorities.

Such criteria are in turn divided into three categories, depending on the consequences of an infringement:

1. letter A: mandatory for all clubs, for which non-compliance results in the rejection of the license;
2. letter B: non-compliance results into a warning that allows for the initiation of a disciplinary proceeding that however does not provide for the denial of the license;
3. letter C: recommendations that concern best practice, whose lack of observance does not however cause any disciplinary proceeding nor the denial of the license.

In case of non-compliance with the requirements, there are different types of sanctions, according to the nature of the infringement. They range from the non-approval of the license, in the worst cases, to fines or penalties for the least severe types of failure to comply.

The licensing system is an instrument thanks to which UEFA, with the collaboration of national federations, has been able to ensure a capillary monitoring of the football system on any financial and non-financial aspect affecting its overall conditions. Nevertheless, the results of such an arrangement were questionable because, while, on one hand, there has been an overall increase in clubs' revenues, this did not translate into a wiser spending, and actually contributed to an increase in indebtedness rather than its reduction.

The Club Licensing and Benchmarking Report, issued by UEFA as to the year 2011, serves as evidence highlighting such contradictions, as demonstrated by conflicting data:

A. the encouraging evolutions attributable to the introduction of the licensing system include a 3% increase in club revenues with respect to 2010, and a 14% decrease in the aggregate club spending in the three 2011/2012 transfer windows, which added up to €4.8 billion against the €5.6 billion in the 2007/2008 transfer windows. At the same time, UEFA competitions have contributed to participant clubs' revenues with over €1 billion, plus €340 million coming from the sale of stadium tickets, representing 17% of overall revenues for such clubs.

B. On the other hand, the clubs' financial mismanagement characterized by questionable transfer market choices had resulted in increasing losses recorded, proof of the fact that the license system alone, prior to the introduction of the FFP, was not sufficient to provide the right limitations. In fact, among the over 700 first division clubs, salaries and transfer market expenses have grown by 28% between 2007 and 2011, significantly exceeding the 24% growth in revenues. Aggregate expenses for salaries and net transfers have gone from 62% of revenues to 71%, with an inevitable effect on club losses. In fact, the losses reported by European teams have gone from the €600 million recorded in 2007 up to over €1.7 billion in 2011. The increase in losses has affected clubs of all sizes and levels, from the top teams to those at the bottom of the table, indicating a widespread effect that does not depend on the public echo of performance downfalls.

This data highlights that, despite an improvement in revenue flows driven by the regulation, there are some blind spots still left to tackle in order to fully solve the problem related to the nature, size and most of all (debt) financing of club expenses. This allows for a full justification for the reasons underlying the willingness to introduce FFP, as well as providing a reference benchmark to measure its effect.

3.8 Regulating Financial Instability

The main rationale behind the introduction of FFP regulations is to help clubs stabilize their finances, and engage in a disciplined financial management in order to achieve solidity, also in the long term. This attempt to make the football environment more sustainable comes from the concerning trends the European football industry had been characterized by in the previous years. As we mentioned, football clubs are to be considered fully-fledged companies, however, unlike normal firms, they are result-maximizing instead of profit-maximizing. This means their primary concern is that to produce a sporting performance that allows them to achieve success by winning matches and leagues, and by participating to continental competitions. Thanks to broadcasting and sponsorship revenues and gate receipts, they are then able to secure a return that depends on the quality of the show they are able to offer to the fans. This in turn depends on the players clubs line up, as well as the manager they hire. In the recent years, as player and manager salaries, as well as transfer costs, kept increasing, so did the expenses clubs have to face in order to remain competitive. Sports teams, however, face tremendous uncertainty when it comes to achieving results, and there is no guarantee that large expenditures to sign and retain the best players will automatically translate into success. One clear example is Chelsea F.C., which, despite having spent over €610 million in only two transfer windows, has had a tremendously bad season in 2022/23, being knocked out at the Champions League quarter finals and placing itself only in the lower half of the table in Premier League, failing to qualify for the 2023/24 edition of the European competitions.

Actually, European football has been studded with cases of financial instability since the earliest stages of its development, and concerns about the financial conditions of the clubs date back to the 60s. It is not difficult to find, for every European league, several examples of clubs failing or on the verge of failure. A 1968 report of the British government found that several clubs were in conditions of permanent poverty, and ten English clubs had to undergo insolvency proceedings between 1982 and 1986 alone, while, in France, three top clubs such as St. Etienne, Bordeaux and Marseille faced the same fate. As the scale of football clubs grew bigger and bigger, so did the quantity of people employed by them, including both players and staff. When poorly ran clubs face financial distress or have to shut down, the harshest consequences are faced by the employees of the club, that find themselves without a salary or even losing their jobs.

The consequences of the clubs' unstable financial conditions were not weighing upon the clubs alone, but also on the general public. In Spain, for example, the large sums owed by clubs to the fiscal authorities, which they were unable to pay, triggered the introduction, in the 80s, of a proper set of laws – called “Ley del Deporte” - aimed at restructuring the football environment and safeguarding the interest of the creditors of clubs.

A 2009 UEFA review found that almost half of the 655 European clubs had reported losses in the previous year, and, as their net equity positions kept worsening, auditors had serious doubts about their going concern in 20% of cases. Particularly from the early 2000s on, together with the development of broadcasting and commercial deals, the expenses faced by clubs, particularly for player transfers and wages, began skyrocketing, triggering a dangerous vicious cycle. Extensive academic evidence exists on the correlation between team wages and points totalized, and this is widely known by club owners and managers. However, there is hardly any certainty on sports results, and most importantly, not everybody can succeed. The absence of success, and hence of the possibility of fully recovering the investments has the natural consequence that clubs are forced to borrow large sums of money to finance their operations. In many cases, the wealth of club owners made sure clubs were able to sustain losses, also on a year-on-year basis, but the excessive spending required to maintain competitiveness is not a problem just for the clubs engaged in it. The whole system, in fact, suffers from a vicious cycle that is triggered when short-term interests prevail on long-term concerns. This mechanism is in fact fueled by larger clubs, that are able to bear its weight, to the detriment of smaller clubs, whose ability to be competitive is severely jeopardized. Not to mention that, when long-term stability is overlooked, the sustainability of the football industry as a whole is put at stake, with potential consequences for big clubs as well as for small ones.

The 2008 and 2009 editions of the UEFA European Club Footballing Landscape showed an alarming picture, highlighting the bad financial situation clubs were facing just prior to the beginning of talks about FFP. Here are some of the most concerning facts that triggered a call for enhanced financial regulation:

- 54% of the 572 clubs from the top 47 European leagues reported in 2008 a negative operating profit, an increase from 51% in 2007. In roughly 1 in 4 clubs, operating profit was lower than the -20% of the income;
- taking into exam all the 732 European top division clubs, only 53% reported a break-even result in 2008, with 43% of them reporting losses. 22% of such clubs reported in 2008 significant losses, greater than 20% of income;
- employee costs for European top division clubs increased by 18.1% from 2007 to 2008, with 54 clubs spending more than 100% of their revenues on wages;
- In aggregate top division clubs reported aggregate losses of €578 million in 2008;
- 20 of the 59 top clubs in 2008 reported operating losses that, in 12 cases, resulted in a Profit Before Tax loss;

- net losses hit the record in 2009, increasing 85%. Over one fourth of clubs (28%) spent €6 for every €5 revenue.
- In 2009, more than 1 out of 8 auditors (13.8%) reported doubts over the clubs' continued existence as a going concern, compared to the 8.9% of cases in the previous year.

These are only some of the concerning data UEFA was reasonably worried about, to the point that the paragraph of the 2009 report that covers them is titled "reaching breaking point". The alarming state of the finances of European football clubs promptly triggered action by UEFA regulatory bodies, in order to correct the behavior of clubs' financial managers before the situation got even more out of hand.

3.9 Regulating Competitive Balance

Competitive balance is an extremely complex issue, in particular if it is read in the light of the impact of FFP provisions. At the outset of the formulation of the framework, UEFA's primary objective was to introduce financial discipline and rationality in the management of European football clubs[4]. An improvement to the level of competitive balance across European leagues was seen as a beneficial side effect rather than the primary purpose of the framework, that consisted in the establishment of financial discipline (we are aware of this thanks to the testimony of an anonymous referee). Nevertheless, extensive research has focused on the impact of the FFP framework on the balance of competition in European football, not without a large amount of criticism. As we will later see, in fact, there is little consent as to the extent to which the second goal was successfully pursued, also due to the structural complications of a chronically imbalanced system. European football has in fact always been characterized by a lack of competitive balance, and the domestic leagues have been, with few exceptions, historically dominated by the same bunch of teams.
Differently from American sports, such as NBA, where the salary cap is equal (or only slightly different) across all franchises in the league, FFP defines club-specific limits that can bring to ossification of existing hierarchies.

4. Investigating the Effects of Financial Fair Play

4.1 Research Questions

[4] We are aware of this aspect thanks to an anonymous referee that pointed it out. From the perspective of UEFA, the establishment of financial discipline was the major reason underlying the introduction of FFP.

The reasons behind the adoption of FFP and the club licensing and sustainability framework are clear. At the time of their introduction, football was in a state where increasing expenses (particularly related to player transfers and wages) and reckless financial management had triggered a spiral that, besides carrying significant risk for the finances of clubs of all sizes and their creditors, was jeopardizing the long-term outlook of the whole industry. As pointed out earlier, UEFA's main objective was to induct a more disciplined and forward-looking management of club finances, in order to protect the football system as a whole, including its different stakeholders, from fans to club employees and creditors. To quote UEFA itself, "the objectives pursued by FFP regulations are to achieve financial fair play in clubs that compete in UEFA competitions and improve the economic-financial situation in order to protect the viability and long-term sustainability of European football clubs" (UEFA, 2012b, p2). Club licensing and FFP frameworks have undergone significant evolution since their introduction, and are now a fundamental part of the European football environment. The first research question we want to investigate, 14 years after the first proposal of FFP regulations, is whether their introduction was effective in serving the main intended purpose, that is, stabilizing and rationalizing club finances to safeguard the stability of the system, also in the long-term, inverting the concerning trends that were pervading it in the late 2000s.

The achievement of the first objective is fundamental for the sustainability of European football, but solid club finances are not the only concern. Football, like all other sports, has in uncertainty of results and openness of competition two crucial factors. The quality of the show impacts its audience, and the excitement behind a sports event is tied to the uncertainty of its outcome, which in turn is affected by the level of competition. Let us imagine a league permanently dominated by only one team. It is not difficult to suppose that a prolonged monopoly, or, in any case, the scarcity of balanced competition, would sooner or later cause the public to lose interest in the event, hence adversely affecting the demand, with potentially detrimental impact on the whole industry (Neale, 1964) and its income-generating capacity (Rottenberg, 1956, Szymansky, 2014). This is another key difference between sports industry and other industries. While, on one hand, a firm participating to "traditional" sectors would view a monopolistic position very favorably, in the case of sports, and in particular of football, it is the other way around. Participants to the football industry are "joint producers" of entertainment, hence it is not advantageous for any team to eliminate competition and establish a monopoly (Dobson and Goddard, 2011). It can be thought that, thanks to FFP limiting the virtually limitless spending the bigger clubs were engaging in, the overall level of competition has benefited, however, as many argue, the limitations placed on smaller clubs caused them to face even more difficulties in bridging the gap with bigger clubs, hence heavily hindering the balance of competition. It is essential to point out that the regulation of competitive balance was not a primary aim of UEFA's decision-making bodies, but was rather considered a beneficial side effect, even though FFP was seen right from the beginning as an instrument to level the playing field, making competition more equilibrated and fairer. After all, if long-term viability of the football system is the goal, a competitive intensity able to maintain audience engagement and public interest should be an important prerequisite. At the same time, however, later in 2015 the former UEFA General Secretary Giovanni Infantino underlined the importance of guaranteeing competitive balance in European football, also by means of the FFP regulations that, according to him, could be a helpful tool to help more clubs "compete at the top table"[5].

Hence, as our second research question, we want to investigate whether, after the introduction of the FFP framework, the balance of competition has changed positively or negatively across European leagues, and whether compliance with it by small clubs represents an additional obstacle for their ability to compete.

The following sections will be organized as follows: first, a brief review of the existing literature will be provided, second, the methodology of the analysis will be explained. Subsequently, the results of the analysis will be presented and discussed, together with their implications and suggestions for further research. Finally, a wrap- up of the findings and a conclusion will be provided.

4.2 Literature review

The introduction of FFP and its effects on the state of European football have been object of extensive research by academics and analysts.

The findings of existing literature are distributed across the span of a decade in which the framework has been subject to several developments, and can be summarized as follows.

Regarding the first research question, the existing literature is divided into theoretical reasoning and empirical research, and has provided mixed results. Heiskanen (2017) found that FFP regulations have led clubs to be more responsible from a financial standpoint and have driven down clubs' WRR (mainly in Premier League and La Liga). Instead, Ghio et al. (2019), studying the impact of FFP on Italian teams' cost efficiency (in the context of the trade-off between sporting and economic results), have found no significant improvement in the average efficiency. Gallagher and Quinn (2019), in turn, have studied the effects of the break-even requirement on 60 English football clubs, finding that such constraint has, on average, reduced efficiency, and, moreover, it is likely to incentivize clubs to prioritize financial performance over the sporting one, thus weakening competitive intensity. Some

[5] https://www.theguardian.com/football/2015/jun/29/uefa-financial-fair-play-investors

of the most recent data highlights the continuous improvement in European club finances since 2012 (Franck, 2018). Franck (2018) also provided an economic analysis of FFP by providing plausible reasons about its contribution to the financial recovery observed in the first tiers of European football. Recently, Ahtiainen and Jarva (2020) conducted a study on the top five European football leagues to evaluate the impact of FFP on football clubs' profitability. A positive effect was found in Spain and there was weak evidence of such an improvement in England and Germany. No statistically significance results were found in the case of France and Italy. They declare that "there are reasons to believe that the effect of FFP is not uniform across countries".

For what concerns the second research question, investigating the impact of FFP provisions on the competitive balance of European leagues, experts have mainly focused on short-term aspects, but there is a stream of literature interested in the long-term perspective of the matter.

In 2014, when the application of FFP was just at its beginning, there were already several doubts on its impact on competitive balance. Although a few contributions argued that such effect can not be attributed to FFP directly (Di Simone and Zanardi, 2020), most of them led to the conclusion that FFP might have further increased competitive imbalance in European football. Szymansky (2014) hypothesized that FFP would have done nothing but strengthening the dominant position of the top clubs, and Budzinski (2014) agrees with him, strongly criticizing FFP for the inequality of its constraints. In his opinion, the budget limit would be unequal among competing clubs, allowing clubs with higher income to spend more than those with a lower income. In this sense, anticompetitive concerns would be motivated by the so-called "predominant protection effect" and "consolidation effect": clubs with high level of revenues can spend accordingly, and, more importantly, invest accordingly, reinforcing their income generation capacity and hence their dominant position (Rohde and Breuer, 2016). We underline that a positive relationship was found between the expense in player wages and sports achievements (Szymansky and Smith, 1997, Forrest and Simmons, 2002, Barajas and Rodriguez, 2010) and that, in turn, there exists a positive and statistically significant relationship between sport success and annual revenues (Szymansky and Smith, 1997). On the other hand, clubs with a low income are forced to spend accordingly as well, and, without an inflow of external capital, they will struggle to make their way to the top positions and to enhance their ability to raise their level of income. In such a way, ossification of existing hierarchies would occur, jeopardizing future development of European leagues (Vopel, 2011, Madden, 2012, 2014, Sass, 2012, Preuss et al., 2014).

Purchasing power, in fact, constitutes the true competitive advantage in football, and filling the distance with big clubs without being able to count on external funding is virtually unfeasible (Vopel, 2013). The idea of limiting club spending is, in principle, correct. However, if we fail to account for the relevant market size of clubs, we are missing an important point, as clubs with a greater relevant market size will ultimately prevail on clubs with a smaller one in any case (Plumley et al., 2019), hence reinforcing the most powerful clubs and constraining the smaller ones, further solidifying the existing hierarchy (Szymansky, 2014).

It is important, however, to point out that the potential for FFP to mitigate competitive imbalances was marginal since the very beginning, and for the very nature of the sport. Academics, in fact, agree that the football industry is asymmetrical by nature, and a certain degree of imbalance and dominance is a characteristic that is intrinsic to the sport (Michie and Oughton, 2004, Pawlowsky et al. 2010, Lee and Fort, 2012, Szymansky, 2014, Sass, 2016, Plumley et al., 2019), and further reinforced by the history of clubs, that cannot be modified ex-post (Sass, 2016), particularly in the “Big 5” leagues (Ramchandani et al., 2018). Most of the literature agrees on the lack of a beneficial effect of FFP on competitive imbalance, however there are mixed opinions regarding whether FFP has produced negative effects or no effect at all, either deteriorating the competitive balance or, more simply, maintaining it. The majority of the opinions however have a propensity for sustaining the former view, such as Birkhauser et al. (2019), that argue that FFP would have magnified the competitive imbalance, causing further inequality within European football and reinforcing existing hierarchies. This is also due to the difference in market orientation of big clubs (more centered towards the European market) and small clubs (more oriented towards the local markets). In this context, FFP would have contributed to polarization and further solidification of financial and sporting power by top clubs (Franck, 2018, Gallagher and Quinn, 2020). Freestone and Manoli (2017) provide evidence that FFP regulations have not resulted in a reduction in competitive balance in the English Premier League. Plumley et al. (2019) examine competitive balance in the “Big 5” European leagues before and after FFP. They find a significant decline in competitive balance in Spain, Germany, and France but not in England (consistent with Freestone & Manoli, 2017) and Italy.

Following the research trail that highlights the distinction between the achievement of the main objective (financial stability) and of the secondary objective of competitive balance, Peeter and Szymansky (2014) proposed that, while the break-even rule could improve club finances, the same is not true for competitive imbalance. Caglio et al. (2016) agree with such view, pointing out that the introduction of FFP is positively associated to a material improvement of the financial performance of European clubs, but this has not translated into better overall financial sustainability. Gallagher and Quinn (2020) investigate the effect of FFP on sporting and financial efficiency of English football clubs. They find that the FFP break-even regulation reduces average club efficiency, and moreover, raises the relative importance of financial goals (capturing revenue share) while reducing the relative importance of sporting goals (capturing point share).

It is to be noticed, however, that the literature investigating the matter has produced mixed results. Franck, for instance, claimed in 2014 that the criticisms to FFP were essentially unfounded, and that FFP could even increase competition by reducing large payments to successful clubs by investors that want to bet on winning teams. He argues that the introduction of FFP would have broken the "money comes to money" link, restoring incentives for good management of clubs.

5. Research Design and Methodology

5.1 Financial Stability

The main goal underlying the introduction of FFP regulations was to incentivize discipline in the financial management of European football clubs. Prior to the introduction of the framework, most clubs in Europe were reporting increasingly deteriorating balance sheets, and in many cases, this translated in serious risk of financial distress. Moreover, the inflationary spiral that was affecting transfer and wage costs was jeopardizing the viability of clubs in the long term, as well as hindering the ability of smaller clubs to maintain competitiveness. By introducing a set of rules limiting the ability of clubs – the biggest ones in particular – to (over) spend, the purpose was to introduce more rationality, encouraging long-term investments rather than indebtedness, and to halt the concerning trends concerning increasing leverage and short-term orientation.

In order to assess whether the introduction of FFP has served the intended purpose in this respect, an analysis will be performed on the financial soundness of European clubs, evaluating the impact of the provisions by comparing the trend followed by four indicators before and after the introduction of the norms.

The indicators that will be used for the purpose of the analysis are the following:

1. Net revenue – indicator for the revenue-generating capacity, provides a measure of the volume of business the clubs are able to generate. The trend of the indicator is evaluated to assess whether the business of European clubs has grown and to what extent;
2. Net profit – after the ability to generate revenues is measured, it is necessary to evaluate the profitability to assess the ability of clubs to turn revenues into net income;
3. Net debt-to-net revenues – it is a typical leverage ratio that measures the extent to which a club has to resort to debt in order to generate revenues, rather than relying on its own means. The ratio is a proxy for business sustainability and is inversely proportional to it, meaning that

an increase in the indicator over time represents an increase in indebtedness, and a decrease in sustainability of the club;

4. Wage-to-revenue ratio (WRR) (or staff cost-to-net revenue ratio) – it is an important indicator, particularly in the recent years. It provides a measure of the efficiency of a club in managing labor costs to generate revenues. The smaller the ratio, the more revenues the club is able to raise in relation to the costs it is facing for its personnel. An increase in the ratio over time means that the clubs are losing the ability to use their labor efficiently, or that they are spending too much in wages compared to the volume of revenues they are obtaining.
5. Net equity – this indicator, obtained by subtracting from total club assets total club liabilities, is a proxy for financial health and liquidity. According to the rules, losses exceeding the maximum allowed threshold have to be covered by capital contributions. The trend of the indicator shows the extent to which shortfalls have been covered by equity capital injections rather than by debt. The higher the value of net equity, the higher the liquidity and soundness of club finances.

The analysis will be performed on a sample made of the 700 first division European clubs making up the European football industry. The data is extracted, among the others from UEFA reports, Deloitte reports (Football Benchmark and Football Money League), Statista, and Football Benchmark.

5.2 Competitive Balance

The second part of the analysis aims at investigating the impact of FFP on competitive balance in European leagues. As aforementioned, such aspect was not the primary target of FFP regulations, and was rather considered a beneficial side effect. However, it is indeed the aspect that raised the most criticism. UEFA intervention as a rule-maker was meant to ensure the long-term sustainability and viability of European football in the first place, and as long as this objective translates into the safeguarding of individual clubs' financial soundness, the framework has arguably had a positive effect.

Nevertheless, the long-term outlook of the European football environment does not solely depend on the health of the single clubs, but also on the interest for the sport, the attractiveness of the leagues, and the audience they are able to involve. The popularity of a league and the engagement it is able to generate depend on the extent to which it is characterized by uncertainty of results, which in turn is related to the level of competitive intensity. From this point of view, competitive balance of European leagues becomes a key aspect in a long-term perspective, a factor that is crucial not to overlook.

Actually, FFP provisions were seen, since their inception, as a tool to level the playing field between clubs, regulating the access to capital in order to ensure greater equality between the top clubs, which have easier access to capital from worldwide investors, and the smaller and less popular clubs that face greater difficulty in this respect. UEFA top levels have always been well aware of the importance of competitive balance for the long-term viability of European football, and have always advocated for action ensuring its protection, if not its enhancement, in order to "bring more clubs to compete at the top table" [6]. Nevertheless, the FFP framework has generated vast criticism for the alleged failure to fulfil this secondary, but not less important, objective. In fact, while being seemingly effective in principle, the limitations to the access to capital caused by the introduction of the provisions are accused of having achieved the opposite of the goal they were intended to pursue. According to the criticisms, club-specific constraints would be detrimental to smaller clubs, that would struggle even more to bridge the gap with bigger ones, with the effect that the competitive balance would deteriorate even more. In fact, the dominant clubs would strengthen their positions, leading to an ossification of existing hierarchies that could eventually result into a loss of interest, due to the lack of result uncertainty.

For this purpose, the so-called "Big 5" leagues (Premier League, La Liga, Serie A, Bundesliga and Ligue 1) are taken into exam, over the period going from season 2000/2001 to season 2022/23. Such leagues, according to the 2021 UEFA report "The European Club Footballing Landscape" account for 74% of the revenues of European football, and more than 60% of the revenues of the global football industry, as well as being the leagues hosting the top clubs in the world for popularity and business volume. For this reason, it seems reasonable to limit the analysis to the top five leagues, being the ones that generate the largest portion of revenues, and the channel through which a negative impact on earnings of loss of interest due to decreasing degree of competition would impact the football sector. The evaluation is performed taking into account hand-collected league standings for the 23-year period, and is based on two indicators of competitive balance, that will be explained in detail:

- C5 Index of Competitive Balance (C5ICB): this indicator is obtained by means of an adjustment of the C5 concentration ratio, that, when applied to a standard industry, provides a measure of the degree to which the industry is dominated by the five biggest entities. In the case of a football league, the C5 ratio provides an indication on the extent to which the league is dominated by the top five clubs, providing a measure of inequality. The C5 ratio is computed as follows:

[6] G. Infantino, Secretary General of UEFA from 2009 to 2016

$$C5 = \frac{total\ points\ won\ by\ top\ 5\ clubs}{total\ points\ won\ by\ all\ clubs} = \sum_{i=1}^{5} s_i$$

Where s_i indicates the share of points obtained by the i-th club.

The C5 ratio is a function of the number of firms (clubs) participating in an industry (league) and of the degree of inequality between the top 5 players and the remaining ones.

The value of the index is inversely proportional to the degree of competitive balance: the higher the value of the indicator, the lower the degree of competitive balance, and the higher the domination of the top 5 clubs. In a standard industry, where there are no restrictions on the number of participants and their market share, the index would oscillate between 0 – indicating perfect competition, with an infinite number of firms – and 1 – indicating pure monopoly of a single company. However, in case of football, the bounds are different. In fact, the number of teams taking part in a league is fixed, and the point scoring system does not allow the top 5 clubs to score all the points. For these reasons, the bounds of the indicator are:

- 5/N where N is the number of clubs participating to the league;
- M/(M+T) where M is the maximum number of points that can be scored by the top 5 clubs and T is the absolute minimum of points the remaining teams could end up with;

The values of such bounds depend on the number of teams taking part to the league, and are hence as follows:

- For 20-club leagues (Premier League, La Liga, Serie A – from 2004 onwards, Ligue 1 – from 2002 to 2023), N=20, M=510, T=420. The index lies between 0.25 and 0.55;
- For 18-club leagues (Bundesliga, Serie A – until 2004, Ligue 1 – until 2002), N=18, M=450, T=312. The index lies between 0.28 and 0.59.

Despite few exceptions, the number of clubs participating to a leagues remains constant, hence changes in the C5 index reflect changes in the degree of inequality within the league.

However, given that changes in the number of clubs do occur, a more sophisticated indicator can be obtained adjusting the C5 index to account for modifications in league size, the C5 Index of Competitive Balance (C5ICB), computed by means of the following formula:

$$C5ICB = \frac{C5}{5/N} = \frac{\sum_{i=1}^{5} s_i}{5/N}$$

Where s_i is the share of points obtained by the top 5 clubs and N is the number of clubs participating to the league.

This indicator is essentially adjusted dividing the C5 ratio by 5/N, and it is possible to recalculate its bounds as follows:

- Lower bound = 1, upper bound = 2.19 for leagues with 20 clubs;
- Lower bound = 1, upper bound = 2.13 for leagues with 18 clubs.

In case of a perfectly balanced league, the indicator would take the value of 1, and any increase in the value of the index reflects a proportional decrease of competitive balance. For instance, a 0.10 increase in the index would mean a 10% decrease in competitive balance.

- Herfindahl Index of Competitive balance (HICB): it is an indicator that, differently from the C5ICB, takes into account the inequality among all the clubs in a league, instead of looking at the imbalance between the top 5 participants and the rest. This indicator is based on the Herfindahl index, a measure capturing the inequality in an industry based on the market share of its individual companies, that can be applied to football and transformed into an indicator of competitive balance, based on each club's share of points at the end of the season. The H-index is computed as follows:

$$H = \sum_{i=1}^{N} s_i^2$$

Where s_i is the share of points obtained by club i and N is the number of clubs in a league. Similarly to the C5 ratio, the H-index is a function of the number of clubs in a league and of the inequalities among them, and it is inversely proportional to the degree of competitive balance, meaning that a higher value for the H-index indicates a higher level of inequality, and hence a lower level of competitive balance. Like the C5 ratio, the H-index is however sensitive to the changes in league size, and for this reason, it is adjusted in an analogous way. The Herfindahl index of competitive balance (HICB) is obtained by dividing the H-index by 1/N, and can be computed by means of the following formula:

$$\text{HICB} = \frac{H}{1/N} = \frac{\sum_{i=1}^{N} s_i^2}{1/N}$$

Where s_i is the share of points obtained by club i at the end of the season and N is the number of clubs in the league.

Depending on the league size, the HICB lies between the following bounds:

- For 20-club leagues, the lower bound is 1 (perfectly balanced league) and the upper bound is 1.40 (perfectly imbalanced league);

- For 18-club leagues, the lower bound is 1 (perfectly balanced league) and the upper bound is 1.35 (perfectly imbalanced league).
  Hence, in a perfectly balanced league, the HICB would take the value of 1, and any increase in the indicator reflects a decrease in the competitive balance of the league.

The analysis will look at the evolution of the values of the two indicators and their trend during the reference period, that covers 10 seasons before the introduction of FFP (2010/2011) and all the subsequent seasons, including those in which substantial modifications to the FFP rule have been made (e.g., 2018). The focus of the analysis concerns the comparison between the trends manifested by competitive balance prior and subsequently to the introduction of the FFP, and the evolution of the indicators will be evaluated to assess the effects of the regulation. On a side note, in order to fairly represent the state of competitive equilibrium across the whole examination period, I have adjusted the standings that have been affected by the infliction of penalties in the form of subtraction of points to any team taking part of the championship. All the points that have been subtracted to any club as a result of court rulings have been added back, such as in the case of the 2005/06 edition of the Serie A, where A.C. Milan, Fiorentina and Lazio were penalized with the subtraction of 30 points, that have been added back in order to properly reflect the performance “on the pitch”. In addition, to the date of completion of this thesis, in three of the “Big 5” leagues – La Liga, Serie A and Ligue 1 – there still is one matchday left to play. The results of matchday 38 for such leagues have been simulated based on past results, bookmakers’ odds, points-per-match averages and personal assumptions in order to allocate the remaining points and forecast the final standings.

6. Empirical Analysis

6.1 Financial Indicator Analysis

6.1.1 Net Revenues

The European football industry has experienced an outstanding revenue growth in the 2000s, primarily thanks to the value brought by increasingly large deals for commercial and broadcasting rights. The ability of European clubs to monetize from the popularity they enjoy, and from the increase in appeal of the sport as a whole, have translated into a path of nearly constant growth already in the first decade of the 2000s. As we can see from Figure 9, revenues have grown from €6 billion to €13.2 billion from 2000 to 2011, exhibiting a CAGR of 6.78%.

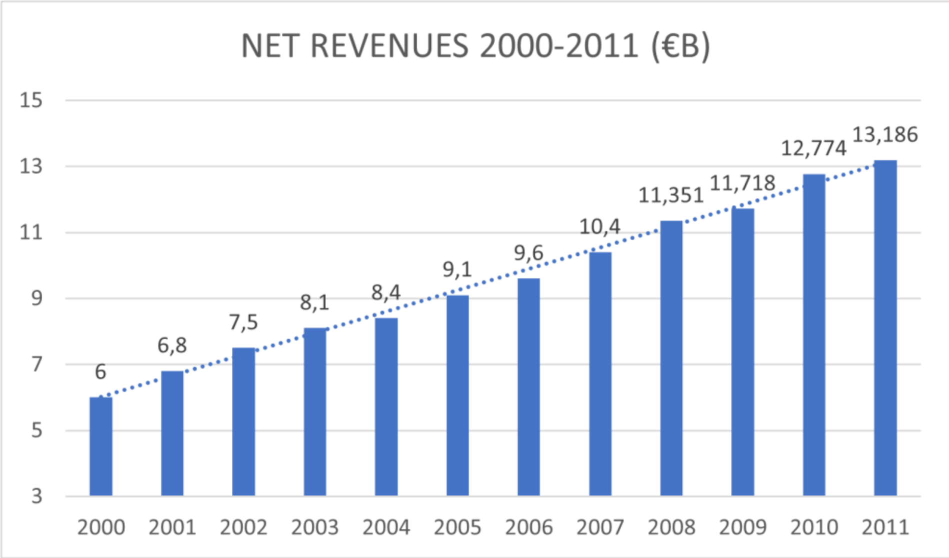

Figure 9: European Football Clubs' Net Revenues, 2000 to 2011 – personal elaboration of data extracted from UEFA Club Licensing Benchmarking reports

The following years, from 2012 to 2019 (Figure 10), have been characterized by a comparable CAGR, only slightly lower (6.32%), indicating that, after the introduction of FFP, the situation has not quite changed in this respect.

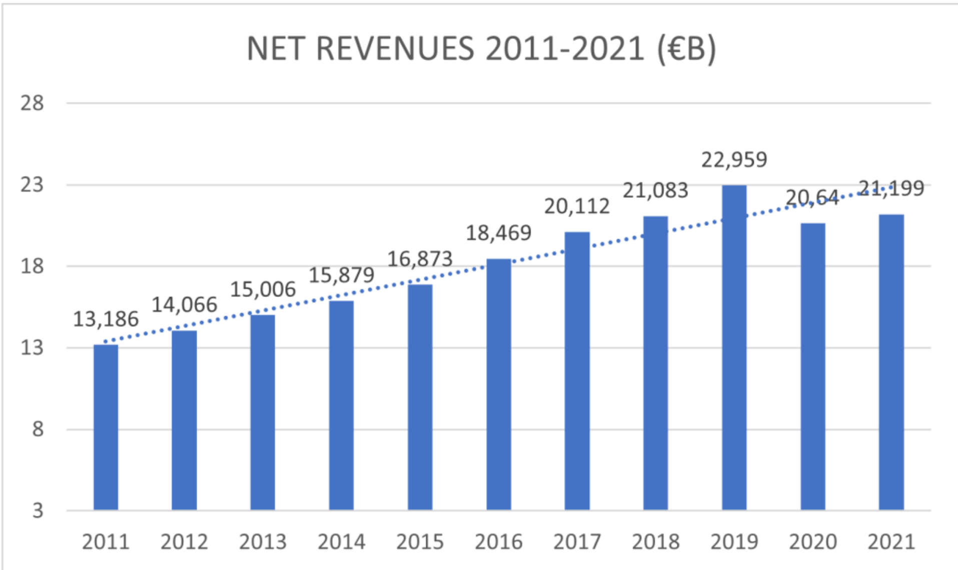

Figure 10: European Football Clubs' Net Revenues, 2011 to 2021 – personal elaboration of data extracted from UEFA Club Licensing Benchmarking reports

Subsequently to 2019, the advent of the Covid-19 pandemic and its effects have obviously impacted negatively the revenues of the European football industry. Interruptions or delays of domestic and international leagues (that, in some cases, had harsh consequences, compromising lucrative broadcasting rights deals), together with the absence of matchday revenues due to government restrictions have caused aggregate revenues to shrink substantially, with a loss of revenues totalling over €1.3 billion (comparing 2019 and 2020 figures). In 2021 there was only a partial recover, with revenue levels still attesting themselves below the pre-pandemic figures, but the harshness of the hit taken by clubs is undeniable. Taking into account the years from 2000 to 2019 (Figure 11), just before the outbreak of the pandemic, the revenue growth in Europe displays a CAGR of almost 7% (6.94%), which becomes 6,32% if we consider the period from 2011 to 2019.

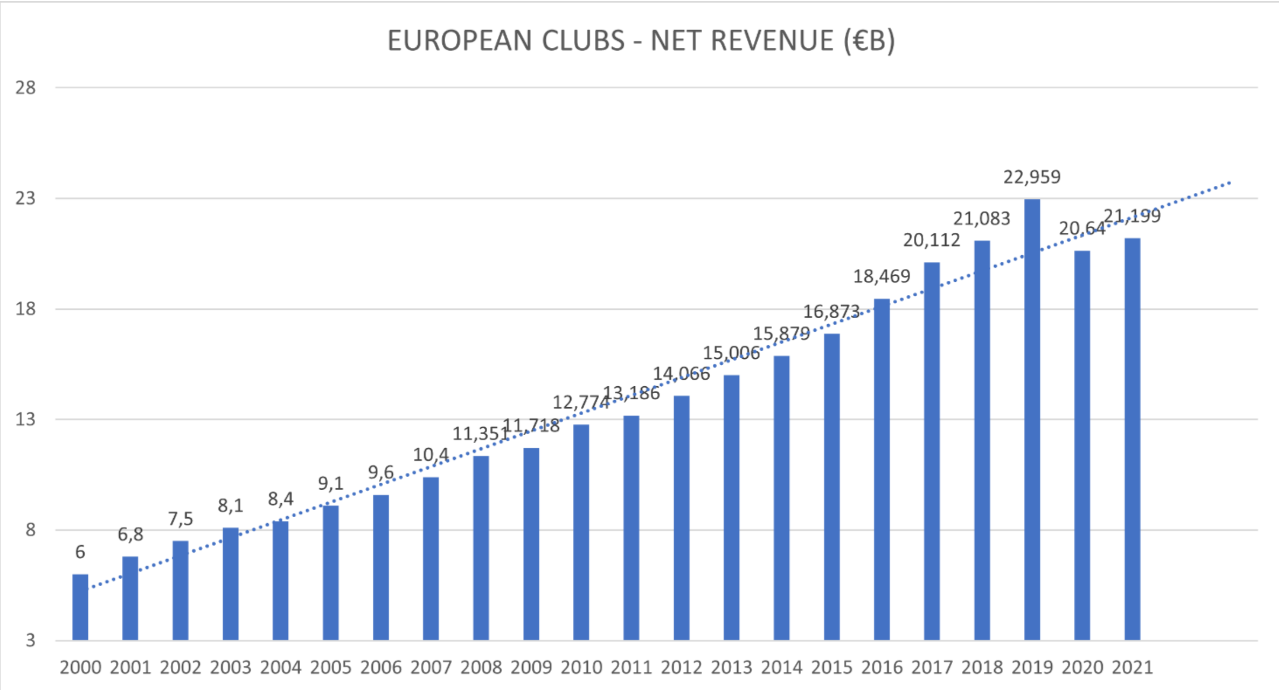

Figure 11: European Football Clubs' Net Revenues, 2000 to 2021 – personal elaboration of data extracted from UEFA Club Licensing Benchmarking reports

Including 2020 and 2021 in the computations turns the CAGR for the 2000-2021 period to only 5.91%, while the CAGR from 2011 to 2021 is 4.19%. For this reason, for the sake of our analysis, particular attention is advised when interpreting the data, particularly when including post-pandemic years in the considerations. Taken aside the massive revenue drop due to the epidemic, it is nevertheless easy to notice that there has been indeed a growth in aggregate income both before and after the introduction of FFP, and the two CAGRs are very closely comparable. In this sense we can argue that, after the introduction of FFP, there has been no detriment at all to the European clubs' revenue generating capacity.

Turning our attention to the “Big 5” leagues only, the graph in Figure 12 shows the evolution of revenues for the main five European domestic championships from season 2006/07 to 2022/23 (forecast).

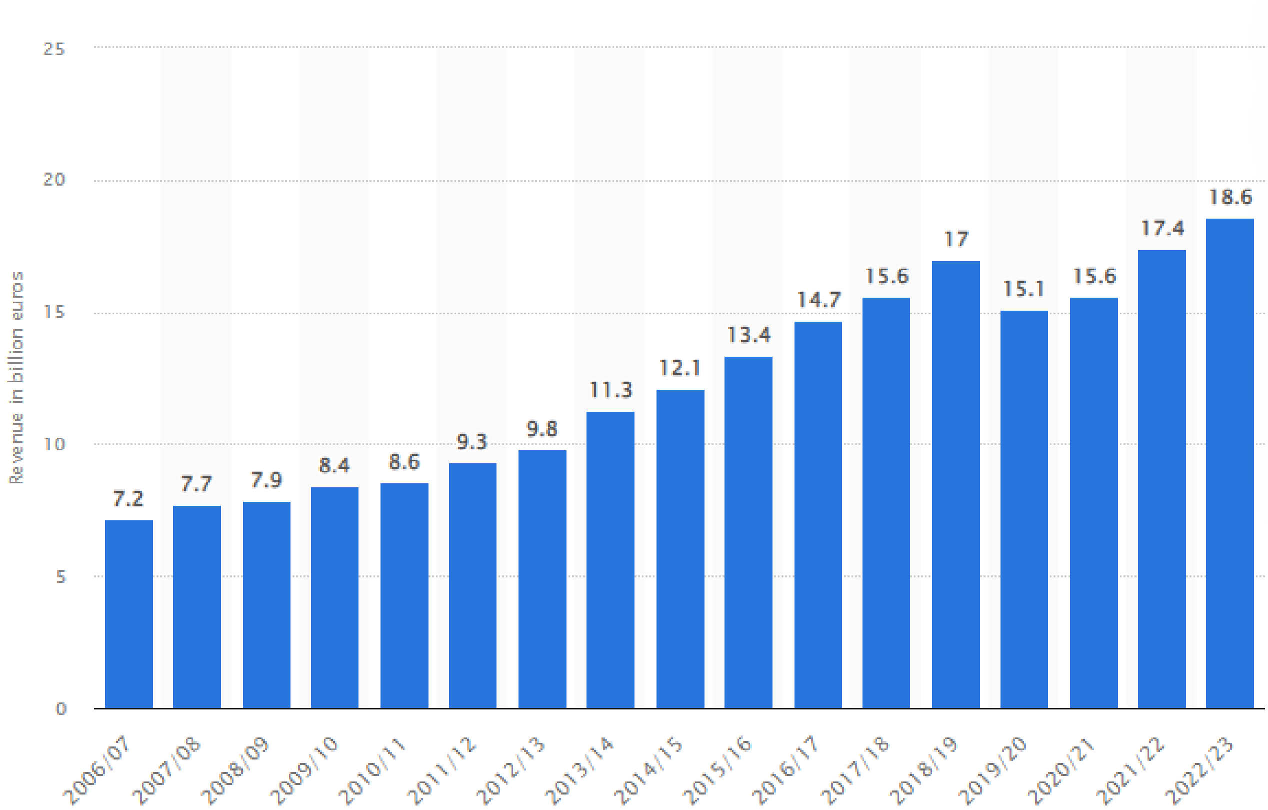

Figure 12: European “Big 5” Leagues’ Net Revenues, 2006 to 2023 – Statista, 2023

The data is extracted from Statista, that cooperated with Deloitte to gather the information. By looking at the figure, we can observe that the rate of growth in revenues has actually accelerated after 2011. In fact, while the CAGR for revenues from season 2006/07 to 2010/11 is only 3.33%, the figure is more than twice as much for the seasons from 2011/12 to 2018/19, where revenues grew by a CAGR of 7.83%, indicating a positive evolution of the revenue-generating capacity of the “Big 5” leagues after the introduction of FFP. According to the available data, there has been indeed a recovery from the negative effects of the pandemic in 2021/22, where the revenues of the “Big 5” leagues finally got back (and overtook) to pre-pandemic levels. Accounting for the two years of pandemic and the two subsequent seasons, the CAGR for the revenues of “Big 5” leagues is 5.95%, which is indeed lower than the CAGR observed for the 2011-2019 period, but nevertheless higher than that characterizing the 2006-2011 period. Once accounted for the adverse effects of the Covid-19 pandemic, we can affirm that the growth in revenues for the “Big 5” European leagues has accelerated subsequently to the introduction of the FFP framework.

The evolution of revenues has been analysed also in respect of the top 20 revenue-generating clubs in the world. All of them belong to the top 5 European leagues, and their performance is tracked on a yearly basis thanks to the Deloitte Football Money League report. Figure 13 shows the evolution of the aggregate revenues for the top 20 clubs from season 2004/05 to 2021/22.

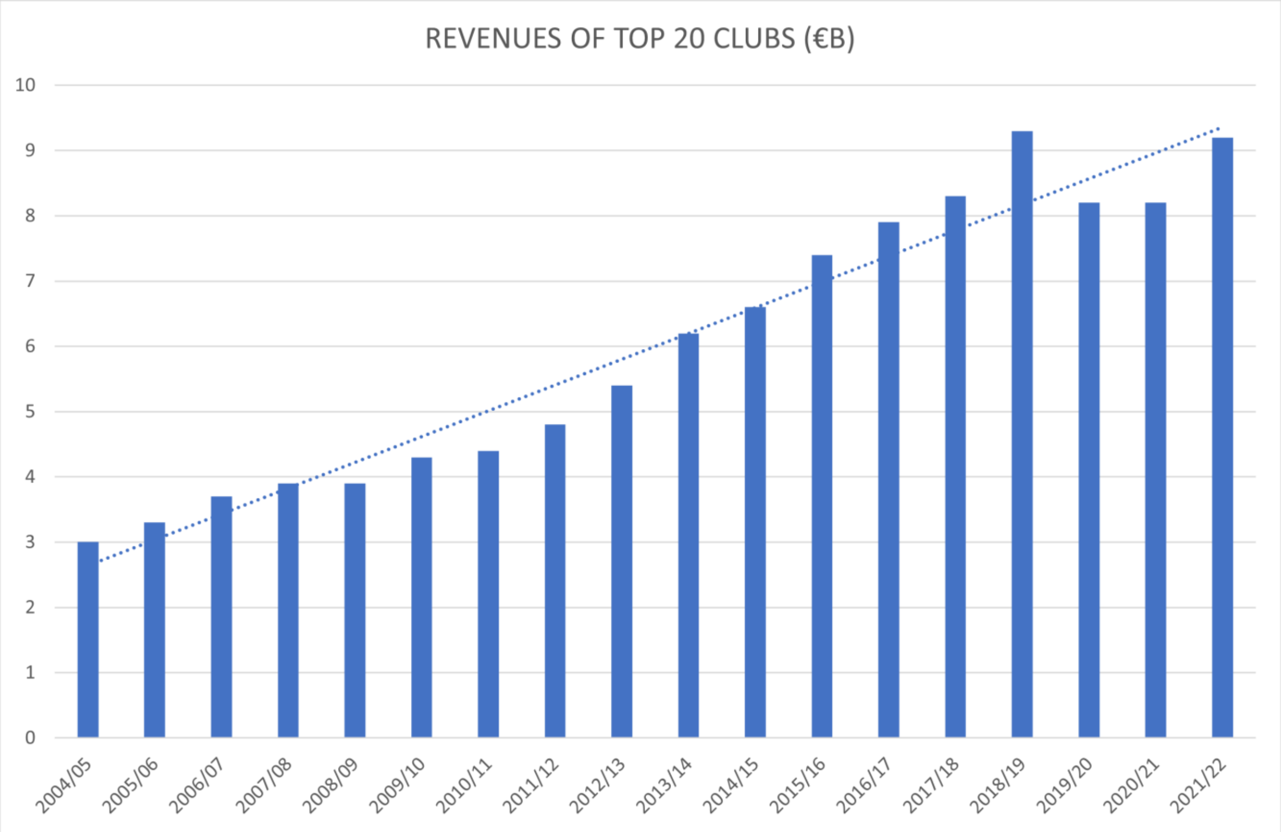

Figure 13: Revenues of the Top 20 Revenue-Generating Clubs from 2004/04 to 2021/22 – personal elaboration of data extracted from Deloitte Football Money League reports (editions 2006 to 2023)

Across the whole period, the revenues have grown by a CAGR equal to 6.42%, and, as usual, we will try to break down the evolution of the figures in order to compare the trends prior to the introduction of FFP and subsequently to it. Again, we have to be careful when considering the last three seasons, that have suffered from the adverse effects of the Covid-19 pandemic. Revenues in fact dropped by over €1.1 billion in the first year of pandemic and have barely recovered to pre-Covid levels only in 2022. If we only consider seasons up to 2018/19, Football Money League clubs have never ceased increasing their revenues, achieving a constant growth, and a CAGR for the 2004-2019 period equal to 7.83%. By observing the graph in Figure 12, jointly with the CAGR values computed, we can easily notice that there has indeed been an acceleration in the generation of revenues after 2011 for the top 20 clubs. The CAGR for the 2004-2011 is in fact equal to 5.62%, while the rate jumps to 8.62% when computed for seasons between 2011 and 2019 (pre-pandemic) and is still significantly higher when accounting also for the years of the pandemic (6.09%). Prior to 2011, the average of annual growth rates for the revenues of FML clubs is 6.7%, while the average of annual growth rates is 9% in the 2011-2019 period, indicating that after the introduction of FFP there has indeed been a positive evolution of the revenue-generating capacity of top 20 clubs. It is also interesting to notice that the top clubs have grown at a faster pace after the framework was implemented, thus widening their gap with the other clubs. In the following sections there will be an investigation of the repercussions of such increased distances on the balance of competition.

6.1.2 Net Profit/Loss

The profitability of European football clubs is one of the aspects where most significant improvement has taken place following the introduction of FFP. Historically speaking, football clubs have always been characterized by bad bottom-line results in the years leading to the decision of implementing the regulation. Ever since then, there has been a stable improvement in the profitability of clubs, reflected by a continuous year-on-year reduction in aggregate losses that can be seen in Figure 14.

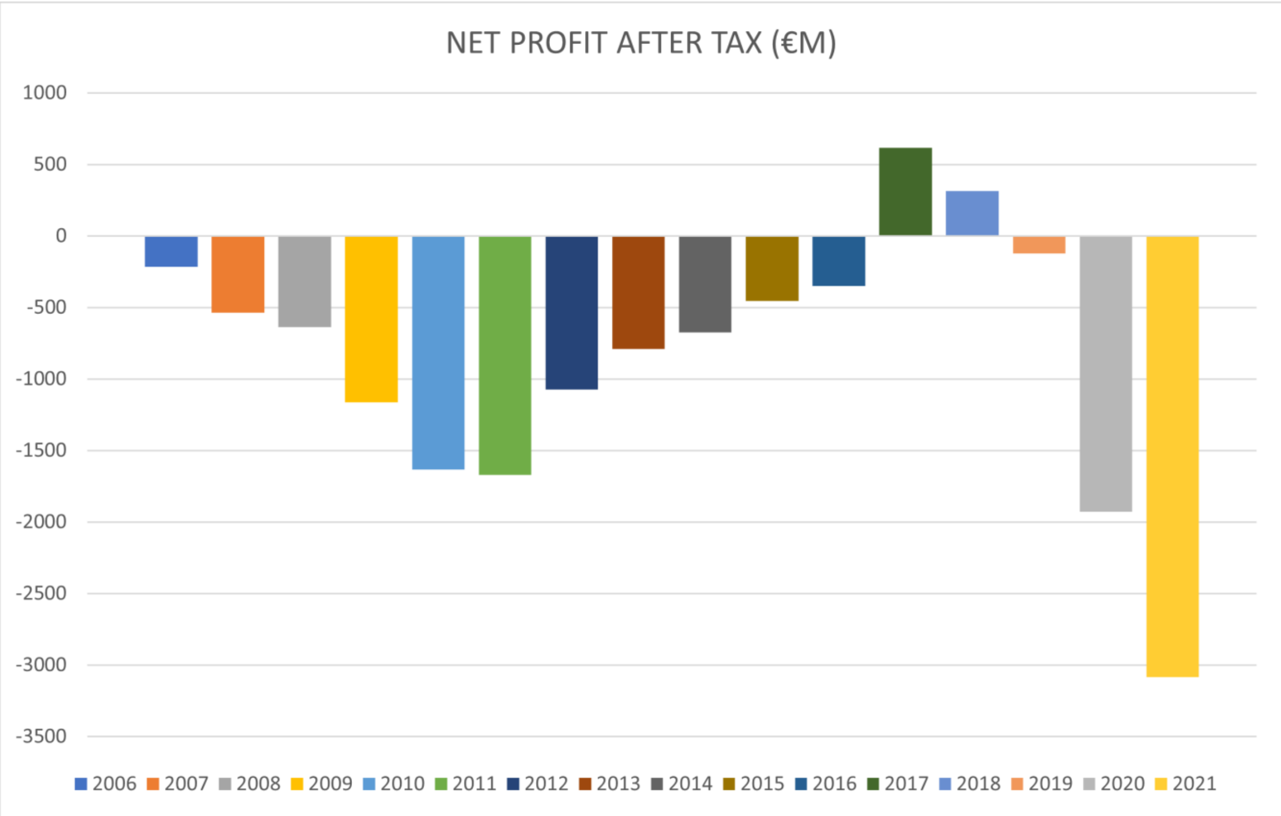

Figure 14: European Football Clubs’ Net Profit After Tax, 2006 to 2021 – personal elaboration of data extracted from UEFA Club Licensing Benchmarking reports

The solidification of club finances and the rationalization of their spending have led to the achievement of a growth in profits (actually, a decrease in losses), until reaching, in 2017 a positive aggregate profit for the first time. This is considered (particularly by UEFA) a remarkable achievement that testifies the effectiveness of FFP in improving the financial conditions and operational efficiency of clubs, and it was rather successful to demolish a dogma that seemed incontrovertible. It is however to be pointed out that the vertical drop during the years affected by the pandemic (from 2020 onwards) is practically exclusively due to the adverse effects of the epidemic, and the response of the clubs to the shock could not avoid the incurring of significant hits to profitability. In this case, there was little that could be done to avoid detrimental impacts of the loss of matchday revenues, or the problems with broadcasting deals, and the causes of the losses are to be considered exogenous. Nevertheless, as explored in the dedicated section, such losses have rarely translated into serious financial distress for clubs, and this is another demonstration of the increased ability of clubs to face seriously adverse conditions.

6.1.3 Wages-to-Revenues

The evolution of wages is a central topic in the scope of the considerations on the effectiveness of FFP. Prior to its introduction, the rising trend in wage costs was one of the most concerning factors, both due to the speed of growth in figures and to the impact on club health and competition in the short but especially in the long term. In the football world, there is a prevailing short-terminism concerning investment in players, which most often pushes wages to levels that can quickly become unsustainable, as the returns provided by players, if any, occur in the short term. Moreover, as long as we are considering football players, we have to bear in mind that we are talking about human beings, whose performance is not to be taken for granted, as it depends on uncountable factors that are hardly controllable, and there is no guarantee whatsoever that the investment on a player, be it in the form of high transfer price or high wages, will yield a return that will make the investment worth it. In the recent years, moreover, as commercial and brand image-related revenues have played an increasingly important role, there is a large focus by big clubs on players that, thanks to the strength of their image, are able to increase the level of popularity of the club’s brand rather than just enhancing the performance of the team on the pitch. Some famous examples are provided by the transfers of Messi to PSG, or Cristiano Ronaldo to Al-Nassr. This has also affected wage trends, as figures keep becoming higher and higher for world-class and famous players.
In order to ensure the sustainability of the football sector, however, it is important for clubs to be able to ensure the efficiency of their operating performance, which, in this sense, translates into the ability

to efficiently handle labour and associated costs to produce revenues. In order to assess the effectiveness of labour in generating revenues, we will take a look at the wage-to-revenue ratio (WRR), a performance indicator that measures wage costs for players and staff in relation to the revenues. The ratio is inversely proportional to labour efficiency, meaning that higher values for the indicator correspond to lower levels of efficiency; the lower the level of wages in relation to the revenues generated, the higher the operating efficiency. The analysis is conducted for the periods from 2009 to 2021, and once again the focus is on the overall trend, as well as on the comparison between pre-2011 and post-2011 levels. The graph in Figure 15 plots the evolution of the WRR for the over 700 European football clubs, together with the development of wage levels. We immediately notice that the wages have consistently increased on a year-on-year basis throughout the whole reference period, including the post-pandemic years, 2020 and 2021.

Figure 15: Wage-to-Revenue Ratio of European Football Clubs from 2009 to 2021 – personal elaboration of data extracted from UEFA Club Licensing Benchmarking reports

The first thing to point out is hence that, after the introduction of FFP, there has been little or no mitigation of the inflationary spiral that was affecting wages in absolute terms. However, during the reference period, also club revenues have kept constantly growing, such that the WRR tells a different story. The ratio has in fact been increasing for the three years up to 2011 but, after a slight increase in 2012, its levels have significantly dropped after the introduction of FFP, indicating a decreasing impact of wage expenses on revenues, whose growth has outpaced that of wages. Just from 2012 to

2013, WWR has dropped by 1.5 percentage points, and the same goes for the following year (1.6 pp). The ratio has then remained within relatively low levels, well below those recorded prior to 2011, at least up to 2018, where it equalled the 2010, pre-FFP value. Generally speaking, 2018 was the only year in which the WRR attested itself to a value at least equal to those observed prior to 2011, before dropping again the subsequent year. Years 2020 and 2021, once again, serve as an exception in the trend, always due to the consequences of the pandemic. As we can observe for the graph, the WRR skyrockets up to 73% in 2020 (10 percentage points above the level of the previous year), leaping to the record-breaking 77% in 2021.

This has occurred despite the wage growth rate being only 3.7% in 2020 (well below any previous yearly growth rate) and 8.82% in 2021, a growth rate that is in line with those recorded previously. Undoubtedly, the raise in WRR levels is mainly due to the drop in revenues (-10% in 2020), or to the growth in wages outpacing that in revenues (8.82% vs 2.7% in 2021), which can be explained by the stickiness of wages, that tend to change less easily than revenues. In the overall period, accounting for the effects of the pandemic that are difficult to factor in for considerations on years 2020 and 2021, there has been a clear improvement in efficiency after the introduction of FFP, as shown by decreasing WRR levels.

From the analysis conducted upon the sample of European clubs, it is clear that clubs have been able to reduce the impact of staff costs, increasing labor efficiency such that revenue growth has outpaced wage growth.

6.1.4 Net Debt-to-Net revenues

One of the most important aspects the FFP was aiming at tackling was the issue of financial solidity. The goal was to ensure sustainability of club financing, with the reduction of the indebtedness of clubs, in order to protect long-term solvency and viability of the individual entities, and of the football sector as a whole. The long-term solvency of clubs can be controlled by ensuring their liquidity, meaning their capacity to pay off debt and, if needed, take on more. This ability is reflected by the net debt-to-net revenues ratio, an indicator measuring the weight of total debt with respect to clubs' liquid assets. For the purpose of the analysis, data has been collected from the 2018 edition of the UEFA Club Licensing Benchmark Report, and plotted in a graph shown in Figure 16.

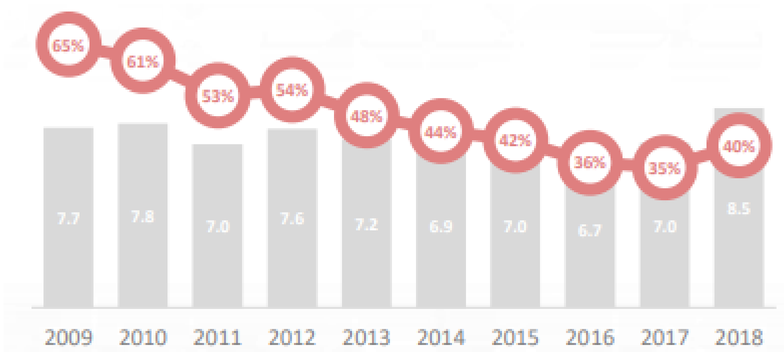

Figure 16: Ned Debt Levels and Net Debt-to-Net Revenues ratio for European Football Clubs from 2009 to 2018 – The European Club Footballing Landscape UEFA Club Licensing Benchmarking Report, 2019

Unfortunately, to the date of completion of this thesis, the ability of data is restricted to the 2009-2018 period, and, due to the subsequent outbreak of the Covid-19 pandemic, it is difficult to estimate the values for the indicator in the following years. Nevertheless, analysing the trends of the indicator provides an interesting indication on the development of club indebtedness. As we can see from the graph, there has been a sharp decline in the indicator, that fell from 65% in 2009 to 35% in 2017, before climbing back up to 40% in 2018. The reason behind the substantial increase in the indicator in 2018 is to be found in a record-breaking 21.4% increase in net debt, more than two and a half times the previous peak of year-on-year debt growth, that has brought back up the level of the ratio by 5 percentage points compared to 2017 figures. It is relevant to highlight that debt can be used also for forward-looking investing purposes, and the difference between Premier League and Serie A provides an interesting picture. On the one hand, in fact, the increase in average net debt for English clubs was mainly due to investments on the renewal and improvement of club facilities and infrastructures (above all, the debt financing structure of Tottenham Hotspur FC's new stadium), on the other hand, Italian clubs have resorted to debt mostly in order to cover operating and transfer activities. This clarification is important in the point of view of FFP regulations, that aim at tackling the problem of excessive indebtedness, but nevertheless pay attention to the purposes for which debt is resorted to, stressing the importance of the distinction between virtuous use of debt for the sake of long-term, forward-looking investments, and resort to debt financing in order to keep running operations and perform short-term investments (i.e. player transfers).

Besides such noticeable increase, there has been a nearly constant decrease in net debt-to-net revenues throughout the whole 2009-2017 period and, interestingly, the sharpest decrease (8 percentage points) has occurred in 2011. After one year of adjustment, in 2012, the ratio has declined further by 6 percentage points in 2013, and kept lowering in all subsequent years up to 2017, also thanks to a slight decline of net debt levels in absolute terms. Considering the entire period, net debt has actually remained within relatively stable bounds, but the growth in revenues has ensured a reduction in the impact of debt on liquidity. This means that the decline in the ratio is attributable to an increase in efficiency rather than a decline of debt in absolute terms, and to an augmented ability to generate income without the need to lever up.

Overall, comparing pre- and post-FFP levels, there has been a significant decline in the ratio already prior to 2011, with a drop from 65% in 2009 to 53% in 2011 (12 percentage points). In the subsequent years, such a drop was not achieved before 2016.

6.1.5 Net Equity

One of the aspects the FFP is aimed at tackling is the equity position of European clubs. The deterioration of club finances, and consequent increase in their indebtedness, was a primary cause of concern at the outset of the framework. In particular, the norms prescribe that any losses beyond the minimum allowable threshold have to be covered by means of equity injections, in order to prevent excessive build-up of debt. The goal is to solidify the soundness of club balance sheets and prevent risks of distress due to excessive indebtedness, in order to protect individual clubs, their stakeholders and the sector as a whole also in the medium/long-term. To assess whether the intended effect has been achieved, we analyse the 10-year trend of net equity, from the year after the introduction of FFP (2012) to 2021, the last period for which available data exists. Net equity, in broader terms, is the difference between an entity's total asset and total liabilities. In this case it can be intended as the original amount of capital upon the creation of the clubs, plus (minus) historical profits (losses), historical revaluations and equity injections, net of the dividends distributed to club shareholders. The resulting indicator is used as a proxy for financial health and balance sheet solvency, and its trend is evaluated across the ten-year period to assess whether an improvement of the conditions has taken place. Figure 17 shows the evolution of the indicator for the "Big 5" leagues, and for the remaining 50 top tier European divisions.

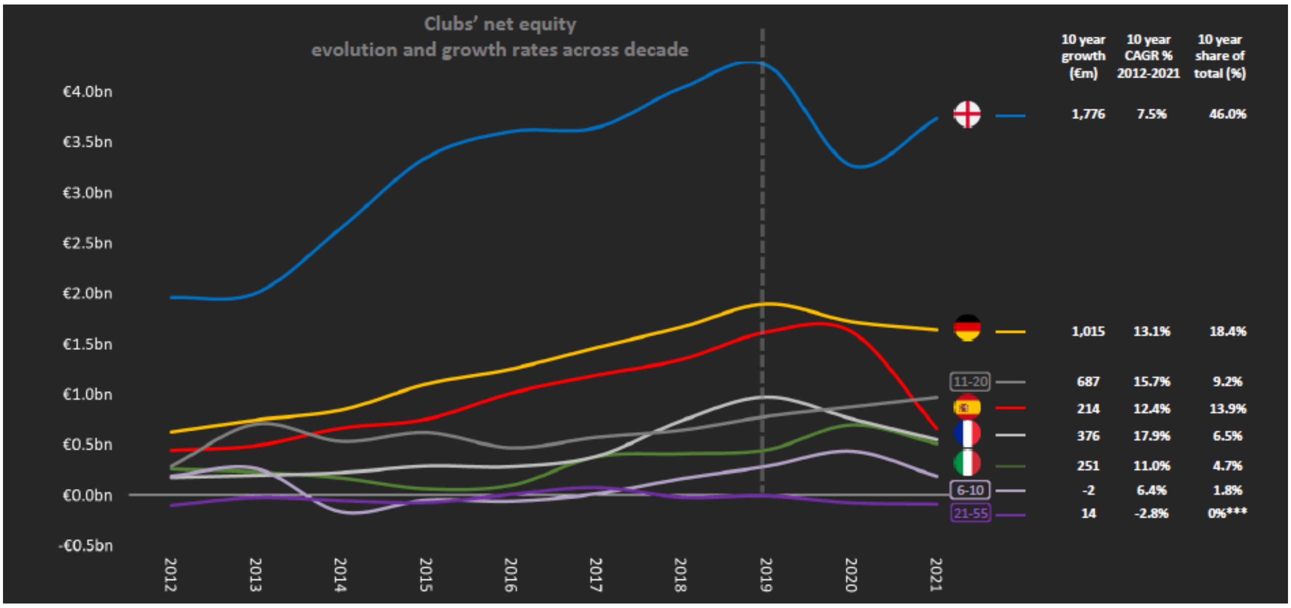

Figure 17: European Clubs' Net Equity from 2012 to 2021 - UEFA Club Licensing Benchmarking report, 2022

As can be seen from the graph, the evolution can be considered positive. Over the ten-year period from 2012 to 2021, a total €7 billion increase in net equity has taken place, and aggregate net equity reached €10.3 billion before the pandemic. Except for the 35 bottom leagues, that registered little to no improvement over the reference period, exhibiting a negative CAGR (-2.8%) despite a €14 million net equity growth, all the other leagues, or group of leagues, had a positive response after the introduction of FFP. In aggregate terms, English and German clubs lead the chart for having added the most net equity, €1.7 billion and €1 billion, respectively. In relative growth terms, the record belongs to Ligue 1, displaying a 17.9% CAGR, followed by leagues 11 to 22 (15.7%), Bundesliga (13.1%), La Liga (12.4%) and Serie A (11%). Overall, as UEFA states in its report[7], we can affirm that, after FFP was introduced, there has been a positive evolution of the soundness and solvency of club balance sheets.

A direct consequence of such improvement is reflected by a decline in the number of clubs of the top two divisions of UEFA member associations entering insolvency proceedings. As can be seen in Figure 18 below, there has been a substantial drop in the number of clubs facing such a serious distress right after the introduction of FFP.

[7] The European Club Footballing Landscape – Club Licensing and Benchmarking Report "Emerging from the pandemic"

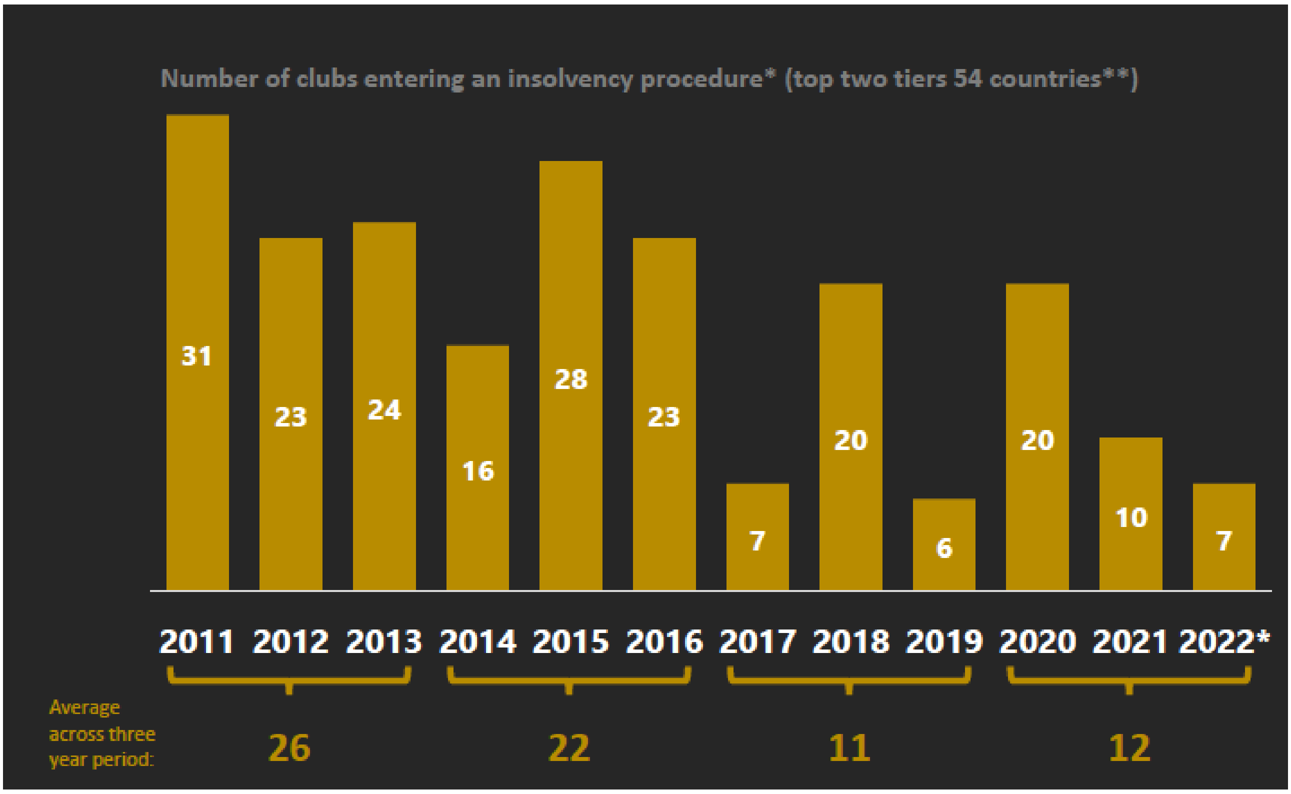

Figure 18: Number of European Clubs Entering Insolvency Procedure from 2011 to 2022 – The European Club Footballing Landscape UEFA Club Licensing Benchmarking report, 2022

In the three years subsequent to the entrance into force of the framework, club finances were still recovering from the effects of the Financial Crisis, and overspending was more widespread. The advent of stricter licensing assessment (we recall that the "three-year rule" does not allow clubs entering insolvency proceedings to take part in UEFA competitions for the three following seasons) has also enhanced the resilience of clubs, as demonstrated by their capacity to absorb the shock caused by the Covid-19 pandemic. The triennium 2020-2022 has in fact been characterized from an average of 12 clubs per year entering insolvency proceeding, which is only marginally higher than the figure (11) for the prior triennium (2017-2019). It is perhaps surprising that, while the year in which the pandemic burst, 2020, saw 20 clubs under insolvency proceedings, 2022 was one of the years in which the lowest number was recorded. The ability to overcome significant challenges brought by the pandemic highlight the increased resilience of clubs after the introduction of FFP, also in case of "black swan" events. This indeed seems a remarkable achievement.

6.2 Competitive Balance Analysis

6.2.1 Overview of the "Big 5" Leagues

The so-called "Big 5" leagues are the domestic championships that are most important under all aspects. They account for 60% of the revenues of the global football market, and 74% of the European segment. They are home to the most historical and successful clubs, that can count on millions of fans worldwide, and line up the best players, offering a sportive show of the highest quality. Consequently, clubs belonging to the "Big 5" leagues are the biggest players in the landscape, in terms of enterprise value, revenues, and market share, as testified by the fact that all the 20 clubs making up the Deloitte Football Money League come from the top 5 domestic leagues. In order to investigate the evolution of the football sector after the introduction of FFP, the resort to the broadest dataset possible is always advocated for, however, given the relative weight of the top five leagues in the context of the football sector, it is also reasonable to conduct an analysis of the "Big 5" leagues.
Before proceeding with the analysis, a brief description of each of the "Big 5" leagues is provided for context.
The English Premier League is widely considered the most competitive and well-organized domestic league in the world. Those taking part to it are among the most powerful clubs in the world both in sportive and economic terms, and the league dominates the European landscape from the point of view of revenue-generating capacity, thanks to the ability to secure highly lucrative agreements for broadcasting rights. As shown in Figure 4, the Premier League tops the charts when revenues are concerned, and can count on an audience estimated in over a billion households, spread among almost 200 countries, due to the outstanding intensity of the exciting battle the 20 clubs put in place every year to secure the final win. The popularity and efficient organization of the Premier League have made it a fertile ground for investors, and several clubs, worth billions in enterprise value, are object of significant investments, particularly in fixed assets such as stadiums and training facilities, that make the league a model to be followed by the other domestic championships.
Spanish La Liga was founded in 1928, and has consistently occupied the top two positions of UEFA league rankings. In terms of revenues, the Spanish first division is contending with Bundesliga for the main competitor of the Premier League, and it counts on €2.948 billion in revenues, accounting for the 19% of the total aggregate figure for the top five leagues (as of 2020/21). The 20 teams fighting for the final win offer a show of high quality, even though the league is strongly polarized, due to the evergreen domination of its two main clubs, Real Madrid (that won the league 35 times, more than any other team) and FC Barcelona.
The German Bundesliga, unlike the other four leagues, has consistently been made up of 18 teams rather than 18. It stands in the third position for revenue-generating capacity, and it has significantly improved this aspect in the recent past, mainly thanks to its ability to secure large deals for broadcasting rights. The clubs that take part in it are often among the best examples of virtuous

management, however, there has lately been an undisputed domination of the top teams, particularly Bayern Munich, that was able to secure 11 title wins in a row from 2012 to 2023. The dominance of Bayern Munich is testified by the number final victories, amounting to 33, while the second place in the chart is occupied by Nurnberg, that won only in 9 occasions.

The Italian Serie A, founded in 1898, is one of the most ancient and historical leagues in the landscape. Many of its 20 teams have historically obtained outstanding results also in international competitions, and, despite a decline in the second decade of the 2000s, the league has recently witnessed an increase in its level of competition. Despite being fourth among the top 5 leagues for revenues, several improvements can be made in order to enhance the efficiency and profitability of its teams, particularly as it concerns club-owned stadiums. There has been, in the recent years, increased focus on virtuous investments, and the message that growth is to be achieved by concentrating on infrastructures and youth sector is increasingly filtering. The hope is that club resources will decreasingly end up financing short-term operations, with a higher focus on investments for the long-term benefit of the league and its clubs.

Ligue 1, the French first division championship, is the smallest of the top five leagues in terms of revenues, but also when considering the number of teams successfully taking part in international competitions. Nevertheless, it has been able to achieve a noticeable growth, also thanks to the increasing amount of investments brought by new, wealthy ownerships. In the recent years, the league has been characterized by a nearly undisputed dominance of Paris Saint-Germain, that won eight titles in the last ten years thanks to massive investments in pharaoic transfer campaigns. The club is now leading the chart for the most title wins (10), despite being unable to achieve any type of success in international club competitions. Differently from the other four leagues, the Ligue 1 can count on only three yearly spots for qualification to the Champions League.

6.2.2 Competitive Balance Indicators in the “Big 5” Leagues

6.2.2.1 Premier League

The English premier league is considered the highest-level football league from many points of view. It is able to offer a unique show, thanks to the intensity of play and the fierce competition among the top clubs to achieve final victory. It is in fact widely regarded as the most difficult championship to win for a football club, and it is indeed the most popular league worldwide. Thanks to its fame and an outstanding ability to capitalize on it, the league has been able to secure massive deals for broadcasting rights. The proceeds, together with the income from sponsorship rights that exploit the

worldwide fame of Premier League teams, have brought large wealth to the pockets of English clubs, that have since been able to attract the best players and managers, thanks to the attractiveness of the league and to the salaries clubs are able to afford.
The analysis of the competitive balance is conducted using as a data sample the final standings of the last 23 editions of the tournament, from season 2000/01 to season 2022/23.
Taking into exam the C5ICB (Figure 19), we can assess the level of dominance of the top 5 clubs throughout the period of reference.

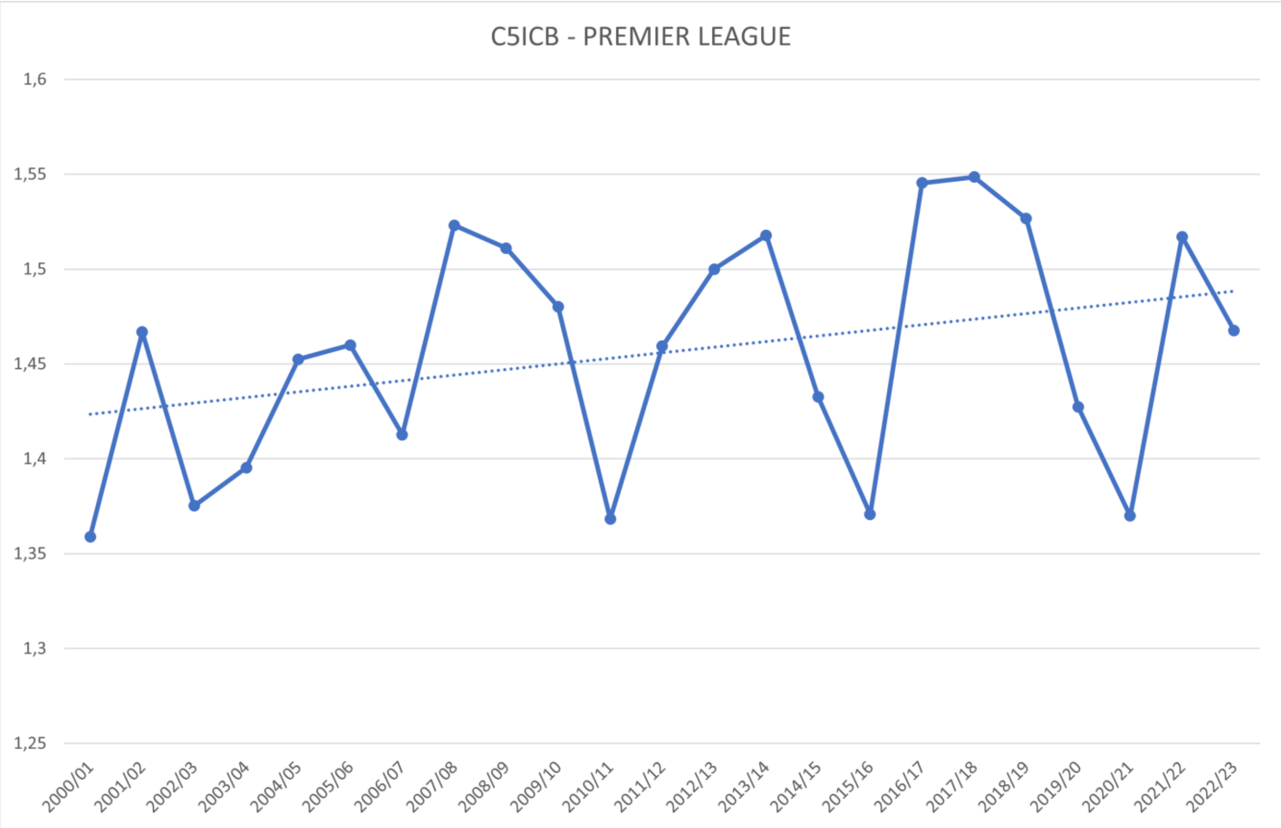

Figure 19: Trend of the C5 Index of Competitive Balance in English Premier League from 2000/01 to 2022/23 – personal elaboration of English Premier League standings from 2000/01 to 2022/23

The upward-sloping trendline indicates that the league is going towards an increasing imbalance, and the index has reached in the recent years the highest levels, in particular in seasons 2016/17, 2017/18 and 2018/19. There are only few exceptions to the overall increasing level of imbalance. For example, in 2010/11, Manchester United won the league with an advantage of only 9 points (positions 2 to 4 were in the span of 3 points), while the fairy-tale season 2015/16 that saw Leicester achieve the final win is regarded as one of the most competitive in the recent years, with most of the teams being roughly at the same level for most of the season. This is also testified by the fact that the leading team changed 7 times throughout the season. Generally speaking, the years between 2014 and 2016 were characterized by the lack of dominant teams in the Premier League, and for several reasons many the clubs that were usually competing for the final win (Manchester United, Chelsea and Liverpool above all) were facing severe difficulties. Season 2019/2020 also is characterized by a low level for the C5ICB, but if we look at the final standings, the winning team (Liverpool) ended the season 18 points above the second (Manchester City), which in turn was 15 points away from the third and fourth places. The 33-point gap between the first and the third place is likely to be indicator of the reasons that drove down the level of C5ICB, and, despite on the one hand it may seem hard to argue that it was an overall balanced season, as the leading club of the top 5 managed to score 40 points more than the leading club of the 15 remaining, the small gap between clubs under the second position indicates that there was a competitive intensity in the league. In a different way, the subsequent 2020/2021 season was characterized by a high level of competitive balance, testified by the C5ICB = 1.36991 and, except for Manchester City, securing the title thanks to a 12-point lead, the remaining clubs were engaged in a fierce competition, which is also shown by the fact that positions from 3 to 10 were lying in the span of only 10 points. Notwithstanding that, we can easily argue that the level of competitive balance has deteriorated subsequently to the introduction of FFP, testified by the fact that 7 seasons out of 11 were characterized by a level of C5ICB above the trendline, as well as the fact that the highest levels of imbalance of the whole reference period have been reached after 2011, particularly in the 2016-2019 triennium. This is even easier to notice by looking at Figure 20, where a comparison is made between mean C5ICB values pre- and post-FFP. Indeed we can see that a deterioration has taken place, even though its magnitude is the lowest among the “Big 5” leagues.

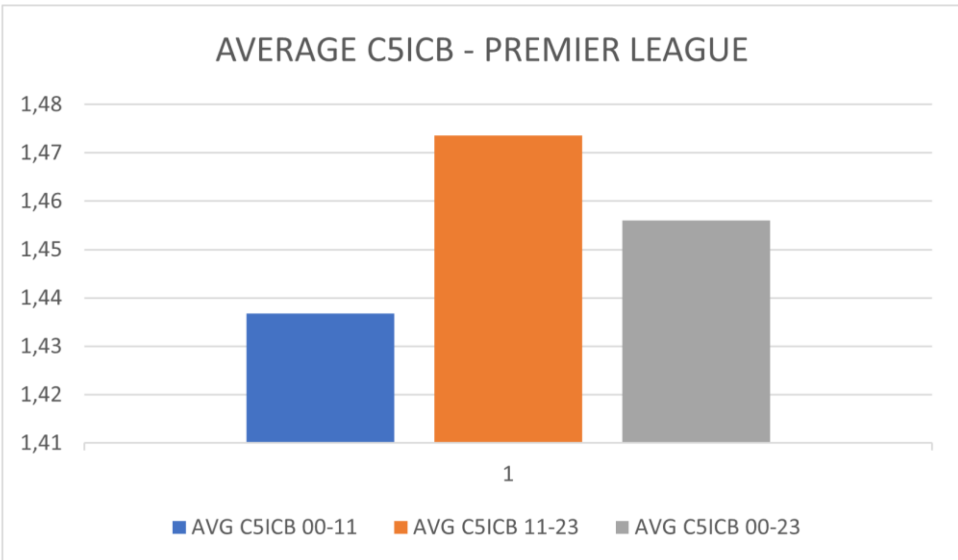

Figure 20: Mean C5 Index of Competitive Balance in English Premier league pre- and post-FFP - personal elaboration of English Premier League standings from 2000/01 to 2022/23

It is however interesting to notice a sharp decrease in the index for the two seasons after 2018, when the UEFA Club Licensing and Financial Fair Play regulations entered into force, however it is difficult to disentangle the considerations about the effectiveness of the regulations from the effects of the Covid-19 pandemic that shook the football world complicating the normal course of the leagues.

While the C5ICB addresses the issue of the dominance of the top 5 teams, we consider the HICB in order to assess the degree of dominance of the winning team, looking at the phenomenon from a broader perspective. As shown in Figure 21, the trend is characterized by an increasing degree of imbalance, as testified by the upward-sloping trendline.

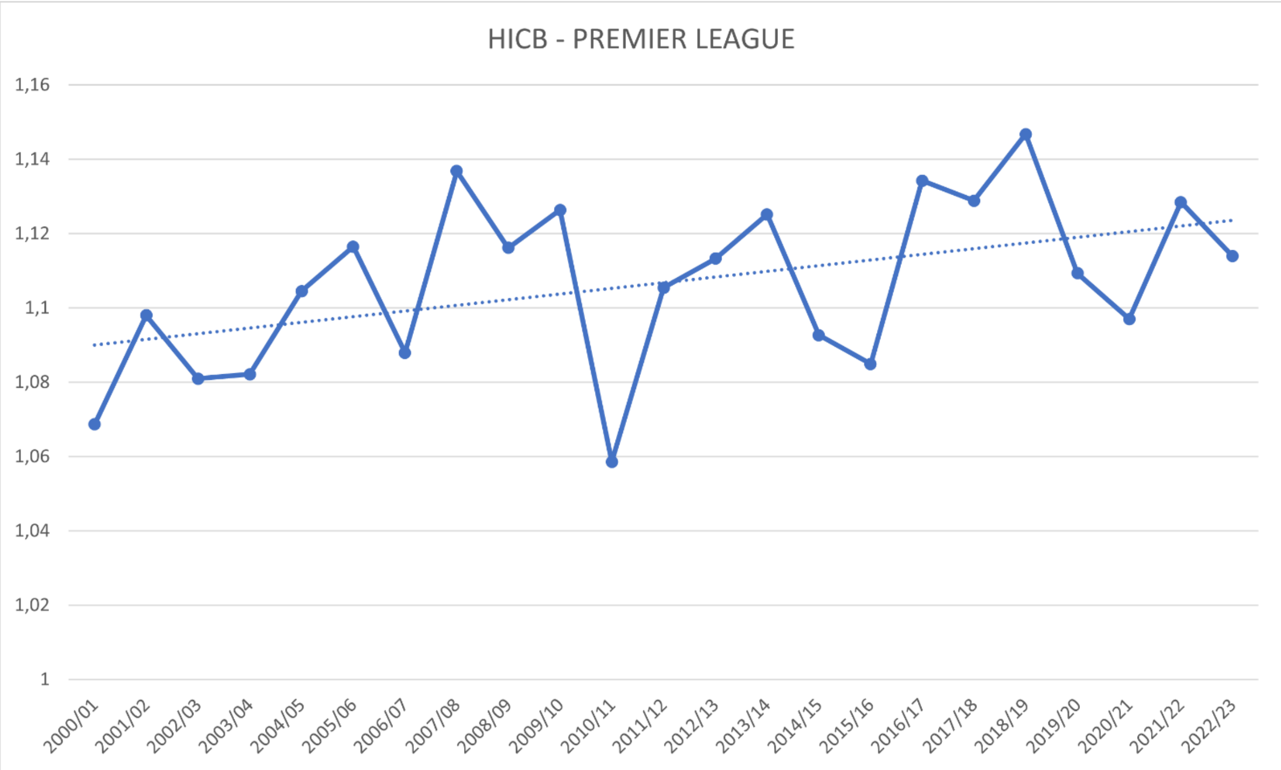

Figure 21: Trend of the Herfindahl Index of Competitive Balance in English Premier League from 2000/01 to 2022/23 – personal elaboration of English Premier League standings from 2000/01 to 2022/23

Not surprisingly, the trend of the index is similar to that followed by C5ICB, and the few exceptions coincide with those already identified when considering the C5ICB but, besides the unique case of the 2010/2011 season, characterized by an extremely low level for the HICB, the subsequent years have witnessed an increasing imbalance.

Once again, the comparison between pre- and post-FFP mean values (Figure 22) is helpful to assess that, after the introduction of the regulations, a decrease in balance has been observed. Nevertheless, comparing all “Big 5” leagues among them, Premier League is the domestic championship that suffered the smallest increase of both the C5ICB (+0.3689) and the HICB (+0.1712).

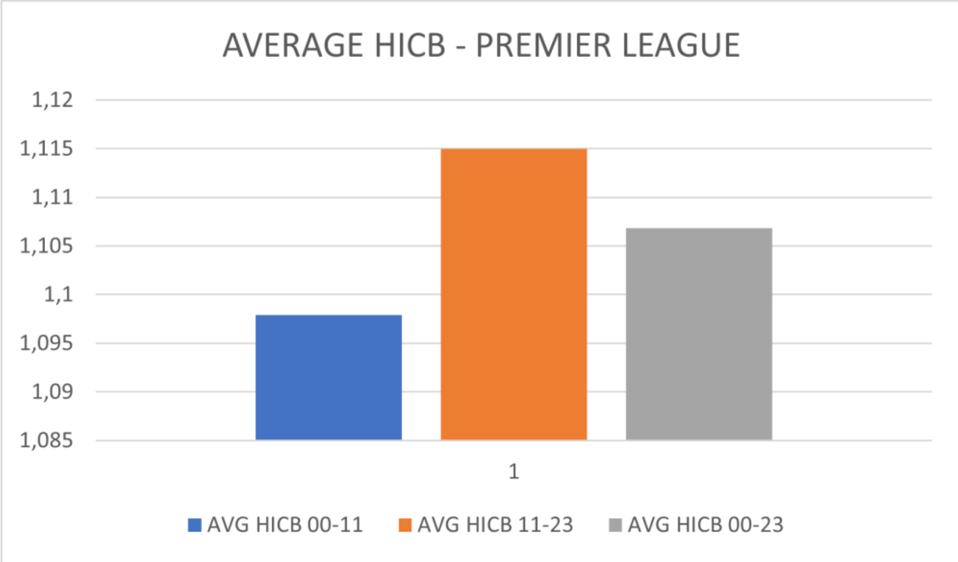

Figure 22: Mean Herfindahl Index of Competitive Balance in English Premier league pre- and post-FFP - personal elaboration of English Premier League standings from 2000/01 to 2022/23

6.2.2.2 La Liga

Spanish La Liga is one of the most spectacular leagues in the landscape. It is known for the technical quality of its teams, and it is indeed one of the most entertaining domestic championships in the world, also thanks to the star-studded rosters many teams are able to line up. The league has in fact been historically dominated (particularly in the recent years) by three of the biggest clubs in the world, Real Madrid, Barcelona and Atletico Madrid, that are also three of the most competitive teams in international tournaments. Such clubs have achieved an outstanding success over the course of their history and have always attracted the best players in the planet, being able to deploy line ups of incredibly high level. A famous example is the case of the “Galacticos”, a formidable roster put together by the Real Madrid president Florentino Pérez in the early 2000s and that included football legends such as Ronaldo, Beckam, Roberto Carlos, Figo and Zidane. If we look at the recent past of the league, it is not difficult to notice the absolute dominance of the three aforementioned clubs, and, while there exists a harsh competition among them, the remaining teams seem to trail from distance, struggling to reduce a gap that seems unbridgeable.

The past two decades have in fact being characterized by a considerable decrease in the degree of competitive balance. Looking at the C5ICB (Figure 23), this can be easily noticed from the sharp steepness of the upward-sloping trendline.

Figure 23: Trend of the C5 Index of Competitive Balance in Spanish La Liga from 2000/01 to 2022/23 – personal elaboration of Spanish La Liga standings from 2000/01 to 2022/23

The slope of the trendline is, together with that of the French Ligue 1, the greatest among the "Big 5" leagues, and the situation seems to have worsened after 2010/11. For the first decade of the 2000s, in fact, the C5ICB indicator takes values that are actually quite low, except for the 2009/10 season following the famous 2008/09 transfer campaigns that brought to Madrid the best players in the world, including Cristiano Ronaldo and Kakà, that at the time were the two most recent Ballon d'Or winners. The 2009/10 was in fact one of the best examples of the duopoly of Barcelona and Real Madrid, finishing the league with 99 and 96 points (out of the 114 points available) respectively, with a 25-point gap between the second and third place. After 2011, the state of competitive balance seems to deteriorate even more, with the C5ICB values skyrocketing and shattering the ceiling of 1.5. While the years prior to 2010 had been characterized by C5ICB values hardly reaching 1.4, such a low level was reached only twice in the 13 seasons that followed. The comparison between average pre- and post-FFP C5ICB levels, shown in Figure 24 below, highlights the impressive difference in competitive balance before and after 2011, testifying a deterioration of roughly 10% in its degree, making La Liga, together with French Ligue 1, the most affected league in this respect.

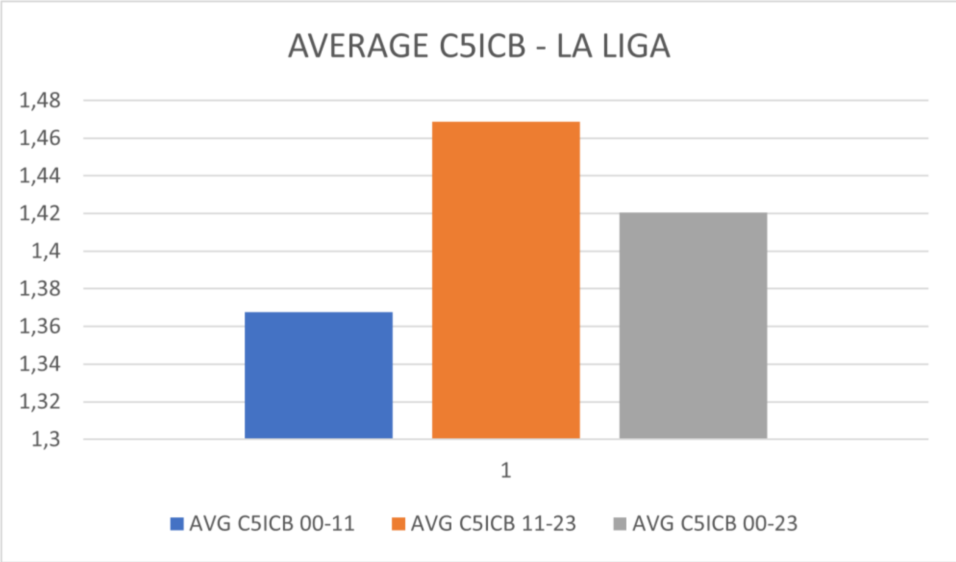

Figure 24: Mean C5 Index of Competitive Balance in Spanish La Liga pre- and post-FFP - personal elaboration of Spanish La Liga standings from 2000/01 to 2022/23

Particularly from 2012 to 2017, we can observe how the index took the highest values in the whole reference period, and the record level of 1.59 was reached in season 2014/15, that saw a 14-point gap between the second and third place, but also a 16-point gap between the fifth and the sixth place. Looking at the C5ICB it looks evident that a deterioration of competitive balance has taken place after 2010/11 and all the values for C5ICB recorded in the seasons subsequent to 2010/11 are significantly higher than those recorded prior to 2011. The only exception is season 2018/2019, where the distances between the teams were strongly reduced (third and fifth position were only 5 points away, while the gap between fourth and sixth positions was only two points). This is however likely to be attributable to the consequences of the summer transfer campaign, where the top teams lost many of their most important players, above all Cristiano Ronaldo (transferred from Real Madrid to Juventus) and Andres Iniesta (that left European football due to his age and went to play in Japan), the gatekeepers of the game of the two strongest clubs.

The picture does not change when considering the HICB (Figure 25), accounting for the imbalances among all teams of the league.

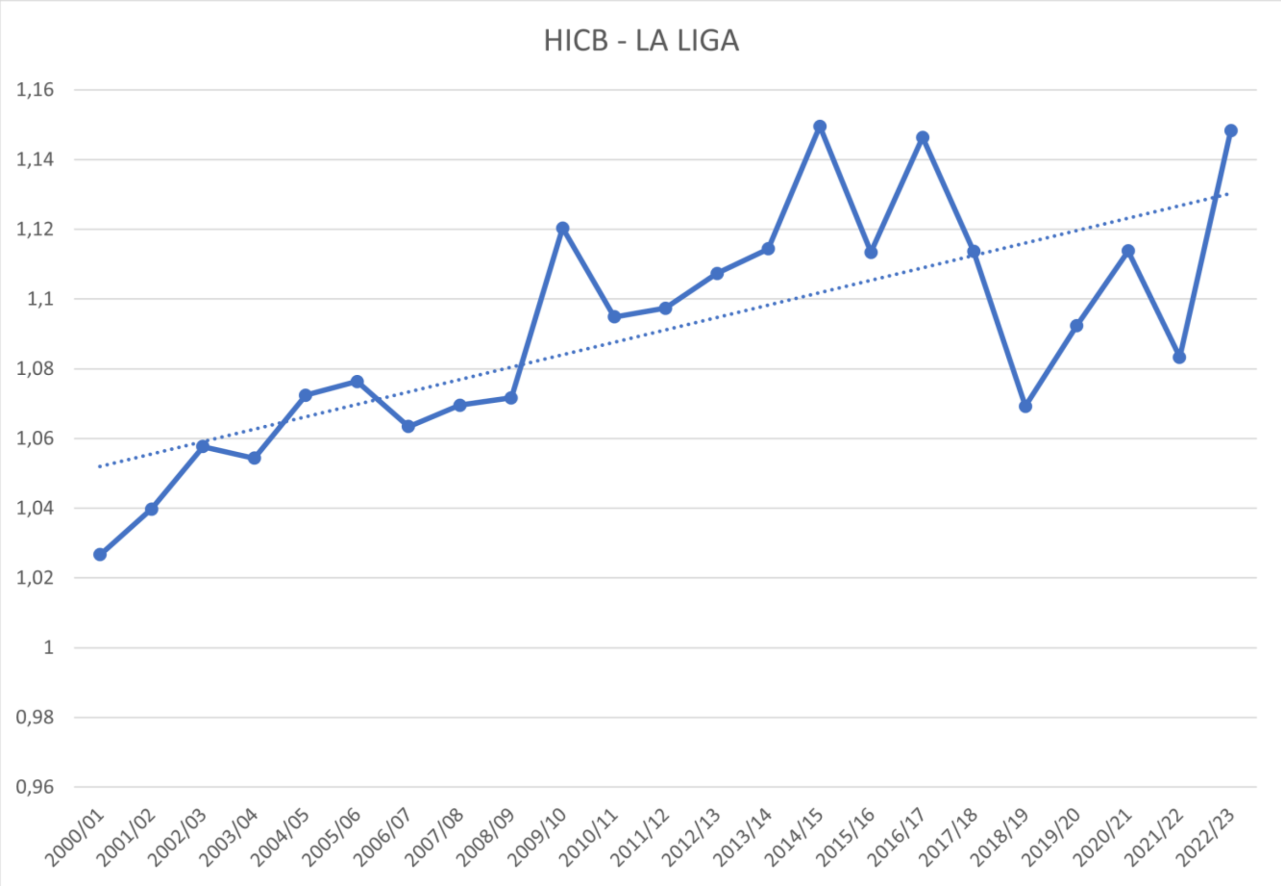

Figure 25: Trend of the Herfindahl Index of Competitive Balance in Spanish La Liga from 2000/01 to 2022/23 – personal elaboration of Spanish La Liga standings from 2000/01 to 2022/23

By observing the trend of the index, it is probably even easier to notice the huge difference between values recorded prior and subsequently to 2011. Once again, the trendline displays a steep slope, and the lowest value for the HICB after 2011 (again, in season 2018/19) coincides with the highest value registered prior to 2010. It is however interesting to notice that, after 2018 (a crucial year for the history of the development of FFP regulations), the values of the HICB have been significantly lower compared to the 2011-2018 period, and closer to the 2000-2009 values than to the peaks of 2014/15 and 2016/17. In the last season (2022/23), HICB scores have skyrocketed again after plunging in the prior four-season period.

Overall, once again, as shown in Figure 26, the comparison between mean values for the HICB prior and subsequently to 2011 indicate a visible deterioration of competitive balance. Spanish La Liga is in fact the league, out of the “Big 5”, that witnessed the greatest increase in the HICB, that jumped up by 0.04448.

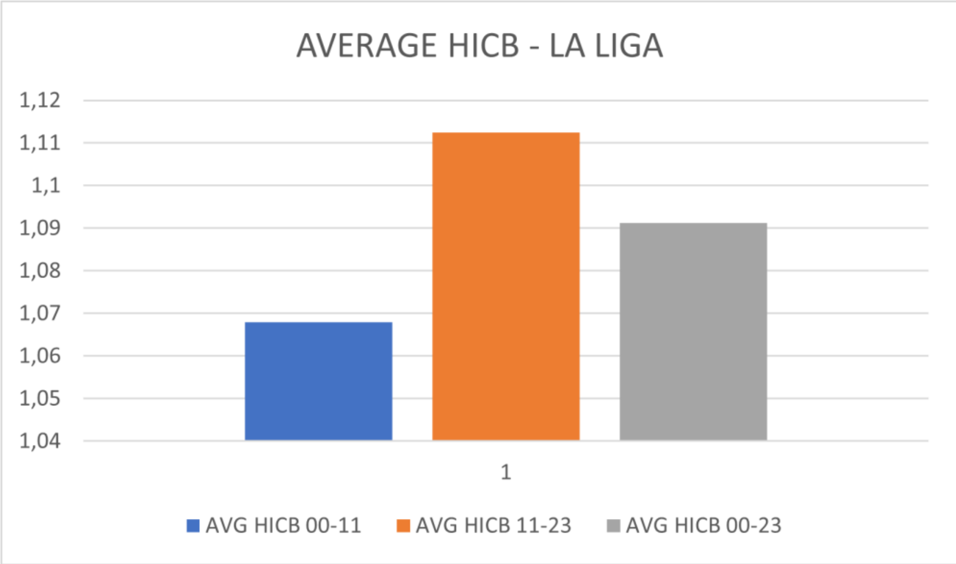

Figure 26: Mean Herfindahl Index of Competitive Balance in Spanish La Liga pre- and post-FFP - personal elaboration of Spanish La Liga standings from 2000/01 to 2022/23

6.2.2.3 Serie A

Despite having suffered from a decrease in its overall level, Italian Serie A has always been one of the best leagues in the world, counting among its participants on historical clubs such as A.C. Milan and Juventus and witnessing the passage of several football legends. The league suffered a rough decline in terms of its level and popularity, also due to serious legal issues faced by top clubs (Juventus above all) and to an overall loss of competitiveness of its teams at international level. In the recent years, however, Serie A and its teams are gaining back a part of their prestige, that is nevertheless still far from the peaks reached between the 80s and the early 00s.

Competitive balance in the Italian Serie A has also deteriorated in the recent years, as we can notice from the upward-sloping trendline of the C5ICB (Figure 27), and it is interesting to highlight that, despite an increasing degree of balance in the years prior to 2011, the years from 2012 on have been characterized by a leap in C5ICB.

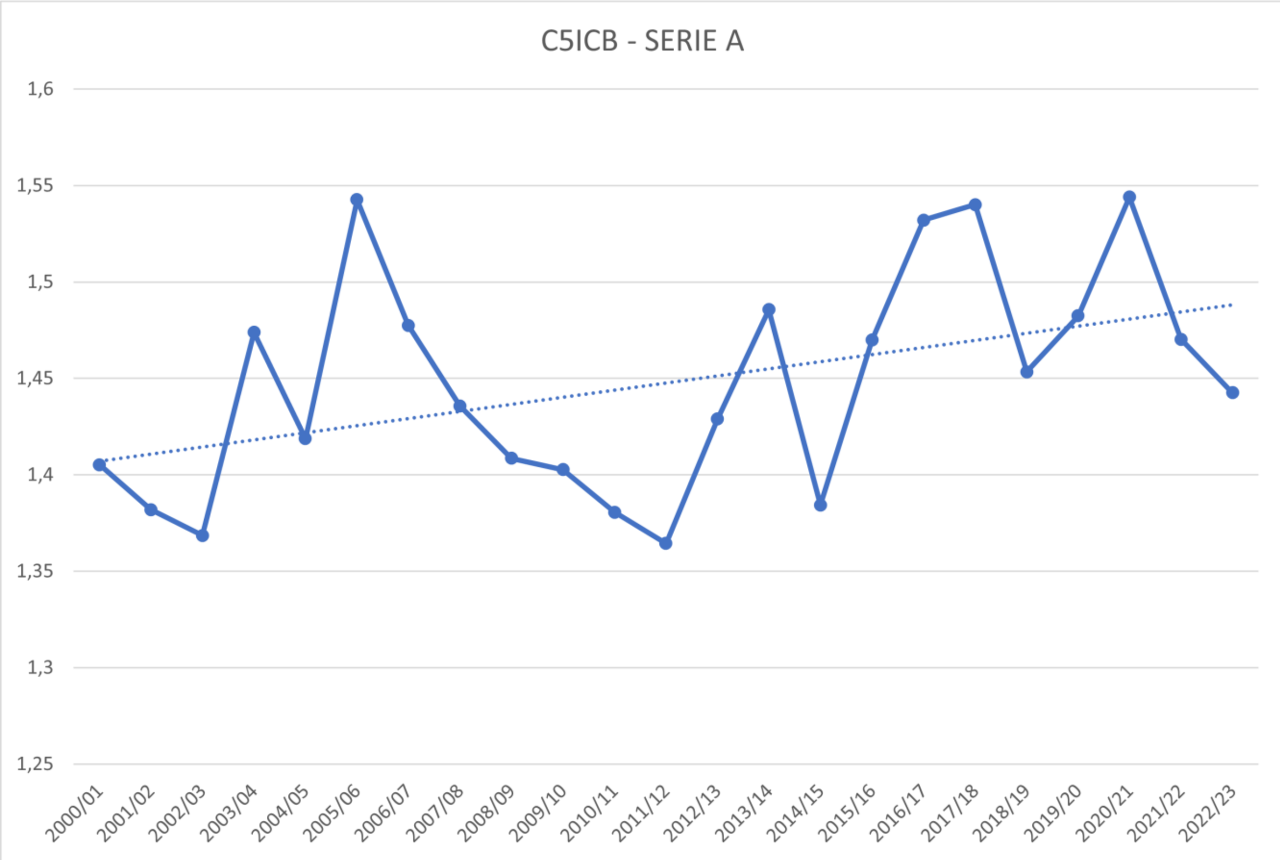

Figure 27: Trend of the C5 Index of Competitive Balance in Italian Serie A from 2000/01 to 2022/23 – personal elaboration of Italian Serie A standings from 2000/01 to 2022/23

The values for the indicator observed in the last ten years are in fact considerably higher with respect to those recorded prior to 2012, and have been steadily increasing, with only few exceptions, season 2014/15 in particular, where, despite Juventus managed to finish the season 17 points away from the second place, the downfall of some of the most competitive teams (A.C. Milan and Inter above all) have ensured a more intense competition among the remaining 19 teams. The 2014/15 season was however unique in this respect, and is the only example of seasons subsequent to 2012 where the C5ICB was at a level comparable to those observed prior to 2011. In a similar way to the Spanish Liga case, the indicator skyrockets after the introduction of FFP, attesting itself to levels that are comparable to the peak of imbalance recorded prior to 2011 - season 2005/06, that was however strongly affected by the "Calciopoli" case, and is hence to be considered with extra care, also when looking at the HICB. It is interesting to point out that season 2022/23 was characterized by a dominant team -Napoli – securing the title two months in advance, while the other top clubs have struggled much in comparison. This explains the significant drop in C5ICB (but also in HICB) values in the last season.

Figure 28 helps us visualizing the deterioration of competitive balance thanks to the comparison between pre- and post-2011 mean values, which indicates a significant increase in index scores.

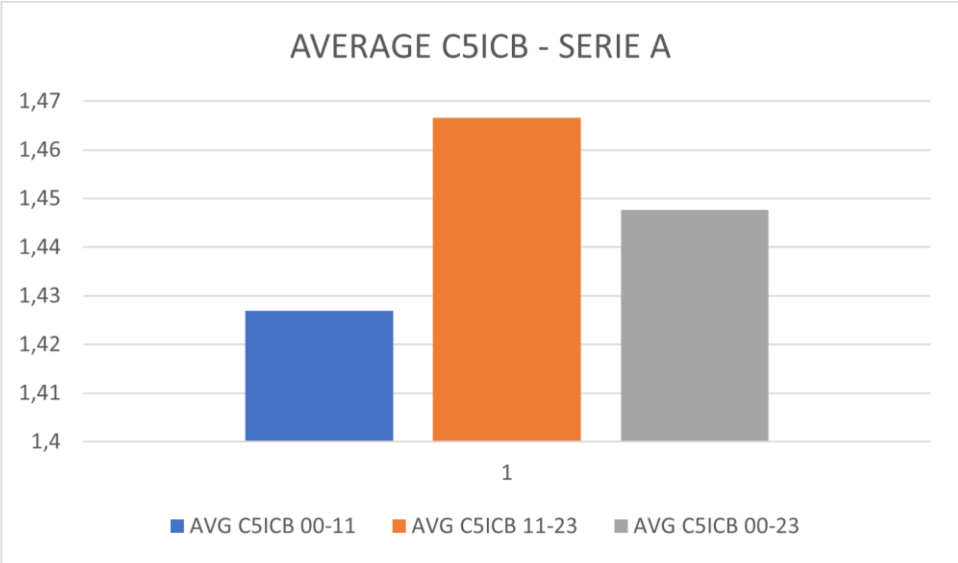

Figure 28: Mean C5 Index of Competitive Balance in Italian Serie A pre- and post-FFP - personal elaboration of Italian Serie A standings from 2000/01 to 2022/23

The picture is not different when looking at the HICB (Figure 29).

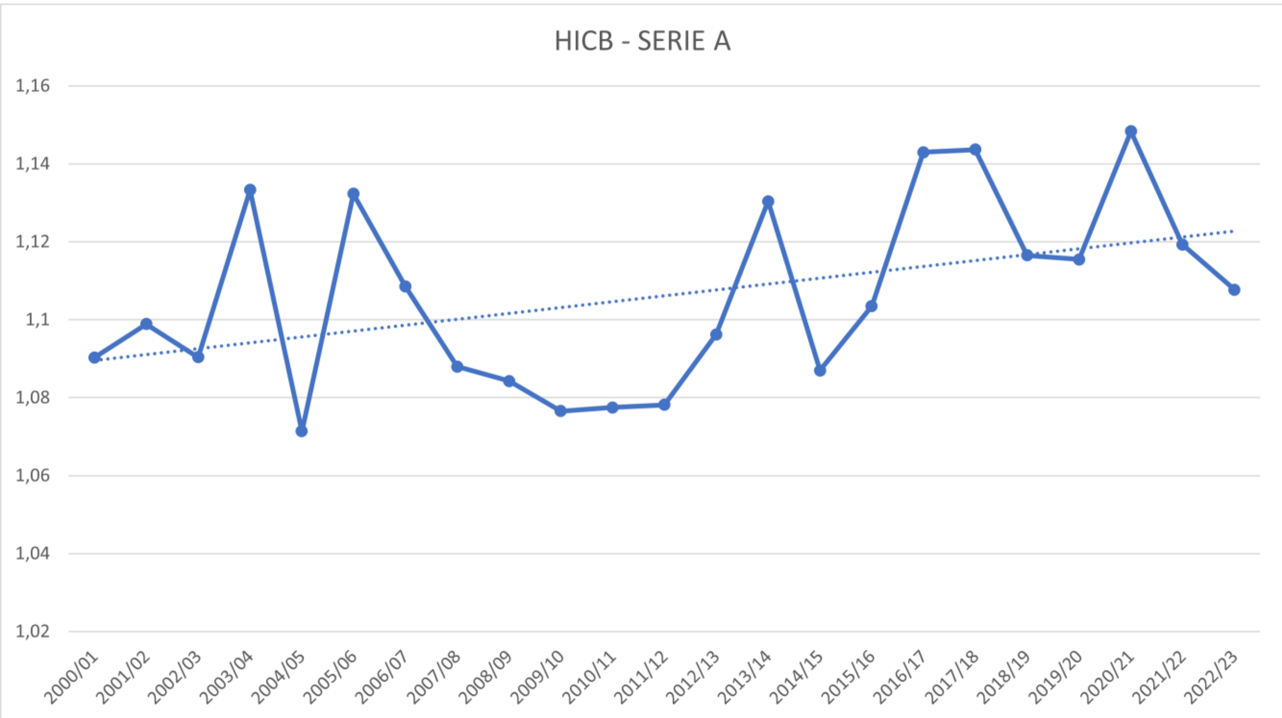

Figure 29: Trend of the Herfindahl Index of Competitive Balance in Italian Serie A from 2000/01 to 2022/23 – personal elaboration of Italian Serie A standings from 2000/01 to 2022/23

Again, we can notice a sharp increase in the indicator after 2011/12, that has been reaching new peaks every three years, also due to the lengthy domination perpetrated by Juventus, that has been able to achieve 9 final victories in a row from season 2011/12 to season 2019/20. In the last seven seasons in particular, the HICB has attested itself on levels that are considerably higher than the peaks reached in the first decade of the 2000s and, like for the other four leagues considered, the picture appears to change radically after the 2011/12 season, with the level of competitive balance seriously deteriorating in the span of just two years, and never returning to the pre-2012 situation.
Once again, the upward sloping trendline is an indicator of the decreasing competitive balance, despite the steepness of the line is lower than that of other leagues, such as La Liga. Another way to assess the decrease in balance is by looking at Figure 30, demonstrating an increase in mean index values for the period subsequent to 2011.

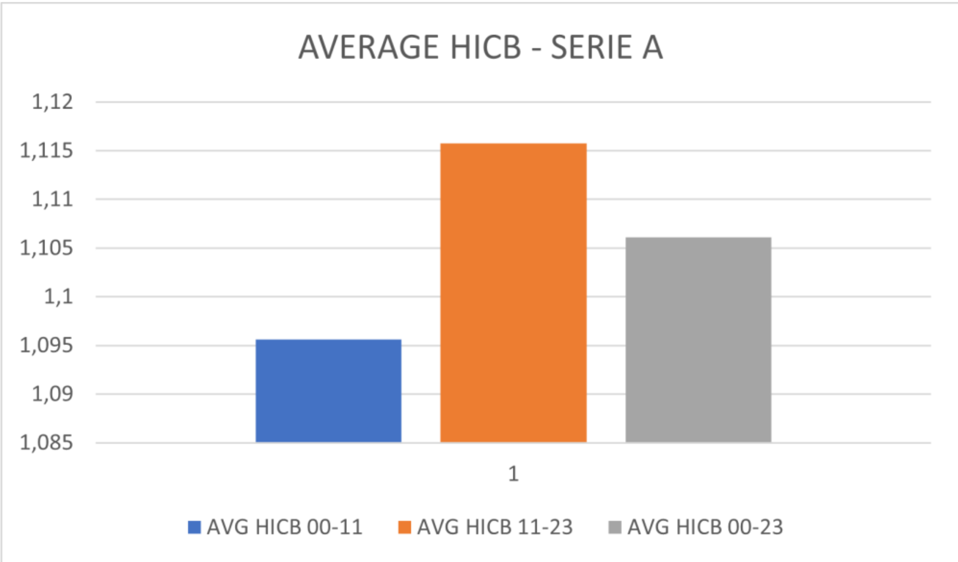

Figure 30: Mean Herfindahl Index of Competitive Balance in Italian Serie A pre- and post-FFP - personal elaboration of Italian Serie A standings from 2000/01 to 2022/23

6.2.2.4 Bundesliga

The German Bundesliga is a very spectacular league, as well as being one of the best-organized domestic championships in Europe. Especially in the recent years, the league has been dominated by its, most important club, Bayern Munchen, that has managed to achieve the first position for ten years in a row, from season 2011/12 to season 2021/2022. However, except for the case of Bayern Munchen, steadily occupying the top position of the table, and its two main competitors, Borussia Dortmund and RB Liepzig, the overall level of competition among the remaining teams is one of the highest among European leagues, and indeed the highest among the “Big 5”. Differently from the other four leagues examined, the Bundesliga is made up of 18 teams rather than 20, and this choice is supposed to favour competition by eliminating the weakest clubs. By looking at the C5ICB (Figure 31), we can in fact notice that, out of the "Big 5" leagues, the Bundesliga is the domestic championship that has suffered the smallest decrease in competitive balance in the years.

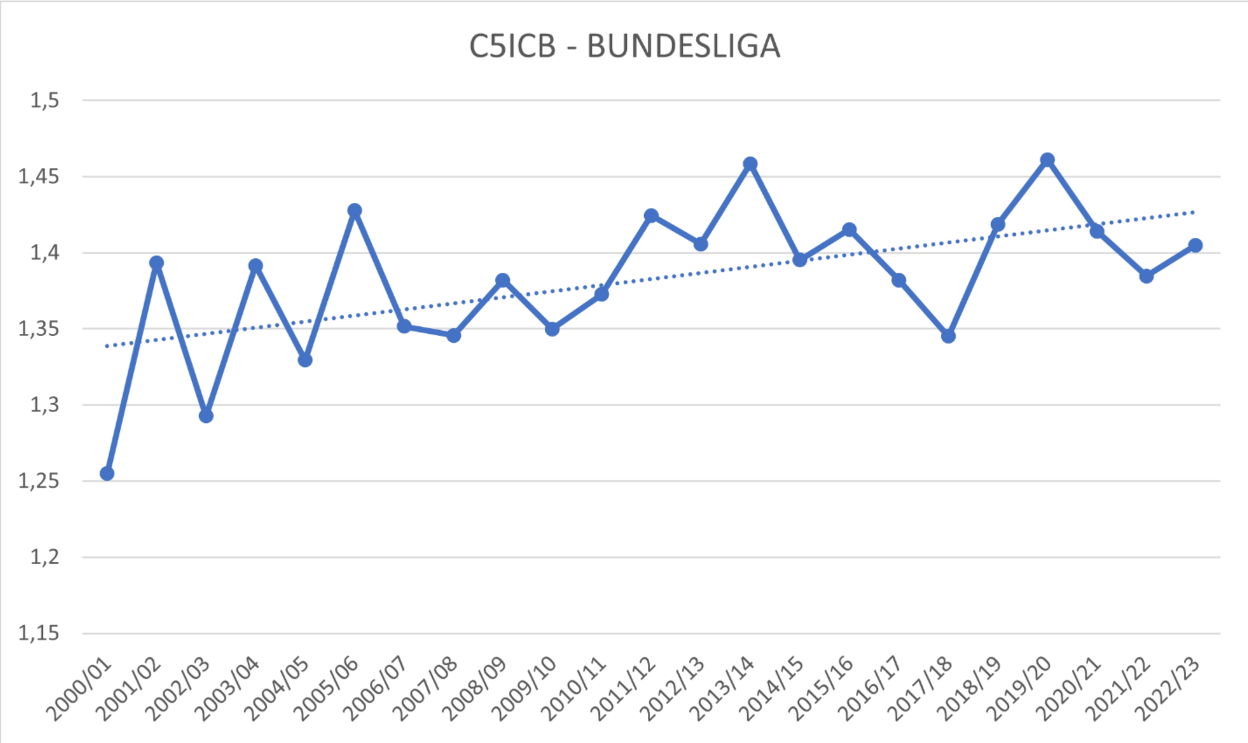

Figure 31: Trend of the C5 Index of Competitive Balance in German Bundesliga from 2000/01 to 2022/23 – personal elaboration of German Bundesliga standings from 2000/01 to 2022/23

A deterioration of competition has indeed taken place, as testified by the upward sloping trendline, but the increase in the indicator has been far less sharp when compared to three of the remaining four leagues. This is also reflected in the slope of the line, which is less steep than the trendlines for the same indicator in three of the other four leagues. We can also see this easily by noticing that there were only two occasions, seasons 2013/14 and 2019/20, where the indicator has surpassed the peak of the decade prior to 2011 (season 2005/06) and, despite being at overall higher levels, the difference between the two decades before and after 2011 is not as noticeable as in the rest of the "Big 5" leagues. However, considering the lower variation in the indicator year-on-year, we can affirm that the German championship is the one where there has been a more moderate deterioration of competitive balance between the top 5 clubs and the remaining ones. This can also be seen in Figure 32, where we notice that the increase in mean values of the indicators is smaller in magnitude when compared to the other four leagues.

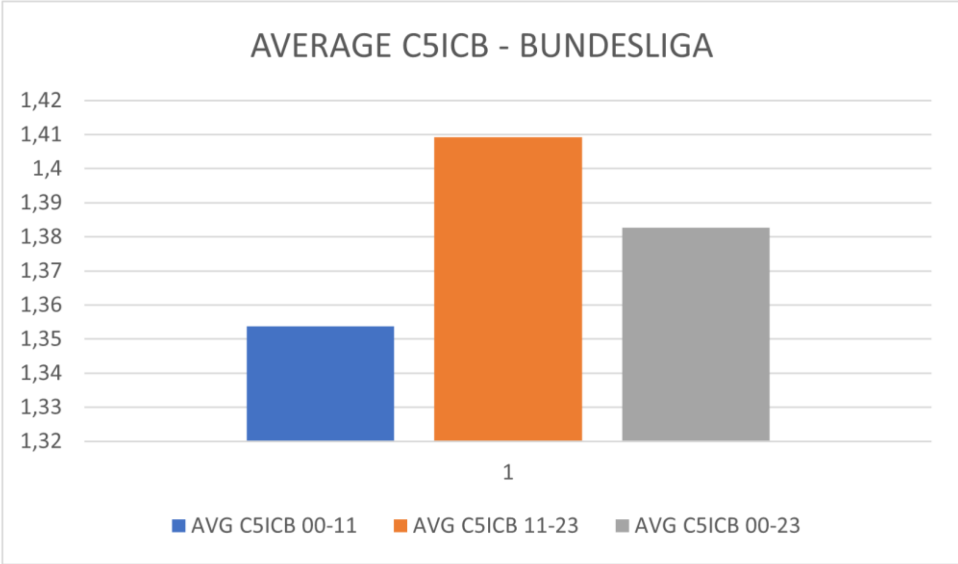

Figure 32: Mean C5 Index of Competitive Balance in German Bundesliga pre- and post-FFP - personal elaboration of German Bundesliga standings from 2000/01 to 2022/23

As aforementioned, the dominant position of Bayern Munchen and its superiority with respect to the other participating clubs might suggest a slightly different picture when considering the HICB. In fact, as can be noticed by looking at Figure 33, the evolution of the HICB indicator is not totally consistent with the evolution of the C5ICB, and there are some examples where the HICB increased while the C5ICB decreased (e.g. season 2012/13), or the other way around (season 2019/20), demonstrating the fact that the competitive balance of the league is strongly affected by the dominance of its top club.

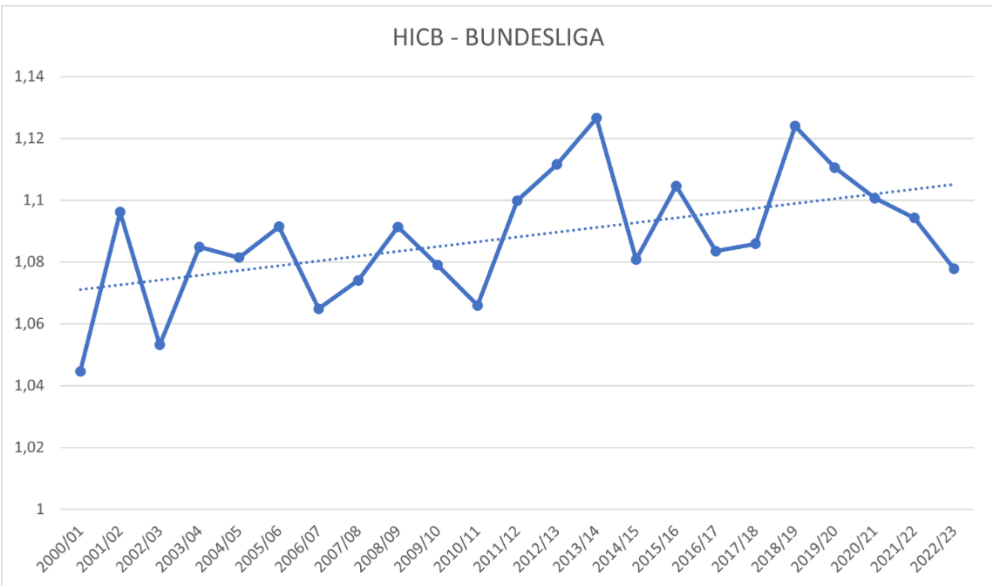

Figure 33: Trend of the Herfindahl Index of Competitive Balance in German Bundesliga from 2000/01 to 2022/23 – personal elaboration of German Bundesliga standings from 2000/01 to 2022/23

Nevertheless, the HICB follows a similar trend, displaying and increase in the values of the indicator in time (as indicated by the upward-sloping trendline), reflecting a progressive deterioration of competitive balance. This is true especially if we look at the years immediately following 2011. In the subsequent season (2011/12) we can notice a leap in the value of the indicator, that keeps steadily increasing in the following two seasons. Interestingly, despite the usual winners, Bayern Munich, have been once again crowned champions in 2022/23 (despite securing the title only in the last matchday), there has been a significant drop in the HICB score in the last season, indicating a lower degree of imbalance, more closely comparable to those recorded prior to 2011.
The balance of competition has, from the point of view reflected in the HICB indicator, slightly recovered from season 2014/15 to season 2017/18, returning at levels that were comparable to those recorded prior to 2011, before peaking back up in the following season. Once again, the comparison between mean HICB values for the two periods (Figure 34) highlights that a deterioration of competitive balance has indeed taken place.

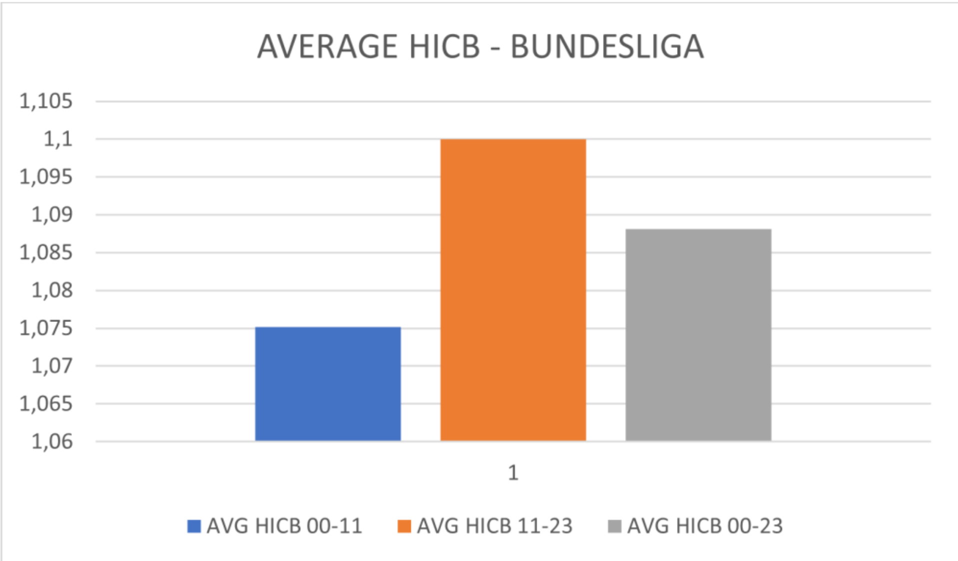

Figure 34: Mean Herfindahl Index of Competitive Balance in German Bundesliga pre- and post-FFP - personal elaboration of German Bundesliga standings from 2000/01 to 2022/23

Despite this is made evident by both looking at the C5ICB and the HICB, we can affirm that the German Bundesliga is, out of the “Big 5” leagues, the domestic championship that has suffered the least severe growth in imbalance.

6.2.2.5 Ligue 1

The Ligue 1 is considered to be, out of the "Big 5" leagues, the least spectacular, other than the least competitive (it is important to underline that the two aspects are far from unrelated), as testified by the lack of success the French teams have been able to achieve at international levels. Only once, in fact, has a Ligue 1 club managed to win a European competition, when Olympique Marseille achieved the Champions League victory in season 1992/93. Despite this lack of competitiveness at international levels, the league is witnessing an overall improvement in the recent years, also thanks to important capital investments inflowing to French clubs, Paris Saint-Germain above all. Unsurprisingly, the advent of important capital inflows coincided with a progressive deterioration of competitive balance over the years, with the league being usually dominated by the same top clubs, leaving to the remaining sides little possibilities to compete. By looking at the first three positions in the last 22 seasons' final standings, in fact, we can easily notice the nearly constant presence of Olympique Marseille, Olympique Lyonnais (that won 7 championships in a row, from 2001/02 to 2007/08) and Paris Saint-Germain (8 times winner in the last 10 seasons). The latter is moreover a widely discussed case in the context of the application of FFP, due to the pharaonic spending of its Qatari ownership that has granted nearly absolute dominance in the last decade to a team that was hardly ever competitive prior to the acquisition of the club, in 2011, by the sovereign fund Qatar Investment Authority. Leaving aside for a moment the particular PSG case, that will be briefly discussed in a dedicated section, the Ligue 1 is one of the clearest and most noticeable examples of the loss of interest a league can suffer by effect of an excessive domination by its top club. The Ligue 1 is in fact considered by football fans the least interesting and entertaining by football fans out of the top 5 European leagues, and this is mainly due to the lack of result uncertainty caused by the superiority of the Parisian side.

The change in the Paris Saint-Germain ownership, that took place in 2011, coincided with the introduction of FFP provisions, and it is important to bear this in mind when evaluating the evolution of the indicators in the subsequent seasons. On a side note, the 2019/20 season was terminated ten matches in advance (the leading club, PSG, together with Strasbourg, had actually played one match less than the other teams), following the interruption to sports activities imposed by government restrictions in the event of the Covid-19 pandemic. For the purpose of our examination, the final standings and points were taken into account, however, speculating on the basis of the average points per match, PSG would have closed the season with 95 points, 19 points away from the second-classified club.

The C5ICB (Figure 35) takes into account the top 5 clubs and is hence more shielded from this effect.

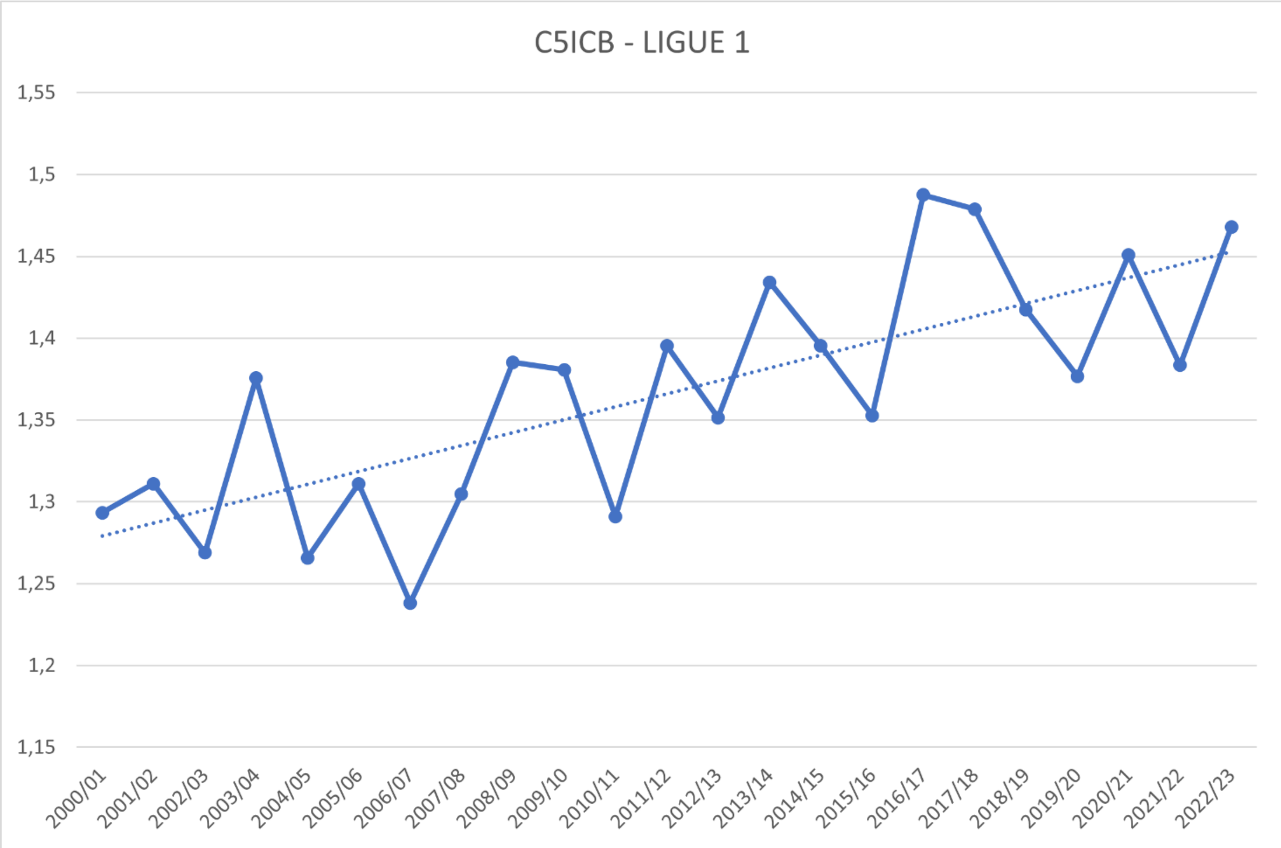

Figure 35: Trend of the C5 Index of Competitive Balance in French Ligue 1 from 2000/01 to 2022/23 – personal elaboration of French Ligue 1standings from 2000/01 to 2022/23

The deterioration in competitive balance after 2011 is once again evident, and easily noticeable by looking at the evolution of the indicator over time and the upward-sloping trendline.

However, since the league is typically by fewer teams being able to strive for the final win, the domination of the top 5 sides is less pronounced. Nevertheless, it is easy to notice a sharp increase in the indicator after the 2010/11 season, and new peaks were reached in multiple occasions. Levels of competitive balance have bounced back at least four times ever since, but only going down to heights that coincided with the peaks recorded in the first decade of the 2000s.

Figure 36 shows the comparison between mean C5ICB scores pre- and post-2011. We immediately notice a visible leap in average index values, and its magnitude (+0.10456) makes Ligue 1 the domestic league that has by far suffered the greatest increase in the degree of domination of top 5 teams.

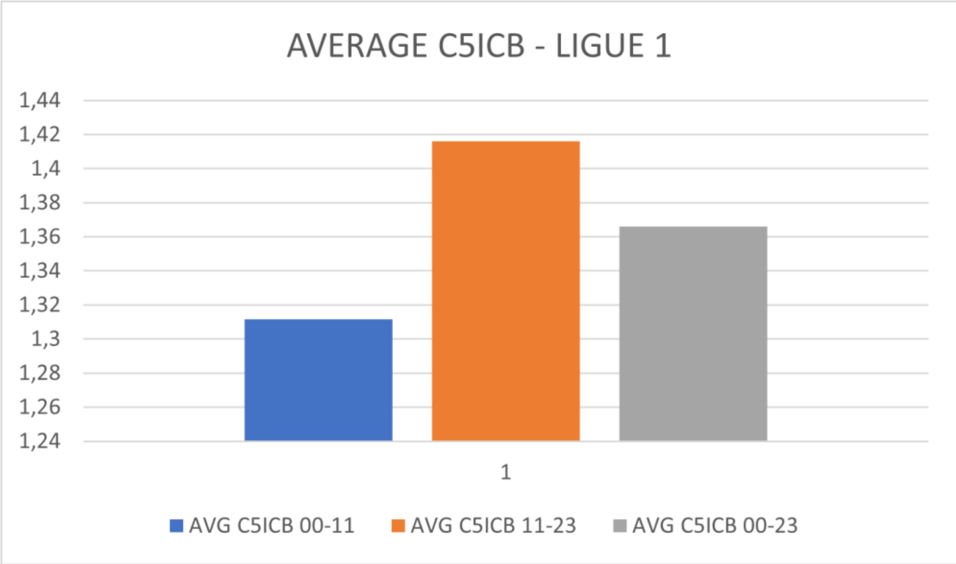

Figure 36: Mean C5 Index of Competitive Balance in French Ligue 1 pre- and post-FFP - personal elaboration of French Ligue 1 standings from 2000/01 to 2022/23

The deterioration of competitive balance is even more evident if we consider the evolution of the HICB (Figure 37).

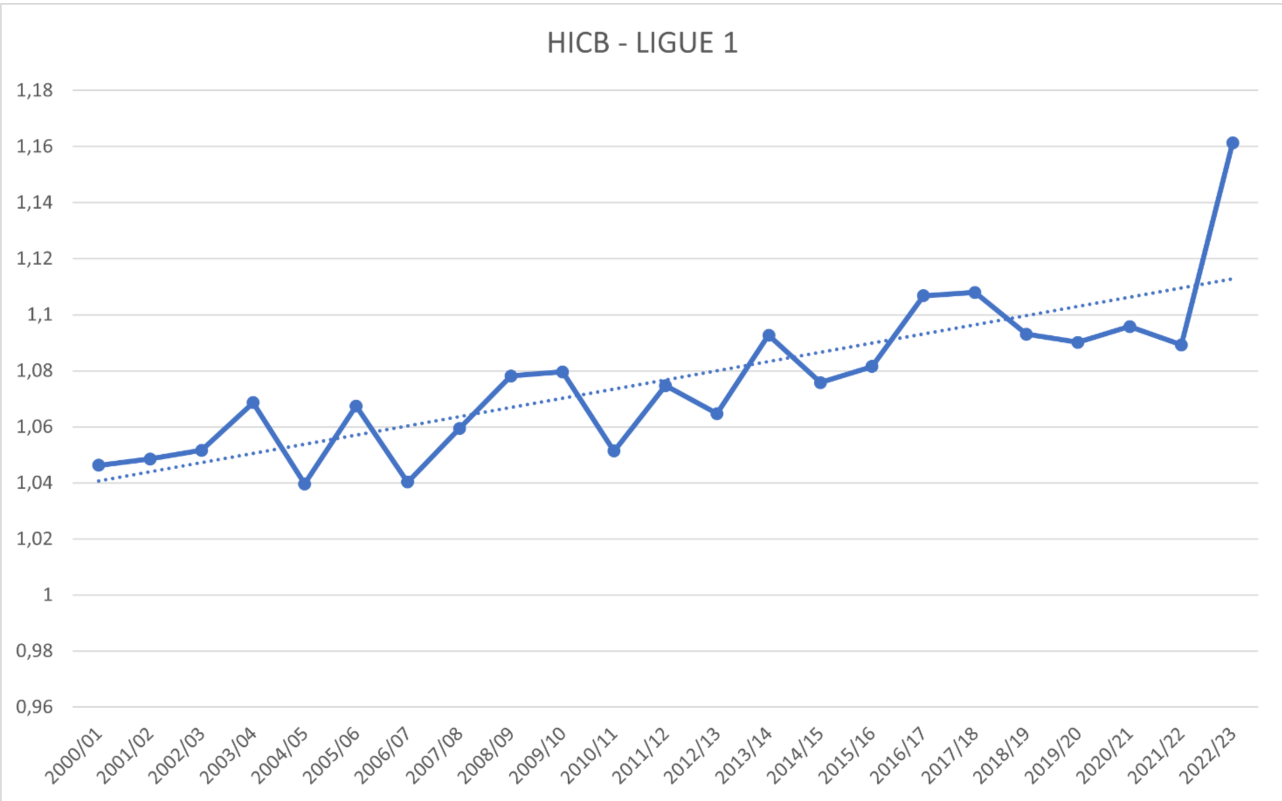

Figure 37: Trend of the Herfindahl Index of Competitive Balance in French Ligue 1 from 2000/01 to 2022/23 – personal elaboration of French Ligue 1 standings from 2000/01 to 2022/23

The slope of the trendline is noticeably steep, and there has been a clear increase in the indicator in the seasons subsequent to 2010/11. The indicator has been growing nearly constantly ever since, and the few bounce-backs have systematically occurred at increasingly high levels, displaying a strong tendency for imbalance to grow on a year-on-year basis. It is interesting to notice that, prior to 2011, the level of competitive balance reflected in the HICB was fairly stable, with the indicator lateralizing within relatively constant bound. After 2011, on the other hand, there is a clear uptrend characterized by increasing highs and increasing lows, up at least to season 2018/19. Another interesting fact is that, in the 4 seasons from 2018 to 2022, the indicators seem to be lateralizing once again, revolving around comparable values without significant leaps or drops, before skyrocketing (+0.072) in 2022/23, a season that was dominated by PSG even more greatly, also thanks to the massive transfer campaigns the Parisian club has recently conducted, acquiring several top-notch players. Figure 38 provides another proof in support of the negative evolution of the level of competitive balance of the French Ligue 1 as measured by the HICB after the introduction of FFP provisions.

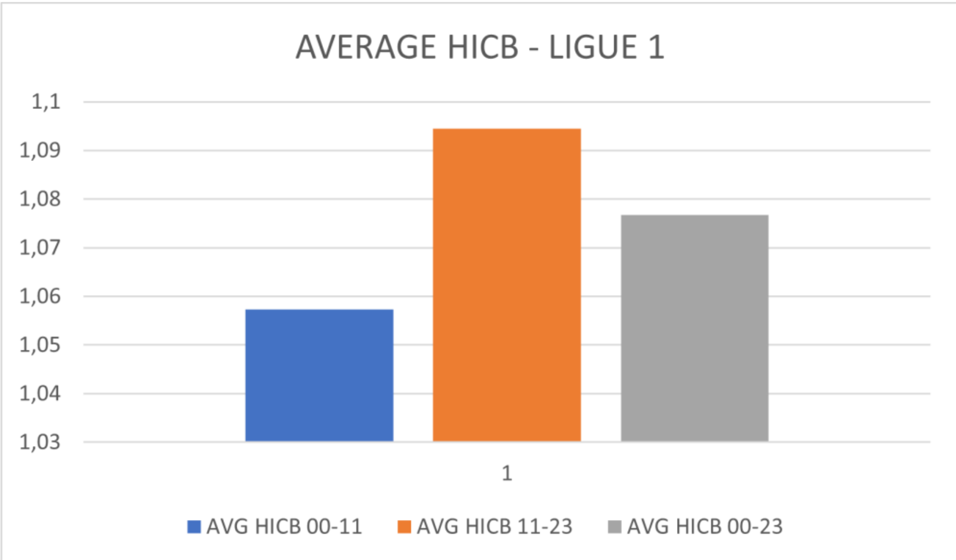

Figure 38: Mean Herfindahl Index of Competitive Balance in French Ligue 1 pre- and post-FFP - personal elaboration of French Ligue 1 standings from 2000/01 to 2022/23

6.2.3 Competitive Balance in the "Big 5" Leagues

As anticipated in the previous sections, despite the main goal of the FFP regulations was, since their very inception, to stabilize and rationalize the finances of European clubs, there has always been an emphasis on the importance of competitive balance among European domestic championships, and on the role of the normative framework in protecting competitive intensity for the sake of long-term viability of European football. This aspect was always deemed fundamental for the achievement of long-term sustainability and, while financial stability was indeed the primary objective, the importance of maintaining a balance of competition was nevertheless regarded as a beneficial side effect that could be attained through the implementation of the set of FFP rules.

However, unlike for the financial stability goal, the evolution of European football after the introduction of FFP has proven to be far less desirable, as it comes to the preservation or enhancement of competitive balance.

In order to assess the effect of FFP provisions on the competitive balance of European leagues, an evaluation is performed taking into account its evolution in the last 23 seasons. The sample used for this purpose takes into consideration the final standings of the top 5 European leagues – English Premier League, Spanish La Liga, Italian Serie A, German Bundesliga and French Ligue 1 – for the seasons from 2000/01 to 2021/22. For each of the top 5 domestic championships, two indicators of competitive balance – the C5 index of competitive balance (C5ICB) and the Herfindahl index of competitive balance (HICB) – have been calculated on a year-on-year basis, and a graph has been plotted for each of the two in order to evaluate their evolution over time. In order to evaluate the impact of the introduction of FFP rules, in 2011, a comparison is made between the average values of the indicators prior to the introduction of the FFP (seasons 2000/01 to 2010/11, represented by the blue column) and subsequently (seasons 2011/12 onwards, represented by the orange column).

As can be easily seen from Figures 39, all the “Big 5” leagues have experienced a significant increase in the C5ICB index, indicating a deterioration of the levels of competitive balance subsequently to the introduction of FFP. La Liga (Spain) and Ligue 1 (France) have been characterized by the most significant increases in imbalance, followed by Serie A (Italy) and Bundesliga (Germany).

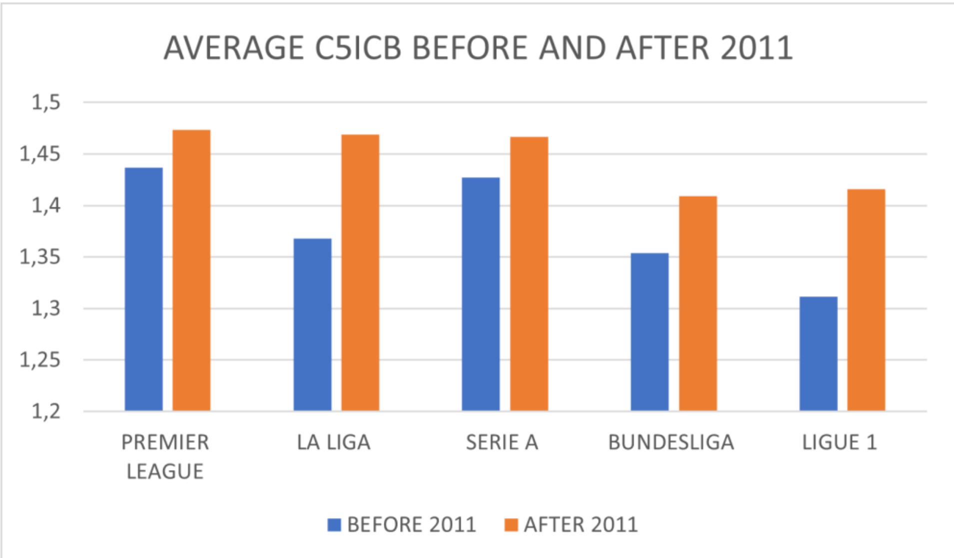

Figure 39: Mean C5 Index of Competitive Balance in “Big 5” European Leagues pre- and post-FFP - personal elaboration of “Big 5” European Leagues standings from 2000/01 to 2022/23

Premier League is the domestic championship that has suffered a decrease in balance of the lowest magnitude, however the English first division is indeed the league that, from the point of view of the dominance of top 5 clubs, was already characterized by the highest levels of imbalance at the beginning of the century.

The picture is rather similar when analysing the evolution of the HICB (Figure 40).

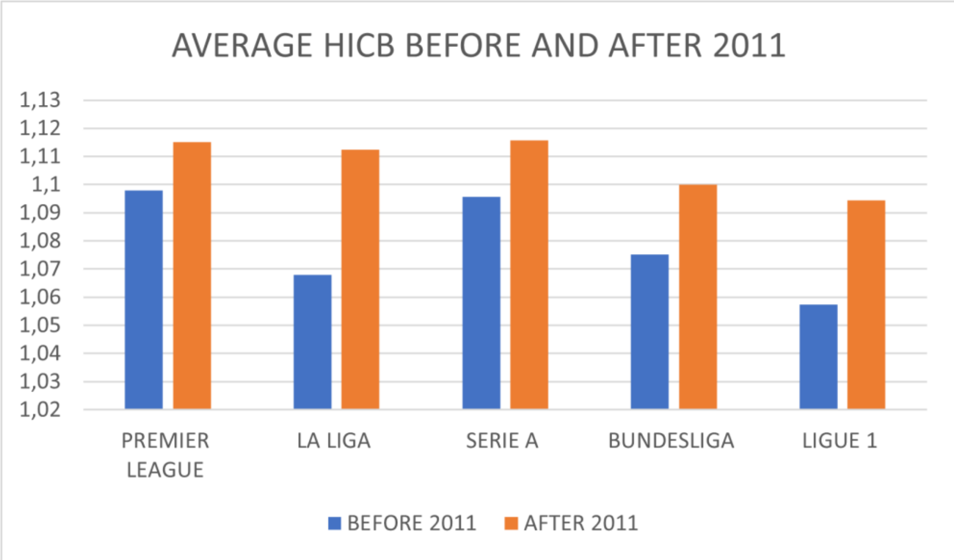

Figure 40: Mean Herfindahl Index of Competitive Balance in "Big 5" European Leagues pre- and post-FFP - personal elaboration of "Big 5" European Leagues standings from 2000/01 to 2022/23

Once again, the introduction of FFP in 2011 has been followed by a deterioration of the degree of competitive balance in all five leagues, as can be deducted from the sharp increase in the average levels for the indicator after 2011. The most significant deteriorations in competitive balance have been observed in Ligue 1, that tops the chart, and La Liga, where the HICB levels have skyrocketed from season 2011/12 onwards. Serie A, on its side, has experienced an increase in imbalance that has caused it to overtake Premier league as the most imbalanced of the "Big 5" leagues. Bundesliga has as well suffered a decrease in competitive balance, but to a lower extent and, despite a deterioration has indeed taken place, the German championship has worsened less than its peers, passing from being the third most imbalanced league to being the fourth. Again, Premier League has suffered less than the other four leagues when comparing pre-2011 and post-2011 levels, but is still the second least balanced league, not far from Italian Serie A, which holds the first position in this blameworthy chart.

By considering the two graphs above, and jointly looking at the final standings in the examined period, we can conclude that after the introduction of FFP the gap (both sportive and financial) between the top clubs and the rest of the teams has significantly increased, as the top sides were able to maintain a high budget by generating large volumes of revenues (by means of both sportive and commercial performance), and this has resulted into a concerning loss of competitive balance. This is the demonstration that, while, after the introduction of FFP, there have been positive evolutions in club finances (as UEFA argues, attaining its primary goal), the same cannot be said with respect to the second "side" objective, and, as a matter of fact, the introduction of the provisions has been followed by a negative evolution that is opposite to the intended one.

7. Criticism to Financial Fair Play and Possible Alternatives

Despite the goodness of the intentions and the rationale behind the goals of the FFP framework, numerous cases have generated widespread scepticism in the regards of the effective functioning of the normative set. In addition, criticism has extended both to the application and enforcement of rules, as well as to their side effects. On one hand, there is substantial agreement on the fact that FFP has contributed in solidifying the finances of the clubs making up the European football system. Nevertheless, the alleged adverse effects on competitive imbalances, united with the perception of an opaque monitoring system have paved the way to substantial (and, to a good extent, justified) criticism. Setting aside the issues related to allegations of favourable treatments received by some clubs, that are in any case surely not beneficial to the fame FFP currently enjoys, the objections that can be made on practical and verifiable grounds open up to possible alternative solutions.

7.1 Case Study: Paris Saint-Germain

Figure 41: Paris Saint-Germain logo

When talking about Financial Fair Play, there is wide agreement about the fact that the framework promotes sound principles and sustainable behaviour that can be beneficial to the football industry as a whole, from individual clubs of all sizes and their employees to the broader fanbase. Nevertheless, as it comes to agreeing on how this mission is carried out, the confidence about the effectiveness of the application of the norms, particularly in the case of club monitoring, appears to shrink significantly. One of the cases that has raised the most doubts in the public opinion in this regard is represented by the French club Paris Saint-Germain (abbreviated as PSG), that has in the recent years engaged in massive spending for transfer campaigns and player wages, only incurring mild sanctions, causing vast criticism about the effective functioning of the FFP monitoring system. Football fans and newspapers worldwide have often raised more than one doubt on the legitimacy of the operations carried out by the Parisian club, as the volume of spending for acquisition and salary of new players has more than once reached astronomical sums, and most of the general public seems to be rather suspicious about apparent lack of control and sanctions for such actions, widely criticizing an alleged lack of enforcement of FFP rules. The public opinion is often misinformed and biased, and prone to the risk of believing in gossip and speculations, hence, in this section, I will try to analyse the issue resorting to the maximum extent to objective and verified data.

First, let us take a step back, and briefly recall the – rather unique - history of the French club.

PSG was born in 1970 out of the merger between Paris FC and Stade Saint-Germain, with the objective of filling the absence of a club from the capital city in the first division. We can already see that this is a rather uncommon characteristic, given that teams from European capitals are usually among the top clubs in their respective leagues. The newly born club could nevertheless count on a vast fanbase despite its short history, and soon managed to achieve a competitive level. The first trophy arrived in 1981, when PSG won the Coupe de France, the French national cup. When the broadcasting channel Canal+ took control of the club, in 1991, it engaged in substantial investments thanks to which the club was finally able to compete with Olympique Marseille at domestic level, but also on international grounds. However, PSG was still unable to reach a dominant position, both inside and outside France, at least until 2011, when everything changed. Following the sale of the club by Canal+ due to financial issues, and after several years of poor performance, PSG was acquired in 2011 by the Qatar sovereign fund Qatar Investment Authority (QIA), and it was immediately clear that the enormous wealth of Qatari investors would have radically changed the picture as it comes to the budget capacity of the club. This immediately translated into big transfer campaigns that saw the club acquiring top-notch players such as Thiago Silva, Ibrahimovic and Beckam for figures that were unprecedented for the time. In the following years, the club will engage in enormous spending in order to bring the best and most famous players under the shadow of the Tour Eiffel, and the peak will be reached during the 2017 summer transfer window. The transfer campaign conducted by the club would become an infamous case for raising all sorts of suspicions among the public, that could hardly find an explanation about how the club was allowed to spend €222 million to acquire Neymar (the most expensive transfer ever recorded), while signing the emerging star Mbappè in the span of the same window, without breaching the monitoring requirements. The media resonance of the transfers was big enough for the public opinion to gain interest in the financial management of the club, and soon enough many details were unveiled, depicting a broader image. After being acquired by the Qatar Investment Authority, one of the wealthiest sovereign funds in the world (counting on over $500 billion in assets, according to 2021 estimates), Al-Khelaifi, the new president, has been able to invest over $1.7 billion in player transfer and wages, radically changing the Parisian club's history. PSG had been able to win the league only twice in its first 40 years of history, under the Qatari management they managed to win the Ligue 1 8 times in 10 editions, also achieving 6 Coupe de France and 6 Coupe de la Ligue. Out of the 44 major trophies won by the club, 29 came after the acquisition by the Qatar sovereign fund (including 8 out of the 10 total Ligue 1 victories), thanks to the massive investments for top-notch players. For the first two years, between 2011 and 2013, no club spent as much money on player transfers as PSG, which, inevitably, ended up breaching the limits set by the FFP framework. The club was fined for €60 million in 2014 and was forced to bring its break-even result below the threshold of the acceptable deviation within 2015, and to reach break-even the subsequent year. This was not the only issue for PSG, whose shady financing methods ended up attracting UEFA's spotlight. The club's main source of financing came from a sponsorship deal with the Qatar Tourism Authority, a sovereign entity in charge for the "nation branding" of Qatar (it has not been uncommon, in the recent years, for Arabic countries to engage in the so-called "sportswashing"), that poured into the club's accounts €150 million to €200 million per season for the first three years, until 2014, when UEFA informed PSG that such practice was not allowed and sanctioned the club (actually, stipulating a settlement agreement), despite considerably softening the measure already in the subsequent year to "reward" the good conduct. Unsurprisingly, this raised more than one doubt on the transparency of UEFA's monitoring and enforcing system, and so did the growth the French club achieved after the acquisition by QIA. Before the ownership change, PSG could count on roughly €100 million in yearly revenues. In 2012, after only two years, the revenues had grown to €222 million, reaching €638 million in 2018/19. The main revenue driver for the club, that cannot count on the broadcasting deal volumes of the other four top leagues, has always consisted in commercial revenues, accounting, as to 2023, for over 60% of the total figure (against the 25% represented by broadcasting rights), and the majority of the commercial income has come from related parties, including QTA, Qatar Airways, Bein Sports and Aspetar. The outstanding growth in commercial revenues (from €18 million in 2011 to the record-breaking sum of €383 in 2022), as well as their source, have raised widespread scepticism, that peaked when the La Liga president, Javier Tebas, publicly accused the Parisian club of inflating in its accounts the inflows coming from its network of related parties. And this was only one of the many voices that joined the complaint, demanding explanations for maths that did not add up. After the Football leaks revelations on the Neymar transfer, the topic became a debated matter, casting shadows on the effectiveness and the transparency of the treatment PSG received from UEFA. In summer 2017, in fact, the club spent €222 million to sign the Brazilian player (plus a €8.5 million signing fee, according to Football Leaks), and, during the same transfer window, bought Kylian Mbappè from Monaco thanks to an artifice that entailed a loan with the mandatory redemption clause (for €145 million) at the end of the season, in case PSG was able to avoid relegation, thus shifting the recognition of the transfer fee to the following accounting period. The total transfer fees paid by PSG for the two players reached €367 million, and the costs for the club also spread to the subsequent year in the form of amortization, turning the respect of the normative limits into a serious challenge.

The issue was investigated by the New York Times, that wrote an article about the shady monitoring of the club's commercial agreements. Under the spotlight, the €100 million deal with the QTA, and the - in the newspaper's opinion - questionable investigation that followed, at the hands of the UEFA Chief Investigator Yves Laterme. The former Belgian prime minister had designated the consulting firm Octagon Worldwide for an evaluation of the deal, and the result was that the value of the agreement was estimated at roughly €5 million, against the €100 million estimate provided by Nielsen, appointed by PSG for the same purpose. Nevertheless, Laterme chose to validate the Nielsen estimate, and closed the case. This decision shocked many of the insiders, particularly the CFCB chair Josè Narciso de Cunha, that declared to be shocked by the fact that "the Chief Investigator took in consideration the more favourable evaluation to PSG – stemming from Nielsen's report – without providing any explanation as to why the values deriving from Octagon's report were to be ignored". Moreover, Laterme, in his computations, had increased the income from the sponsorship deals, even going beyond the value that was estimated by Nielsen, according to da Cunha, and, in the latter's opinion, "the decision to close the case was manifestly erroneous". According to the New York Times, UEFA would have deliberately depowered its own investigation, due to the close ties with the Qatari BeIN Media Group, that had invested billions in the acquisition of UEFA broadcasting rights. Undeniably, it is easy, in such cases, to fall into the temptation to point towards a scandal made of corruption and shady ties, however the 2017 record-breaking transfer campaign was possible for PSG also thanks to a set of accounting artifices. While, as many argue, some of them would have involved an alleged boost in the figures of sponsorship deals, many of them were perfectly legitimate, and already extensively used by several other football clubs. Mbappè's transfer, in fact, came in the form of a loan for the first 10 months, allowing the club to recognize the expense only in the following fiscal year, and PSG was able to conduct the overall campaign with only €155 million impacting the budget (€105 million for Neymar, €15 million for Mbappè, €12 million for Dani Alves, and the rest for minor operations), also thanks to the amortization policy. The outflow was partially offset by an €80 million accounting inflow, thanks to the outgoing transfers – with consequent savings in amortization and wages – of Matuidi, Aurier, Augustin and Sabaly, and the resulting difference, €75 million, was small enough to fit within the €90 million threshold for the worsening of accounts allowed in order for PSG not to breach the terms of the settlement agreement. Despite the several doubts raised in the public opinion concerning the aforementioned practices, UEFA had clearly stated that it would have monitored the pursuit of break-even goals alike with any other club, without questioning the legitimacy of the operations and the accounting policies.

Despite the controversy of the 2017 transfer campaign, just a few years later, PSG has once again hit the headlines in 2021, with arguably one of the most unbelievable transfer market sessions ever. While most football clubs were still struggling with recovery after the harsh consequences of the pandemic, PSG signed, in just one summer, Messi, Donnarumma, Wijnaldum, Sergio Ramos and Hakimi. While only the transfer of the Moroccan fullback was paid for (€60 million), the other four players came as free agents. Nevertheless, their deals provided for massive salaries that caused the total wage expense of the club to reach the record-breaking sum of €728 million (il fatto quotidiano NOTA A PIE DI PAGINA). In detail, the wages paid by PSG include €12 million and €15 million for Donnarumma and Sergio Ramos, respectively, €8 million for Hakimi and €10 million for Wijnaldum, and €25 million for Messi upon the signing of the contract, plus €35 million per season. The pharaonic sums involved seem even harder to explain when considered that, just in the last three seasons, PSG bottom line accounts spilled red ink for a whopping total of €717 million (124 in 2019/20, 224 in 2020/21, 369 in 2021/22). Their opponents in the 2023 Champions League round of 16, Bayern Munchen (€653.6 million), shared roughly the same revenue as PSG (€654.2 million), but, while the German clubs presents positive figures in all the accounts of the income statement, the same cannot be said for the French club, whose expenses have grown in the recent years outpacing the already impressive increase in revenues. The trend of revenue growth is actually anomalous in itself – after the acquisition by QIA, turnover grew from €222 million in 2012 to €637.8 million in 2018/19 – and has raised widespread suspicions with respect to an alleged artificial inflation of sponsorship inflows. The volume of revenues coming from commercial deals was in fact just €18 million in 2011, upon the acquisition of the club, and skyrocketed to €383 million in season 2021/22, breaking yet another record. Notwithstanding the staggering growth in revenues, expenses increased even more, particularly those associated to staff costs. According to Deloitte Football Money League, the club went from spending 77% of its revenues in staff costs in 2020 to 91% in 2021, reaching in the following years the shocking WRR of 111%. While the 2021 signing campaign is likely to have been made possible due to a sort of regulatory vacuum that took place in the aftermath of the pandemic, when FFP restrictions were eased to help clubs recover from such stressful times, the question is now whether PSG will be able to comply with the newly introduced squad cost rule. Up to now, PSG only incurred mild sanctions after 2021 (€10 million fine, plus €55 million pending in case of non-respect of the settlement agreement). However, the recent introduction of the squad cost rule (2022) represents a tough challenge for the club, in light of the aforementioned wage bills. The new framework prescribes a ratio between wages and football earnings that cannot exceed 90% in the 2023/24 season, ratio that will be lowered to 80% and 70% in the following seasons. As it stands, given the current wage expenses for PSG, the club would have to report revenues between €800 million and €900 million in order not to exceed the 90% ratio, revenues that will have to grow to €1.1 billion when the ratio will be lowered to 70%.

The upcoming years will tell whether PSG will be able to fit within the regulatory constraints, what is certain is that, in the view of the public (fans, but also journalists and insiders), the treatment received by the club following its conduct has significantly compromised the general opinion about FFP. The normative framework has always been subject to a certain degree of scepticism, but the PSG case gave the sensation that the rules could be circumvented by the very entities that should have been more closely monitored, and that money and lobbyism (the president of PSG, Al-Khelaifi, is very close to the UEFA chairman Aleksander Ceferin, even more tightly after PSG has taken UEFA's side during the dispute about the SuperLeague) could once again prevail, and hinder the ordinary enforcement of the provisions. Among the fiercest critics to FFP, the idea is that the years subsequent to the pandemic, that saw a relaxation of the regulatory constraints, culminating in PSG basically doing what they wanted, represented the final nail in the coffin of a system that, despite being good in principle, was poorly applied, and resulted far from effective in achieving its initial goals. It is to be pointed out that the financing mechanisms of some clubs, that can rely on large inflows from a network of related parties, occurs in a frame of proto legality whose legitimacy is difficult to verify or object on practical grounds. Nevertheless, it is not surprising that the massive spending in which PSG - among other clubs - has engaged, despite not being able to win anything but the national trophies, can seem difficult to explain in the context the FFP is aiming to maintain.

7.2 Circumvention of Financial Fair Play – Case Study - Chelsea FC

Figure 42: Chelsea FC logo

To paraphrase a famous Italian proverb, “every law has its loophole”, and the European football environment has made no exception. Since the introduction of FFP, the attempts by clubs to rationalize their spending to comply with the requirements has been paired with the attempt by some others to circumvent the rules, cleverly exploiting loopholes and blind spots that can be easy to find when accounting-based regulation is concerned. The creativity and shrewdness displayed by the managers of many clubs has culminated in transfer campaigns that raised more than a few eyebrows among the general public, often incapable of finding an explanation about how FFP rules could have allowed them to take place. In the recent years, besides the PSG case that was treated in a dedicated section, the transfer campaign that has caused the most doubts was indeed the one undertaken by Chelsea between 2022 and 2023. The English club lived times of absolute turmoil in the first months of 2022: as a result of the heavy measures taken by the British government against Russian citizens, in response to the invasion of Ukraine, Chelsea’s former owner, the Russian tycoon Roman Abramovic was practically forced to sell the club. Nevertheless, with the advent of the new ownership, a consortium led by the entrepreneur Todd Boehly and the investment firm Clearlake Capital, the past troubles of the club were quickly forgotten, thanks to two consecutive transfer campaigns of nearly unprecedented proportions. During the transfer markets in summer 2022 and winter 2023, Chelsea has in fact spent over €610 million in transfers[8], completely renewing its roster and securing the performances of promising players, including, but not limited to:

- Koulibaly (€38 million), Cucurella (€65.3 million), Sterling (€56.2 million), Aubameyang (€12 million), W. Fofana (€80.4 million) during the 2022 summer transfer window;

[8] https://www.transfermarkt.it/fc-chelsea/startseite/verein/631

- Joao Felix (onerous loan of €11 million), Enzo Fernandez (€121 million), Mudryk (€70 million), Badiashile (€38 million), D. Fofana (€12 million), Madueke (€35 million), Chukwuemeka (€18 million)

The total expense, comprehensive of a €60 million premium with respect to the total market value of new players, was only partially compensated by a €68 million inflow deriving from outgoing transfers. According to Deloitte Football Money League, the total revenues generated by Chelsea during the 2021/2022 season amounted to €568.3 million, and this seems to justify a certain dose of scepticism on the "legality" of the transfers. However, to this date, no action has been taken against the London-based club. The reason can be found in a practice, inspired by other sports such as baseball, that allows for an exploitation of accounting transposals to create a loophole and circumvent the rules. Such method has to do with the amortization of transfer fees, and has cleverly been employed by Chelsea to avoid, at least for the moment, concerns related to a breach in the norms. The club, in fact, has been navigating the rules of both UEFA and Premier League by giving players longer contracts, so to amortize their cost over a longer period and reduce the yearly impact of amortization. The maximum length of a contract recognized by FIFA is five years, however, national federations are given space to foresee different terms, and Chelsea has decided to exploit this sort of normative vacuum to avoid controls from the CFCB. Looking at the transfers signed in 2022 and 2023, it can be noticed that players have agreed on contracts with a duration of at least five years, allowing the club to spread the fees over the whole length of the contract, thus avoiding an excessive impact on the financial statements for the year in which the transfers occur. Mudryk, the last player to join the team, for instance, signed a 8-year contract, allowing Chelsea to spread the €70 million fee by means of amortization over eight fiscal years, for a yearly impact of €8.75 million. By means of this mechanism, Chelsea is able to considerably lower the yearly spending (in accounting terms), and to recognize in the statements an impact that is almost six times lower than the total sum involved. The aforementioned practice seems to be a successful attempt to circumvent FFP constraints, and future action should hence be taken to prevent such kinds of behaviour, but this is not the only reason for which corrective intervention is advocated for. The strategy put in place by Chelsea, in fact, can be positive in the immediate future, but is very risky and can entail severe consequences in a longer term. This view is supported by financial football expert Kieran Maguire, that said to be rather surprised by the sudden transfer spending, given the usual cautiousness of Clearlake Capital. The risk, in fact, is that the newly arrived players turn out to provide delusional performances, and the club that purchased them is left with two alternatives:

1. Keep them and pay them the agreed salary for a lengthy period (5 to 8 years), despite their undertone performances;

2. Sell them, with a likely consequent capital loss, to another team. The problem is that finding such a team can be difficult. Chelsea's wage commitment, in fact, is in the top four of Premier League clubs, and finding another club willing to purchase the players and pay them a salary they are happy with would turn out to be challenging.

The transfer market for European football clubs has taken the traits of an arms race over the recent years, and the strategies - more or less risky - that seem to be functioning in the short-term have often been widely imitated, particularly those that allow for a circumvention of the rules. Not much fantasy is needed to imagine the possible consequences of the widespread of excessively risky transfer market practices, that could trigger a vicious cycle that can seriously jeopardize the long-term viability of individual clubs, and of the sector as a whole. The matter seems rather urgent, and has in fact already been addressed by UEFA that, in January, announced an imminent altering of FFP provisions to set a five-year limit over which the transfer fee can be spread. The changes will come into force during the summer of 2023, but will not apply retrospectively, meaning Chelsea will hardly have any concerns relative to its spending spree.

To be fair, UEFA has demonstrated to be careful in assessing the aspects in which the aim can be adjusted, and has often taken action, more or less promptly, to correct the flaws in the system. However, the impression is that the more constraints are set, the more clubs seem to find loopholes to exploit. The general public, including both insiders and fans, has often manifested scarce tolerance in the regards of a sort of trial-and-error system that is not corrected until it is blatantly evaded, and the recent events have worsened the image of a framework that was already losing popularity.

7.3 Adverse Effects of Financial Fair Play – the Real Effects on Transfer Market

Financial Fair Play is an accounting-based regulation, and as such paves the way for perverse incentives to frame operations or manipulate their accounting results in order to report a position of compliance towards the requirements. This phenomenon has, in particular, translated into widespread effects on the transfer market for players, not without producing adverse consequences. After all, the contractual rights to employ the players constitute one of the largest and most liquid assets owned by clubs, on and off their balance sheets (Bonacchi et al., 2021). To illustrate the developments in the transfer market stemmed from the implementation of FFP regulation, the reference paper is titled "The Consequences of Accounting-Based Regulation: Real Effects on European Football Players Transfer Market", published in 2021 (and revised in 2023) by M. Bonacchi, F. Ciaponi, A. Marra and R. Shalev. The research is focused on the evolution of the transfer market, highlighting the consequences of the real-activities-earnings-management put in place by clubs to comply with the regulations. The findings of the paper are summed up as follows:

- The average number of players per club whose contractual rights were sold increased, after the introduction of FFP, by 10% in clubs subject to the regulation, and by 5% in clubs not subject to the regulation
- After the enforcement of FFP, it was found that the proportion of under-21 players in total transfers per year increased by 25%, while no statistical change was detected in clubs not subject to the regulation. Under-21 players typically emerge from the clubs' own youth sector, and their book value is typically zero. The sale of such players allows to record the full transfer fee as a profit, and the authors suggest increased resort has been made to such practice by clubs to facilitate the achievement of the break-even threshold.
- A measurable increase in transfer fees per transaction after the advent of FFP, and the effect is more concentrated on teams taking part in UEFA competitions
- Following the introduction of FFP, the average accounting profit per transfer increased by 115% for clubs subject to the regulation, despite not changing in clubs exempt from it. When considering exchange transactions (in which little to no movement of cash is involved), the increase was 141%, and the average profit on under-21 player transfers increased by 60%. Authors suggest a relation between the increase in reported profits and a benchmark-beating behaviour dictated by FFP provisions.
- The authors identified so-called "suspect club-years" as those accounting periods in which a club could be able to fall within the FFP thresholds only thanks to the aid of profits arising from player transfers. They found that the proportion of "suspect club-years", before the introduction of FFP, was similar between clubs participating (30%) and not participating (26%) to UEFA competitions. After the implementation of the regulation, the percentage changed only slightly for the latters (29%), but increased substantially for the formers (52%). This suggest an increased use of player transfers by clubs needing to generate additional income to comply with the regulations. Moreover, it was found that, in clubs subject to FFP, accounting profits per transfer during "suspect club-years" were, on average, €4 million higher in the period subsequent to the introduction of the regulation than in the period prior to it. The increase becomes €5 million and €5.6 million when considering young (i.e. under-21) players and exchange transfers, respectively. On the other hand, among clubs not subject to FFP, no statistically significant increase has been detected.

- In exchange transactions, the premium over market value of players has increased by 23.3% percent after FFP was introduced.

Altogether, the results of the study suggest the existence of a real effect of the accounting-based FFP regulation on the player transfer market. Moreover, such impact is likely to be attributable to the pursuit by clubs subject to FFP of the compliance with the break-even (or football earnings) rule. Furthermore, such effects do not only affect the clubs directly involved in attempts to circumvent the regulations, but impact the transfer market (which is to all effects a labour market) as a whole. It is not surprising that, in the recent past, many cases of manipulation of transfer figures have ended up under the spotlight. Multiple clubs have been engaging in suspect practices entailing the inflation of capital gains on player transfers (made simpler in the case of homegrown players, whose book value is zero), and of fees resulting from exchange transfers, and Juventus provides the most recent and explicative case. The Turin-based club has in fact recently been found guilty in a second-degree sentence by the FIGC Court of Appeal, that deducted 10 points to the *Bianconeri* in the 2022/23 Serie A table. The reason behind the sanction is the misreporting of transfer fees, artificially inflated to provide greater capital gains that were meant to offset losses and improve the club's reported financial situation.

7.4 Possible Alternatives to Financial Fair Play

7.4.1 Salary Cap

Regulating competitive balance is a central issue in many sports, not just football, and an interesting example that can serve as inspiration for future regulatory intervention is represented by the salary cap, common in American sports. Particularly in the NBA, the salary cap is considered to be playing a central role in maintaining high competitive intensity, and thanks to this factor the NBA is one of the most followed sports leagues in the world.
The salary cap consists in a ceiling placed on the teams' spending capacity for the total of the salaries of their players and addresses the issue of regulating sportive inequality by ensuring spending equality in the first place. Moreover, spending is considered in absolute terms, not in relation to the volume of the business of individual teams, as it is in football. One of the most criticized aspects of FFP, as it comes to its effect on competitive balance, is the existence of club-specific limits that, instead of helping the smaller clubs to close the distance with bigger ones, places additional obstacles hindering their ability to achieve a challenge that is already not simple in the first place. In the case of salary

cap, the limits are equal (or only slightly different) among all participants to the league, and favour a rotation of hierarchies rather than their solidification. Thanks to the salary cap, in fact, any team can aim for the win thanks to wise decision-making and forward-looking planning. Thanks to this system, efficiency and sustainability of investment in players is encouraged, and the focus is shifted further away from the short-term. Besides promoting parity among teams, the salary cap in fact incentivizes the control of costs.

Furthermore, the NBA salary cap has additional features that are an interesting suggestion for the achievement of competitive rebalancing. Unlike other American leagues, such as NFL (American football) or MLB (baseball), where the cap cannot be exceeded for any reason whatsoever, we talk about "soft cap" because the ceiling can actually be breached. The functioning of the salary cap mechanism is as follows:

- Prior to the beginning of the season, the NBA, together with the NBPA (National Basketball Players Association), decides the reference figure for the salary cap, on the basis of the revenues obtained in the past season and those forecasted for the upcoming season;
- Once the salary cap is set, the salary floor is computed accordingly. In the recent years, the salary floor is determined as the 90% of the salary cap, and represents the minimum amount the teams need to allocate for the payment of salaries. If a team's total wage spending falls short of the floor, the shortfall is to be redistributed among the players in the roster at the end of the season;
- As aforementioned, the salary cap can be exceeded without incurring sanctions, up to a threshold called luxury tax line;
- If the line is exceeded, the breaching team must pay a luxury tax to the Association. The luxury tax is incremental, and is divided in brackets proportionally to the excess spending. Moreover, the penalty is increased for the "repeat offenders", the teams that have been paying the tax in four out of the five previous seasons. Table X, below, illustrates the brackets and the relative taxes. The scheme is not cumulative, as each level of tax applies only to the amounts over that level's threshold. For example, a team that is \$9 million over the tax line pays \$1.50 for each of the \$5 million over the first threshold, and \$1.75 per dollar for the remaining \$4 million.

Amount over tax threshold	Standard tax per excess dollar	Repeat offender tax per excess dollar
$5 million or less	$1.50	$2.50
$5 million to $10 million	$1.75	$2.75
$10 million to $15 million	$2.50	$3.50
$15 million to $25 million	$3.25	$4.25
Each additional $5 million	$3.25 + $0.50 per $5 million	$4.25 + $0.50 per $5 million

Table 3: Luxury Tax Regime and Brackets in NBA - Wikipedia

- The tax revenue collected is divided as follows: 50% of the total amount goes to the Association, while the other 50% is distributed among the teams with lower payrolls that have not exceeded the cap, to compensate their virtuous behavior.

This last feature, in particular, is interesting because it achieves a double objective: on the one hand, teams are seriously incentivized to fit within the constraints, and are rewarded when they succeed in doing so, on the other, the redistribution of tax revenues is meant to help competitive rebalancing, helping the minor teams to reduce the distance with the top franchises.

The salary is also present in the MLS (Major League Soccer), and this serves as a demonstration that the policy is also applicable to football. The MLS-branded salary cap also provides for exceptions relative to homegrown players, serving as an incentive to invest in the youth sector. Applying a salary cap to European football would also serve as an obstacle to a cannibalization trend that is manifesting itself with increasing frequency. While, years ago, the wealthiest clubs were acquiring players mainly by purchasing them from their teams, in the recent years there have been several examples of a different practice that allows top clubs to acquire the best players without having to pay for the transfer. Top clubs, in fact, exploit their superior spending capacity to offer out-of-the-market wages to players they are interested in acquiring while they are still playing for their club, by means of pre-emptive negotiations. Once an agreement is reached, the player will wait for his current contract to expire, without renewing it, and, upon expiry, will sign for the acquiring club as a free agent. In such way, the acquiring club is able to pick up the players from their teams without having to pay for the transfer, just by offering a salary the player’s current team cannot compete with, thus considerably saving money without enriching other clubs. This practice, as aforementioned, has become widely used in the recent past, and some examples include:

- The transfer of Robert Lewandowski from Borussia Dortmund (abbreviated as BVB) to Bayern Munchen in summer 2014. After a short negotiation, Bayern Munich agreed with the player, that, at the time (january 2014), was still playing for Borussia Dortmund, on a contract that provided for a salary nearly three times as high as the one he currently had (€5 million plus performance-tied bonuses against the €1.7 million salary he received from Borussia

Dortmund), with which BVB was unable to compete. In such way, Bayern Munich was able to sign Lewandowski as a free agent, avoiding a €30 million payment to its fiercest competitor while at the same time depriving it from its best player;

- The aforementioned PSG 2021 transfer campaign saw the Parisian club acquiring Donnarumma in the same way. PSG offered to the Italian goalkeeper twice as much of a salary compared to the one he was previously receiving at A.C. Milan, thus being able to sign a player whose value was evaluated around €60 million as a free agent;
- The same happened with Frank Kessié, that, in 2022, decided not to renew his contract with A.C. Milan and pass to Barcelona as a free agent.

It is interesting to point out that many times the decision of a player not to renew with its current club and be acquired as a free agent is not necessarily tied to the higher salary, but also to the blazon of the club. Nevertheless, this mechanism once again tends to favour existing hierarchies, and a salary cap would reduce the ability of clubs to lure players with high wages, while at the same time weakening opponent clubs without even paying a compensation.

Following widespread discussions – also magnified by the effects of the pandemic - about the effectiveness of the current regulations, UEFA has recently been considering the introduction of a salary cap as a possible solution, and this reform is advocated for by many insiders, including the former ECA (European Club Association) chairman Andrea Agnelli.

7.4.2 Budget Cap

An analogous mechanism was recently brought to Formula 1, with the introduction, in 2021, of the budget cap. The rationale behind the decision to implement such rule is analogous to the FFP case, but slightly different. While FFP in football is primarily meant to strengthen the financial soundness of clubs, and the effects on competitive balance are somehow secondary, the main goal of the Formula 1 budget cap is to safeguard competitive balance by means of controlling costs, helping the racing stables with lower economic possibilities to be able to compete and reduce the distance with top-notch constructors. Formula 1 is a sport where the economic factor has a massive relevance, and can totally alter the performances on track. The technical component of the car represents most of its potential to succeed, not to mention that the overall organizational system entails huge costs for the teams. The single-seaters racing in Formula 1 represent the maximum level of automotive technology, and they engage in a technical and engineering battle that cannot be won without incurring significant expenses. At the same time, the constructors can be divided in two broad categories: racing divisions of road car manufacturers (such as Ferrari and Mercedes) and privateers (such as Haas or Williams).

It goes without saying that, letting aside expertise and know-how, the formers can count on budgets that are on a totally different level with respect to the latters', that often have to survive with relatively modest sums. For this reason, and also to ensure the continuity of the minor stables, in order to have enough teams making up the starting grid, the decision to introduce a budget cap was taken in 2021. Formula 1 is a very elitist category, and even appearing in it requires an investment that is high enough to represent a significant discriminatory filter, and a barrier to entrance that can hardly be overcome by just relying on talent. Another reason behind the decision to adopt the budget cap is to fight this dogma by trying to keep the costs at a lower level.

Controlling the costs has the primary objective of levelling the playing field, creating equality conditions among the teams. The relevance of controlling the expenses of the teams is even greater in the case of Formula 1. In fact, no other sport has such a high correlation between spending capacity and technical/sporting performance, and the economic disparity between teams translates into a mismatch on track that is more pronounced compared to any other sport, be it a motorsport or not, making it even harder for the "minor" teams to catch up. In the Formula 1 environment it is well knows that an excessive level of dominance (i.e. a low level of competitive balance) is detrimental to revenues, hence the attempt to guarantee a higher level of competition to maintain the interest in the sport to the maximum degree. The aim is to avoid periods of undisputed primacy, such as the 2014-2021 period, characterized by a dominance by Mercedes that was cause of concern from the point of view of maintaining the audience's interest. The pursuit of increased competitive balance brought to the introduction of additional rules, such as the "balance of performance" rule, that sets the number of hours available to each team to perform tests in the racing simulator and in the wind tunnel. The allocation of testing hours is inversely proportional to the final positions achieved by each teams in the standings relative to the previous season: the higher the placement of a racing stable, the lower amount of hours it will have available to conduct tests. The rationale of this rule is similar to that of the "handicap" in golf, and the aim is to facilitate minor teams to progressively close the gap, instead of suffering its widening over time. Thanks to the newly introduced set of rules, the goal is to level the playing field, while at the same time encouraging wise planning and favouring an environment characterized by fairness and stability.

As it comes to the budget cap, the introduction came in 2021, after cautious planning undertaken prior to the advent of the Covid-19 pandemic. For this reason, the limit, initially set at $175 million, was lowered to $145 million, after the burst of the epidemic had placed several teams under significant distress. The original planning entailed a $5 million reduction per season for 2022 and 2023, with subsequent inflationary adjustments. Such adjustments, however, have already been applied, due to the increase in prices that struck the global economy in 2022. The regulation foresees that only some categories of costs are subject to constraints, and they are primarily related to the development of the car. Teams now have to carefully evaluate what technical aspect to develop, what is the cost for the production or enhancement of each component and what advantage can be obtained with respect to the costs attached to it. In particular, the categories of costs falling under the scope of the regulation are:

- All the components of the car, from the steering wheel to the wheel nuts;
- All the elements needed for the functioning of the car;
- Most of the team members and the staff;
- Box equipment;
- Spare parts;
- Transportation costs.

On the other hand, the costs that are not included in the computation are those related to:

- Driver salaries;
- Salaries of the three highest-paid staff members;
- Traveling costs;
- Marketing expenses;
- Property and legal expenses;
- Subscription fees and licenses;
- All activities not related to Formula 1 or to road cars;
- Payments related to parental leave or sick leave of staff members;
- Bonuses for the staff members and medical care of the personnel.

Any cost related to power units is not included in any of the two lists. Some teams produce them in-house, while some others purchase them, for this reason it is difficult to include them in the budget cap framework, and a dedicated regulation exists.

The set of norms also provides for a tolerance threshold for breaches of the cap, set as the 5% of the established amount. An excess that is lower than 5% of the cap is considered as a "minor overspend". On the other hand, exceeding the cap my more than 5% is considered as a "material overspend". Nevertheless, the distinction between applicable sanctions for different kinds of breaches is not fully clear; expenses are an element that is hard to regulate in detail, and the rules have been purposely written to allow for case-specific penalties. For this reason, the set of applicable sanctions is similar for minor and material infractions, and includes the deduction of points in the current racing season, exclusion from races, fines and limitations imposed upon tests in the wind tunnel.

The Formula 1-branded budget cap is only at its outset. The rules were introduced in 2021, but, starting from 2022, the controls performed by the Cost Cap Commission became stricter, as the adjustment period that helped teams adapt to the new regulations was considered expired. Clearer limits were set, and several precedents are now present, so the tolerance for errors related to the objective complexity of the regulation has been eliminated. For this reason, there will hardly ever be violations such as the contested breach committed by Red Bull in 2021, as the sanctioning system will guarantee that breaches will entail a penalty rather than an advantage.

The example of the Formula 1 budget cap provides valid suggestions for a future reform, in the football environment, of similar nature. The focus on competitive balance in Formula 1 is even more important compared to football, and to some extent it is more simple in motorsports to control the balance of competition by controlling costs. The "human" factor in football has a relatively higher weight in comparison, when it comes to determining performance. However, the important takeaways that we can obtain from reasoning on the budget cap are:

1. The control of competitive balance is crucial for the medium/long-term outlook when it comes to interest in a sport. Extended dominance is detrimental to revenues, and to the sustainability of the championship as a whole;
2. Spending limits should not be strictly team-specific, but more generalized in order to ensure a level playing field;
3. If team-specific limits exist, they should perhaps be inversely proportional to the degree of sporting (and economic) "power" of teams, instead of the other way around, thus favoring a rebalancing of hierarchies rather than their consolidation.

8. Conclusions

Twelve years have gone by since the introduction of Financial Fair Play, and the system, despite displaying some flaws, is considered to have generally been effective, at least as it comes to pursuing its primary goal, financial stability, even though it is not possible to prove the existence of scientific dependence links tying the evolution of the European football sector mainly to the introduction of Financial Fair Play. The framework was introduced with the main objective of ensuring long-term sustainability and viability of the European football sector as a whole, with its pursuit being carried out by safeguarding the financial soundness (current and future) by means of their ex-ante licensing and ex-post monitoring. The evolution of the finances of football clubs after the introduction of FFP has been assessed by means of five different financial indicators, and the results are summed up as follows:

1. for what concerns revenues, there has been a substantial and continuous improvement of the club's income generating capacity. Aggregate revenues have grown on a year-on-year basis

for the whole European football environment, and this is salso true for the so-called “Big 5” leagues, as well as for Europe’s top 20 clubs. The growth in revenues has been primarily driven by increasingly voluminous deals for broadcasting rights, immediately followed by commercial and sponsorship-related revenues. It is indeed true that an uptrend was already taking place prior to the introduction of FFP (2011), and, since the entrance in force of the framework, growth has been characterized by a similar pace. As testified by the comparison between aggregate CAGRs computed for the periods from 2000 to 2010 and from 2011 to 2019 the revenue growth after the introduction of FFP has been only slightly lower with respect to the previous decade (6.68% vs 6.32%). The years subsequent to 2019 can be exempt from the considerations to isolate the adverse effects of the Covid-19 pandemic, that has caused a significant drop in revenues and driven down the CAGR for the comprehensive period. In any case, the similarity among growth rates recorded prior and subsequently to the introduction of FFP indicates that the evolution of revenues has not been negative. It is interesting to notice that the top 20 clubs have grown at a higher pace compared to the other clubs, scoring a CAGR two percentage points higher over the periods subsequent to the introduction of FFP and prior to the advent of Covid-19. This might explain the increase in imbalances in top five leagues recorded after 2011.

2. From the point of view of profitability, the years subsequent to the implementation of FFP witness what is considered one of the most positive evolutions after the introduction of the framework. Once again, there in no certainty that the results are entirely driven by the presence of the regulation, however, prior to its introduction, it seemed almost unreasonable that clubs could actually realize net profits, and they were usually characterized by red bottom lines. With the advent of the regulation, that stabilized club finances and favored more reasonable spending, the European football sector has managed to progressively reduce net losses, until finally reaching a net profit position in 2017 that testifies the enhancement of operational efficiency. There has been an inevitable hit caused by the Covid-19 pandemic, nevertheless such hit is attributable to exogenous factor that little have to do with the clubs’ operational and financial decisions.
3. Staff costs-to-net revenue ratios have significatly dropped after the introduction of FFP. There was a particularly successful attempt to enhance labor efficiency and lower the impact of wages on club turnovers. The inflationary spiral affecting wages has not stopped, as the salaries have kept increasing, nevertheless, their growth was significantly outpaced by that of revenues, such that the impact of expenses related to the remuneration of the staff has noticeably declined, indicating a greater degree of labor efficiency.

4. Net debt-to-net revenues indicator, used as a proxy for club liquidity and financial solidity, has significantly declined after the introduction of FFP. Once again, debt levels have remained fairly stable in absolute terms, but their impact on revenues steadily declined over the period subsequent to the entrance in force of the regulations. The increased ability to spur revenues without making excessive resort to debt is one of the aspects in which clubs improved the most after the introduction of FFP, and this is reflected in a decrease of the ratio from 65% to 40%. Moreover, it is important to point out that the indicator makes no distinction between "virtuous" debt, that has been used in order to perform forward-looking investments in infrastructures (e.g. the new Tottenham Hotspur stadium), and debt employed to finance operations or short-term-oriented investments, such as player transfers (e.g. Serie A teams).
5. Net equity is an aspect of crucial importance in the context of FFP. The main goal of the framework is to solidify club finances and ensure liquidity and solvency of the entities competing in European divisions, reducing their resort to debt. The regulation insisted on this aspect, prescribing that shortfalls in the revenue flows necessary to reach break-even (or football earnings) thresholds are to be covered by equity injections. The evolution of clubs' net equity positions, used as a proxy for liquidity and solvency, shows a significant improvement of such aspect during the decade following the introduciton of FFP. The strangthening of financial solidity ha salso translated into outstanding resilience to adverse shocks, as testified by the minimum increase in clubs entering insolvency proceedings in the 2020-2022 triennium in comparison with the prior one, in the context of a trend that saw a significant drop in clubs from the top two tier divisions of UEFA memebr associations ever since the framework was implemented.

The research also focuses on the secondary objective of FFP regulations: balance of competition. Despite this aspect was not considered a primary goal of the implementation of the framework, but rather a "beneficial side effect", the intentions of the rule makers have always entailed a particular attention to the safeguarding of the conservation of competitive balance in European leagues. On the other hand, the greatest amount of criticism received by FFP concerns exactly this aspect. The detractors of FFP argue that, instead of favouring competitive balance, the regulations tend to jeopardize it, placing additional obstacles to the smaller clubs and hindering their ability to carry out the already challenging pursuit of a reduction in the gap with top clubs. This would result in a solidification of hierarchies, that can be cause of concern for the long-term outlook of the European football sector. In fact, lack of competitive intensity and of uncertainty of results can be detrimental to the level of interest in the sport, with consequent negative impacts on revenues. Our analysis, centred around the evaluation of the trends followed by two competitive balance indicators, the C5

Indicator of Competitive Balance (C5ICB) and the Herfindahl Index of Competitive Balance (HICB), seems to support such claims. In fact, a visible increase in the values for the indexes was observed for the period subsequent to the introduction of FFP, indicating a significant and widespread deterioration of competitive balance in the “Big 5” leagues, despite the lack of perfect uniformity among countries.

The results of this analysis, for both research questions, are generally in line with the existing literature, although doubts on the statistical significance of the observed effects have been sometimes raised.

The objective of preserving long term viability of football inevitably passes through the competitive balance channel, and, due to the poor results obtained by the past versions of FFP regulations in this respect, cautious reasoning on future policies is advised. Possible alternatives can be inspired by norms that are in place in other environments, such as the salary cap (used in American leagues such as NBA or MLS) or the Formula 1-branded budget cap, that appear to be more successful in safeguarding competitive balance.

Despite the good intentions underlying its introduction, FFP has proven to be an imperfect framework, being followed by evolutions of mixed nature in the state of European football. If, on the one hand, there has been an upgrade in the solidity of the finances of the clubs to which it is applicable, the evolution of competitive balance in the top leagues has been far from desired. The numerous (and often successful) attempts to circumvent the norms, often sanctioned only mildly (see the PSG case for reference), as well as the effects of the Covid-19 pandemic have highlighted the blind spots of a system that results improvable to say the least. The framework has proven not to be free from loopholes, that have been cleverly exploited in multiple cases, and its nature of accounting-based regulation makes it prone to circumvention, as well as opening up to unintended real effects, such as wage inflation or earnings management. For this reasons, further developments are recommended to counterbalance the adverse trends that have taken place in the recent years.

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Executive Summary

Purpose of the thesis

The recent evolution of the European football sector has been characterized by outstanding growth, that has translated in continuously increasing revenues for the clubs that are part of it. Nonetheless, such growth has for long time been fueled by a management style that saw short-term interest prevailing over long-term considerations, and contributed, by means of excessive indebtedness and reckless spending, to a vicious circle that saw a worsening in the clubs' finances, as well as in the competitive balance among clubs. The arms race that was triggered, with clubs fighting to secure the performance of the best (and most expensive) players, caused an irresponsible management of financial resources, mainly consisting in increasing indebtedness that, other than placing smaller clubs, unable to deal with the same type of leverage as the bigger ones, at a disadvantage, making it even more challenging for them to close the distance with top teams. At the same time, the surge in debt levels was a cause for serious concern as to the financial solidity of clubs, and the importance of maintaining the finances healthy in order to protect club stakeholders from the bankruptcy of the entity called for policy intervention. To heal the finances of clubs and protect the long-term outlook of the European football industry, UEFA decided to implement a set of rules, the so-called "Financial Fair Play" (FFP), aimed at rationalizing club spending and solidifying finances. The main objective underlying the implementation of the framework was paired to an attention to the conservation of competitive balance that, despite being regarded as a secondary objective, was nevertheless always deemed as important. The aim of the thesis is to provide deeper understanding of how the European football industry evolved in response to the introduction of FFP and to assess whether the regulations have achieved their goals with respect to the two aforementioned perspectives, as well as to provide considerations on possible further evolution of the regulation, in order to tackle the blind spots that are still present.

Football industry overview

Born in the English college environments, football evolved rapidly, thanks to several innovations, and grew to become a fully-fledged worldwide business worth billions, thanks to the outstanding engagement it is able to generate in millions of passionate fans from all over the globe. The sport can count on a level of interest that is nearly undisputed, and thanks to its vast audience and to the advent of innovations such as commercial broadcasting and sponsorship deals, the clubs engaging in the world's most popular sport have been able to consistently increase the size of their business. Revenues, that have been playing an increasingly important role for clubs, have substantially surged over the years, becoming a crucial factor affecting the ability of teams to compete successfully on and off the pitch. The main revenue drivers for clubs can be identified in three categories:

1. Broadcasting rights: the main source of income for clubs, accounting for most of the revenues, is related to the market for the broadcasting rights of sports events, including the TV and media rights for the broadcasting of live or recorded matches, as well as the image rights of clubs and their players;
2. Sponsorship and commercial rights: the second most important revenue driver for clubs is related to rights to exploit the name and brand of the clubs for merchandising, advertising and sponsorship purposes. It is gaining increasingly more weight, particularly in big clubs, and the volume of revenues generated by commercial deals can often represent a substantial part of the economic inflow secured by clubs;
3. Matchday revenues: the third of the main revenue components is related to the income generated from matchdays, including gate receipts, but also overall hospitality (food, beverages…) and all the services paid for by fans attending matches at the stadium.

The vast majority of revenues in European football is generated by its top five first division leagues – English Premier League, Spanish La Liga, Italian Serie A, German Bundesliga and French Ligue 1 – that, as of 2022, account for roughly three quarters of the total volume of revenues generated within European football.

The introduction of Financial Fair Play

As the volume of revenues generated by football teams grew more and more, so did their importance in the context of a competition among clubs that was becoming increasingly dependent on their financial management. The importance of generating revenues translated into a short-term-oriented management of club finances. Increasingly large investments, often backed by debt financing, were made to achieve a short-term return in terms of audience and, hence, revenues, triggering an arms race that resulted into an inflationary spiral of transfer fees and player wages, starting a vicious cycle that saw, on the one hand, bigger clubs widening their distance with smaller ones, that in turn faced greater challenges to bridge the gap, on the other hand, a general and widespread worsening of clubs' financial conditions that often resulted in serious distress. Towards the end of the first decade of the 2000s, the European football environment was studded with cases of financial issues, with nearly half of its over 700 clubs reporting losses, that in one fifth of the cases represented at least 20% of the clubs’ turnover. When the aggregate losses reached their peak, totaling €1.7 billion in 2010/11, considering the concerning state of many clubs (1 in 8 auditors, in fact, was raising serious doubts as to the going concern), UEFA decided to act. It did so by introducing a set of regulations, enhancing the pre-existing licensing framework, that were aimed at stabilizing the financial conditions of clubs by incentivizing rational and disciplined management, limiting the resort made to debt and promoting forward-looking and sustainable behavior. The aim to foster financial soundness of the sector was carried out by imposing revenue-based limits to club spending (the so-called “break-even rule”, subsequently changed into the “football earnings rule”) to prevent the building up of excessive debt and was paired to a protection of club creditors provided for by the “no overdue payables” rule. The rulebook was updated multiple times, with the modification of existing rules or the introduction of new ones, such as the “squad cost rule”, foreseen by the 2022 update of the framework, in order to further ensure financial solidity and level the playing field for clubs. Differently from club licensing, addressing short-term health of clubs and encouraging beneficial behavior on all grounds by excluding from competitions clubs that do not comply with the requirements, Financial Fair Play provisions account for the wider impact of clubs’ actions and financial management, with a broader perspective that is more orientated towards the long-term outlook. Moreover, while the decision to grant a license is binary (the license can be granted or not), the decisions related to the non-compliance with FFP do not necessarily entail the exclusion from competitions, and open up for corrective actions rather than afflictive to help clubs reach compliance and improve their financial conditions rather than just punishing them for their failure to meet the criteria.

Financial Fair Play and club monitoring

The introduction of the FFP framework came along with the appointment of a dedicated control body the UEFA Club Financial Control Body (CFCB). Divided in two chambers and overseen by a chairman, the body has the task of controlling the licensing process and performing the monitoring of clubs. In the monitoring process, the clubs’ compliance with the regulatory requirements is assessed on a continuative basis, and corrective action is taken when the norms are breached, possibly leading to sanctions of different nature (from simple fines to exclusion from competitions). As to the 2022 edition of the rulebook, the “UEFA Club Licensing and Financial Sustainability Regulations”, the possibility of clubs to obtain and preserve the license to take part in UEFA competitions is conditional to the compliance with licensing requirements and monitoring requirements. The first category, compliance with which is assessed ex-ante, includes:

1. The “no overdue payables” rule, prescribing that clubs applying for the concession of the license must have no unsettled payable obligations towards employees, other clubs, social and fiscal authorities and UEFA and the licensors;
2. The “net equity” rule, according to which a club wishing to obtain a license must report in its annual financial statements for the year immediately preceding the application a net equity position that is either positive or has improved by at least 10% from the previous year.

Concerning the monitoring, it entails an ex-post assessment of club compliance as to the following three requirements:

1. Solvency requirements: the “no overdue payables” rule, whose compliance is assessed throughout the monitoring period;
2. Stability requirements: aimed at preventing excessive debt, they are represented by the “football earnings rule” (evolution of the pre-existing “break-even rule”). According to such provision, clubs need to report a football earnings surplus, obtained when the relevant earnings are greater than the relevant expenses, and maintain the surplus, or keeping the deficit within the threshold of the acceptable deviation, for the whole monitoring period, comprising the three consecutive seasons prior to the license application. Expenses that are deemed as virtuous, for instance investments in fixed assets such as stadium or training facilities, are purposely excluded from the relevant expenses in order to incentivize forward-looking investments;
3. Cost control requirements: the “squad cost rule”, according to which a club willing to obtain a license cannot present a “squad cost ratio” greater than 70% for the license season. The numerator of the ratio is the sum of employee benefit expenses in respect of relevant persons amortisation or impairment of relevant persons’ costs, and costs of agents/intermediaries/connected parties, while the denominator is the sum of adjusted operating revenue and net profit/loss on disposal of relevant persons’ registrations and other transfer income/expenses.

Clubs applying for a license to play UEFA competitions go through a monitoring process, which can be basically summarized in the following steps:

1. The Investigatory Chamber conducts the investigation, collects all the relevant information and facts.
2. The CFCB Chief Investigator, after having consulted all the members of the investigatory chamber, can: a) dismiss the case; b) impose minor disciplinary measures; c) arrange a settlement agreement; d) bring the case to the attention of the adjudicatory chamber.

3. In case of option d), the adjudicatory chamber takes the final decision on the case and, if necessary, imposes disciplinary measures.

The range of disciplinary sanctions is broad and includes different measures of different severity, ranging from fines and deduction of points to the withdrawal of titles and the exclusion from UEFA competitions. The approach is however corrective rather than punitive, and the framework opens up for the possibility by clubs of concluding settlement (by initiative of the CFCB) or voluntary (by initiative of the club) agreements with UEFA. The former type of agreement entails a set of requirements a club needs to satisfy within a given timeframe not to incur sanctions, while the latter is proposed by a club that, being aware that it will end up breaching the requirements, agrees with CFCB on a financial plan in order to achieve a guided transition towards compliance.

Research questions and existing literature

The two research questions investigated in this thesis concern the impact of FFP provisions on the financial solidity of clubs on the one hand, and on the balance of competition in European leagues on the other. The aim is to assess whether the regulations have produced an effect in respect of these two aspects, and whether the effect, if any, has been positive or negative. The analysis proposes to extend the existing literature on the matter that, despite producing mixed results, depicts a generally agreed upon view. According to previous studies, in fact, there is a positive evaluation of the effects of FFP on the soundness of club finances. Studies have found a general improvement of the clubs' financial situations after the introduction of the framework, as testified by analyses conducted on a range of financial indicators. On the other hand, the majority of the literature seems to criticize FFP from the point of view of the competitive balance, arguing that the framework has worsened the levels of balance by placing additional obstacles to smaller clubs, hindering their ability to close the gap with bigger ones and leading to a solidification of hierarchies that, in the long-term, could be detrimental to the European football sector as a whole, should they produce a loss of interest due to the reduction in result uncertainty. the studies have been conducted both in theoretical and empirical settings, and, despite the results sometimes lack statistical significance, the prevailing view is that of a failure by FFP in preserving the degree of competitive balance.

Research design and methodology

The analysis addressing the effects of FFP on the financial situation of clubs is focused on three samples, used alternatively depending on the availability of data and on the scope of the considerations:

1. A broader sample of the more than 700 European top division clubs, representing the European football sector. Data has been extracted from the various editions of the UEFA Footballing Landscape Club Licensing Benchmarking Report an extensive yearly review of the situation of European clubs;
2. The so-called “Big 5” leagues - English Premier League, Spanish La Liga, Italian Serie A, German Bundesliga and French Ligue 1 – accounting for almost 75% of the revenues of the whole European football sector;
3. The top revenue-generating 20 clubs, included in the Deloitte Football Money League yearly reports.

The evaluation is performed by looking at the evolution of five financial indicators: net revenues, net profit/loss, staff costs-to-net revenues (also called wage-to-revenue ratio, WRR), net debt-to-net revenues and net equity. In particular, the evolution of the indicators subsequently to the introduction of FFP is evaluated in order to assess the impact of the regulation.

As to the evaluation of the effects of the norms on the balance of competition, the sample used comprises the final standings of the “Big 5” leagues from season 2000/01 to season 2022/23. The top five domestic championships account for almost 75% of revenues in the European football sector, and are the most spectacular leagues, as well as the richest in economic terms and as it comes to interest. For this reason, it is reasonable to limit the analysis to them, as they would provide the primary channel through which any adverse effect on competitive balance would spread to the revenue-generating capacity. and the evaluation is carried out by computing two different indicators of competitive balance, the C5 Index of Competitive Balance and the Herfindahl Index of Competitive balance. The former provides a measure of the degree of dominance of the top 5 clubs in each league, while the latter takes into account the imbalances among all clubs in a league. In order to investigate the existence and nature of an impact by FFP in competitive balance, a comparison is made between average values and trends recorded prior and subsequently to the introduction of the regulation.

Empirical analysis

The empirical analysis has produced the following results:

1. Net revenues have experienced an outstanding and continuous growth in the whole European football sector. Prior to the outbreak of the Covid-19 pandemic, aggregate net revenues of European clubs grew from €6 billion to almost €23 billion, exhibiting a CAGR of almost 7% over the 2000-2019 period. The growth paces prior and subsequently to the introduction of

FFP are closely comparable, with the latter only slightly lower and, despite a temporary fall due to the effects of the pandemic, there has been constant grow across the whole examined period, with little differences after the FFP was implemented. When considering the "Big 5" leagues alone, we notice that the constant growth in revenues has actually accelerated after the FFP was introduced, with the CAGR values being more than twice as much with respect to the pre-FFP period (CAGR=3.33% for the 2006-2011 period, CAGR=7.83% for the 2022-2019 period). After a significant dip due to the adverse effects of the pandemic, the "Big 5" leagues have managed to recover and overtake pre-pandemic levels of revenues and, whether or not we choose to consider such period, the acceleration in revenue generation is indeed tangible. The same is true when observing the top 20 clubs: the introduction of FFP has been followed by an increase in the revenue growth rate, with CAGR values jumping from 5.62% in the 2004-2011 period to 8.62% in the 2011-2019 period. It is interesting to notice that growth rates for the post-FFP period are higher even when accounting for the Covid-19 pandemic, and there has been a noticeable increase in the average annual growth rates computed over the two periods (6.7% prior to FFP, 9% from 2011 to 2019). From the point of view of revenues, we can say that there has been no adverse effect following the decision to adopt FFP, and the impact was actually positive, spurring an acceleration in revenue growth at all levels of European football.

2. Profitability of clubs was for a long time deemed as the hardest challenge for FFP. History has shown the propensity of clubs to incur bottom line losses that, prior to the introduction of the regulation, had reached their peaks. After 2011, however, the bottom line results of European football clubs began a path of consistent improvement, and the losses decreased progressively until the achievement, in 2017, of a positive aggregate profit. This is indeed one of the most remarkable achievements of the regulation, that proved successful in enhancing the operating efficiency of clubs and containing their expenses, even though, with the advent of the Covid-19 pandemic, the bottom line situation for clubs became tragic, due to the huge losses caused by the epidemic;

3. Staff costs-to-net revenue indicator has steadily improved after the introduction of FFP. Despite the inflation affecting wages, that have steadily grown throughout the whole examined period, their growth has been considerably outpaced by that of revenues, and as a result the WRR has been driven down. Once again, the advent of the pandemic caused a drop

in revenues that, despite the pace of growth of wages remained fairly stable, caused the WRR to skyrocket from 63% to 73% in the span of just one year.

4. Net debt-to-net revenues is a measure of liquidity of clubs, and its evolution allows us to assess the development of one of the most crucial aspects from the perspective of the FFP. The available data covers the period from 2009 to 2018 and, despite the debt levels have remained fairly stable or even increased, the values for the ratio have dropped significantly, going from 65% (2009) to 53% (2011), all the way down to 35% in 2017. In 2018, 21% surge in debt levels caused the ratio to grow to 40%, but the outstanding improvement achieved after the introduction of FFP as it comes to this debt indicator in evident.
5. Net equity has been examined from the year after the introduction of FFP until 2021, and the results show that a considerable improvement (testified by double-digit CAGR values, except for Premier League, where the rate equalled 7.5%) has been achieved in top 5 leagues and leagues 11-20, while the remaining leagues in the sample (6-10 and 21-55) seem to have struggled more. The increase in net equity represents an intended effect of FFP, that aimed at solidifying the finances of clubs, increasing their health and solvency, by prescribing the filling shortfalls by means of equity injections. The success of FFP in this regard is also testified by the declining number of clubs filing for insolvency, demonstrating an enhancement of club resilience, also when unprecedented shocks, such as the pandemic, occur.

The second part of the analysis, concerning the evolution of competitive balance, is based on the evaluation of the trends followed by the C5 Index of Competitive Balance and the Herfindahl Index of Competitive Balance over the period ranging from seasons 2000/01 to 2022/23. The response to the introduction of FFP is evaluated by means of a comparison between trends and average values prior and subsequently to the introduction of the regulation. Both indices are inversely related to the degree of balance, meaning that the higher the value of the indicator, the higher the degree of imbalance in the league. The results have shown that a substantial deterioration of competitive balance has taken place after the FFP was introduced in all of the “Big 5” leagues, as indicated by the upward-sloping trendlines of both indices. The effect was more or less pronounced depending on the leagues (for example, the quantum of the deterioration was lower in Premier League and higher in La Liga), nevertheless, by comparing the average pre- and post-FFP values, an increase in imbalance has indeed taken place in all five leagues.

Criticisms to FFP and possible alternatives

In just over a decade after its introduction, the FFP has had a rather troubled history, particularly in the recent years, and it has often been object of criticism for its side effects, as well for its – sometimes shady – enforcement. It has proven not to be free of loopholes, that have been cleverly exploited in multiple cases, and its nature of accounting-based regulation makes it prone to circumvention, as well as opening up to unintended real effects, such as wage inflation or earnings management. The cases of Paris Saint-Germain and Chelsea have brought once again the regulation under the spotlight, raising considerable amounts of criticism and suspicion. In this context, it is not rare to find advocates for alternative policy measures, that, according to this thesis, should be at least considered in the future by UEFA decision-makers. The range of possible alternatives includes the salary cap, common in American sports leagues (that can be implemented as a "soft cap", that can be breached upon payment of a tax, or as a "hard cap" that cannot be exceeded), or measures inspired to the Formula 1-branded budget cap, recently introduced in a sport where great attention is paid as to the importance of competitive balance and ensuring a level playing field for competition to thrive and interest (and revenues) to grow.

Conclusions

It is not possible to prove the existence of direct links making the development of European football mainly driven by the effects of FFP. Nevertheless, it can be argued that, since its introduction, the finances of European clubs have improved in all aspects object of the research - revenue-generating capacity, profitability, labour efficiency, liquidity and solvency and overall financial solidity - at least until the outbreak of the Covid-19 pandemic that was cause of significant shocks. Even in the adverse context of the pandemic, clubs have shown outstanding resilience in facing serious challenges.

The same, however cannot be said as it comes to the balance of competition in "Big 5" leagues. Top clubs have managed to achieve a growth at a different pace with respect to their "weaker" peers and have ended up increasing the gap. The analysis conducted on the competitive balance situation of the top five leagues, by means of two different indicators, has highlighted a deterioration of competitive balance in all five cases after the FFP was introduced, suggesting that, is the respects of the secondary objective, the effect obtained is opposite to the desired one.

The nature of the rules, tending to solidify hierarchies, as well as their (sometimes questionable) enforcement have raised widespread criticism, and many doubts on their effectiveness and transparency. Moreover, the numerous cases of clubs circumventing or "escaping" enforcement have contributed casting shadows on the effectiveness and transparency of the framework, and further intervention is advised to correct a system that does not seem free from flaws. Possible alternatives could be inspired by similar types of regulations common in other sports, such as the salary cap or the budget cap.