LUISS

Master of Science in Corporate Finance

Chair of Cases in Business Law

The Importance of Financial Regulation within Competitive Balance in Sports: Analysis of Selected Cases

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Academic Year 2023/2024

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INTRODUCTION

In the current sports landscape, sport has evolved into a global phenomenon that goes beyond mere competition, assuming a central role in the economies and cultures of various countries. What was once a simple pastime has transformed into an industry involving millions of people worldwide, generating billions of euros in revenue and becoming a fundamental pillar of modern societies. This transformation has led to a growing interest not only in athletic performances but also in the economic and financial aspects that shape the structure and functioning of sports.

The influx of massive investments and increasing commercialization have contributed to developing a context in which financial regulation has become essential. Indeed, without an adequate regulatory framework, there is a risk that the competitive balance may be compromised, with certain teams or organizations potentially dominating competitions due to superior financial resources. This not only threatens the integrity of the sport but also risks diminishing fan interest and undermining the long-term sustainability of competitions. This study aims to thoroughly examine the importance of financial regulation to ensure competitive balance, specifically analyzing three main cases that have disrupted this equilibrium.

The paper is divided into four chapters.

The first chapter provides an overview of the evolution and commercialization of sport, outlining how this industry has grown in terms of economic and social significance over time. It will proceed with an exploration of the global impact of sport and its role in society, placing particular emphasis on how economic dynamics and regulatory frameworks have shaped and influenced the contemporary sports industry. The distinctive features of the sports sector will be examined, with a specific focus on how the need to maintain uncertainty in outcomes and competitiveness has led to the implementation of specific financial and managerial regulations. Moreover, the concept of economic value in sport will be explored, along with the strategies of management and commercialization adopted to maximize revenues, from the sale of television rights to sponsorships.

The second chapter will focus on the concept of competitive balance, analyzing it from a theoretical perspective. The term "competitive balance" will be defined through a review of academic literature, and its importance in sport will be analyzed. Fundamental concepts such as outcome uncertainty and its role in engaging spectators will be introduced. A preliminary analysis will then be conducted on how financial regulations can positively influence competitive balance, contributing to the preservation of outcome uncertainty.

The third chapter will concentrate on the various financial regulations introduced in different sports, closely examining how these rules have affected the structure and competition within each sector. In the realm of football, the introduction of Financial Fair Play (FFP) by UEFA will be examined, highlighting the motivations and objectives behind it. A specific focus will then be given to the new regulations introduced by UEFA in 2024, analyzing their limitations and rules.

The analysis will then extend to Formula 1, where will be analyzed the Budget Cap, an innovative tool aimed at rebalancing the increasing financial disparities between teams, The implementation process, categories of violations, and applicable sanctions will be examined in detail, providing insight into how these rules have influenced competition and team management.

The chapter will conclude with an examination of the regulations introduced in basketball, comparing the different strategies adopted in the United States and within the Italian context.

The fourth and final chapter will be dedicated to the analysis of three specific cases that illustrate the ways in which certain entities have gained a competitive advantage through illegal practices.

The first case examined is that of Manchester City and inflated sponsorships, with a focus on the consequent sanctions imposed by UEFA. Following this, it will be examined the agreement reached between Red Bull Racing and the FIA. Lastly, the chapter will conclude with a study of the legal proceedings involving Mens Sana Basket Siena and its ex-president Federico Minucci, highlighting how illegal operations enabled the team to secure a competitive edge over its rivals. These cases will point out both the positive aspects and the critical issues surrounding financial regulations, emphasizing the importance of their proper implementation and oversight to ensure sustainability and fairness in sports competitions.

Through the analysis of these cases, the aim is to understand how different sports organizations have addressed the challenges posed by financial regulation and the impact of unethical behavior on competitive balance and the stability of competitions. Additionally, the chapter will assess the weaknesses and limitations of these regulations, underscoring how economic and cultural contexts can influence the effectiveness of the measures adopted.

In conclusion, this work aims to provide a comprehensive and critical overview of the role of financial regulation in sports, highlighting how the careful and responsible management of financial resources is essential for ensuring the long-term sustainability and success of sporting competitions.

CHAPTER 1: SPORT MANAGEMENT

1. The Evolution and Commercialization of Sports

Sport employs **millions of individuals** worldwide, engages the majority of the global population either as participants or spectators, and has transformed from a once purely amateur activity into a major industry at elite and professional levels. The expansion and professionalization of sport have resulted in profound shifts in the consumption, production, and administration of sport events and organizations across all levels. Emerging economies, such as **Brazil**, which hosted the FIFA World Cup in 2014 and the **Olympic Games** in 2016, increasingly view sports as a means to attract investment in infrastructure, promote their countries internationally, stimulate trade, tourism and investments and foster national pride among citizens.

Over time, sports have transcended the limits of mere athletic practice and competition, adopting a commercial dimension. The term **"sports industry"** has come into use, with an increasing focus on the business aspects related to sports. Consequently, many authors have started to analyze and discuss the concepts of business and sports. For example, **Westerbeek e Smith** applied Porter's value chain approach to describe the sports industry. This definition suggests that an industrial sector is: "A department or branch of an art, craft, business, or manufacture: a division of productive labor or profitable endeavor; especially one employing a large number of personnel and capital; a group of productive or profitable enterprises or organizations that have a similar production technology and produce or provide technically substitutable goods, services, or sources of income."

The latter part of this definition is critical, as categorizing businesses within a single industry heavily depends on the type of goods or services they produce. Therefore, when defining the sports industry, it is necessary to consider all suppliers of goods and services that meet the needs of sports. The crucial point is that the range of organizations operating in the sports industry expands significantly when considering companies involved in the production, distribution, and sale of sports products, services, or performances, or those using the sports market as a sponsorship channel for their products/services.

2. The Global Impact and Social Role of Sports

Sports have had a universal impact since their inception, involving all societies, both geographically and socially. Indeed, in sport people can be represented without racial, ethnic, or geographical distinctions. This universality is one of the main reasons for the widespread following of sport as the support for a team or individual athlete, or the passion for a sport transcends age, gender, religion or nationality.

Beyond commercial aspects, sport plays a crucial role in promoting physical and mental well-being, social cohesion, and inclusion. Many **governments and international organizations** recognize the power of sport to positively influence communities, using it as a tool to address social, educational, and health issues. For instance, community sport programs can help reduce youth crime, promote healthy lifestyles and strengthen social bonds. The sport industry continues to evolve with **new technologies**, such as artificial intelligence and data analytics, enhancing athlete performance and fan experience. Additionally, sustainability is becoming an increasing priority, with many sports organizations adopting eco-friendly practices to reduce the environmental impact of events and facilities.

Sport industry has dramatically developed in the last few years, leading to investments by sport organizations such as clubs, leagues and sponsors. These advancements have been further facilitated by the advent of media, government regulations, globalization, and increasing market competition, all contributing to a more sophisticated business environment.

Moreover, the sport sector operates in a **competitive context** that can be categorized into internal and external contexts. The **internal environment** includes factors such as analysis, management, resources, organizational structure, and production processes. The **external environment**, on the other hand, is characterized by the stakeholders of the sport industry, including employees, resources, fans, enthusiasts, amateurs, professionals, shareholders, vendors, suppliers and governments.

3. The Economic Dynamics and Regulatory Framework of Sports

Over the last few decades, the sporting world has expanded its tentacles all over from one continent to another, thanks to globalization that has broken down economic barriers between nations making sporting activities transcend borders and become a truly global business. The industry is increasingly attracting billions of dollars in investment from all over the world and entrepreneurs looking to take advantage of globalization. One of the most important things for sports development was the rapid expansion of **Information Technology (IT)** industry since **1990s**, which greatly promoted all area associated with sports such as people-to-people communicate, and ways to obtain data what has also reformed in spectating experience where viewers are able to almost every events due high-definition live streaming. As a result, fans can now follow all kinds of events, with access to detailed information and high-quality live broadcasts, making sports accessible both at the stadium and from home. This has significantly expanded the sports market.

3.1. The Economic Growth and The Impact of Sponsorship

In recent years, sports have seen an exponential growth in their economic revenues, largely driven by the increasing media exposure, especially through television and streaming platforms. The **widespread broadcasting** of sporting events has allowed them to reach a growing global audience, generating significant income not only from broadcasting rights but also through advertising and sponsorships. This shift has transformed athletes into true brands, and many clubs have decided to go public, listing on stock exchanges to attract new capital and additional resources, further strengthening their economic growth

Over the past decades, the **public's awareness** of the commercial importance of the sports sector and the enormous opportunities it offers to investors, thanks to the media appeal of sports activities, has grown. For example, the global revenue of the entertainment industry increased from **$488 billion** in 2014 to approximately **$616 billion** in 2018, marking an increase of more than 30%. In the period from 2019 to 2023, further growth was anticipated, potentially reaching nearly $800 billion[1] (pre-COVID estimate). In 2018, **21%** of the global entertainment industry's revenue was represented by the sports sector, encompassing television rights, sponsorship, ticketing, and merchandising, amounting to approximately $130 billion. Following closely, with 15%, was the eSports market, a sector gradually experiencing **explosive growth.**

Nielsen Sports estimated a 13% decline in sponsorship investments at the general level for the Italian market in 2020, primarily due to the pandemic. Despite this, the revenue of Italian sports from television rights, ticketing, sponsorship, and merchandising was estimated to grow by more than 3%.

Additionally, the sponsorship market in **Italy** has grown significantly in the past five years. In 2015, the amount invested in this sector was **€1.32 billion**, while in 2020, it was significantly more than €2 billion, a substantial increase considering that approximately 70% of it was allocated to the sports market. The Italian sports market is approximately €22 billion, nearly 1.5% of the national GDP [2]. Globally, in 2019, brand spending on sports sponsorships was estimated at €41 billion.[3]. These data highlight the economic and financial growth of the sports business in recent years, even despite global events such as the 2020 pandemic, which disrupted almost all sectors.

3.2 Financial and Regulatory Aspects

The **world of sports** is now generally recognized as a prosperous industry, attracting major investments and driving business practices similar to those in other economic sectors. Topics like organizational efficiency, corporate governance, and resource allocation have become central to the management of sports organizations. However, the sports market possesses unique traits that set it apart from other industries, raising the question of whether it should be treated like any other market. The answer is **negative**, as the sports market operates with distinct dynamics that make it truly unique.

[1] https://www.pwc.com/id/en/pwc-publications/industries-publications/telecommunications-media-technology/global-entertainment-media-outlook-2023.html
[2] Marcello Frisone, "Sport, 1,4 Miliardi Dai Grandi Sponsor," Il Sole 24 Ore, 2020
[3] Statista.com

At first glance, several unique aspects of the sports industry become evident, particularly from an **economic and financial** perspective. For example, there are specific regulations for the depreciation of players, intricate negotiations between professional clubs and television networks over broadcasting rights, and youth academy expenses often categorized as research and development costs. Moreover, the expenses associated with renting stadiums or building proprietary ones constitute major budgetary concerns for sports organizations. However, there are even more distinctive elements that define the sports business, setting it apart from traditional sectors even further.

4. The Unique Characteristics of the Sports Industry

One of the main differences is that the sports product is defined as **"joint,"** meaning it arises from the competition/collaboration between two or more teams or athletes, which are distinct economic and legal entities. This creates a unique competitive context where sports organizations compete but simultaneously collaborate to create sports products and services. **Competitions** between clubs or athletes are, in fact, business collaborations where multiple sports organizations work together to create events that attract the highest possible level of audience. **Sports leagues**, such as the **NBA** (National Basketball Association) in the United States, are examples of organizations that have managed to make competitions balanced and exciting, contributing to the sector's economic success.

Another fundamental characteristic is that the public becomes more passionate when there is uncertainty in the sports result. This uncertainty is a direct consequence of the joint nature of the sports product. Sports organizations focus not only on the result but also on creating events with a high level of uncertainty to attract a larger audience and generate more media following.

The **third characteristic**, representing the true peculiarity of sports, is the lack of interest from companies or professional athletes in monopolizing the sector. If a single actor were to completely dominate the market, both competition and the uncertainty of outcomes—fundamental elements for the economic success and appeal of sports would be lost.

As sports gain more significance, there has been a corresponding increase in regulatory measures governing the sector. This trend is evident in areas such as the legal and contractual status of athletes, sponsorship agreements, government funding for sports organizations, and the legal rights of players in relation to their clubs. The connection between sports and law is particularly strong when it comes to participants' legal liabilities and financial oversight. The latter is essential for maintaining fairness, sustainability, and competitiveness within the sports industry. Implementing regulations within this complex economic framework ensures equal opportunities for all participants, preventing wealthier entities from dominating the competition.

In conclusion, the sports market, with its unique dynamics and specific regulations, represents a distinctive context within the global economic landscape. The unique features of the sports industry necessitate a distinct approach compared to other markets, underscoring the need for a regulatory framework that guarantees fair and sustainable sports competitions.

CHAPTER 2: COMPETITIVE BALANCE

1. The definition of competitive balance

As the term itself suggests, the concept of **competitive balance** refers to a variety of aspects, meanings and actors that may compete with one another, requiring a balance to maintain the health of social, relational, and, importantly, economic systems. This strong multidisciplinary nature aligns well with the broader concept of the sports phenomenon, which is primarily defined by the involvement of a multitude of people, emotions, relationships, and actions. In this sense, if one tries to empathize with some of the subjects related to this environment: the professional athlete will most likely define it very close to a work practice; the fan, in turn, might place the word **"sport"** in a realm very close to the emotional sphere, attributing to it a meaning of passion and socialization, Meanwhile, a casual television viewer might see it as entertainment for leisure, and others might view it as a business, a notion that has gained increasing significance in recent times."

1.1 The Three Sectors of Sports and the Focus on Economic Actors

Providing more detail, three distinct sectors can be identified within the entities involved in physical activity. The **first** is the **public or governmental** sector, which includes national, state/provincial, regional, and local authorities. The **second** is the nonprofit or voluntary sector, comprising community-based clubs, governing bodies, and international sport organizations that facilitate competition and participation, regulate and manage sporting disciplines, and organize major championship events. The **third** sector consists of professional or commercial sport organizations, including professional leagues and their member teams, as well as related industries such as sports apparel and equipment manufacturers, media companies, large stadium operators, and event managers.

In this context, the primary focus will be on the economic actors that are part of the third sector and on professional sports organizations in relation to the regulations that the organizing entities, part of the second sector, have integrated into the competitions. The ordinary economic activity carried out by sports organizations is characterized by some very peculiar aspects, typical exclusively of this environment, even contrary to the basic principles of the universally recognized market. The **peculiar** element is undoubtedly the presence of a competitive paradox, which directly relates the success of a sports entity, whether individual or collective, to the strength of the rival; in simpler words, the paradox implies that success is greater the stronger the opponent

1.2 The Competitive Paradox and Market Regulation

This **competitive paradox** becomes evident to the public on numerous occasions throughout the year. Consider the **media coverage** of key match results across various disciplines (especially football); while all victories offer the same points benefit, the emotional impact is significantly higher, capturing the attention of a large audience. However, behind sporting success lies a superior economic outcome, driven by greater public engagement, which results in high audiovisual viewership, large stadium attendances, diverse and prominent sponsorships, and consequently, a substantial financial inflow

It should be noted that in a **traditional market**, a management approach like the one described, which favors 'producers' over consumers, would violate free competition agreements. Therefore, the **sports management sector** is granted certain exemptions from antitrust regulations, to protect the consumer's interest, who desires to watch matches that are uncertain and, as a result, as balanced as possible.".

If operating in a traditional market sector, the strategic-competitive orientation should be the opposite since only in limited cases would collaboration produce a **competitive advantage**; the hypothesis of overpowering competitors, never fruitful in the sports-business segment, could be a winning strategy card, in line with the most classic **Porterian view** of the market. However, classic hypotheses, while inadequate for analyzing the economic phenomenon related to a single sports discipline, are valid for observing the competitiveness between heterogeneous market segments. These concepts were developed by **Neale**, who identified the association of clubs or the federal entity as the monopolist actor concerning the offer of the sports product. Therefore, it will be in the interest of this superior entity to ensure the internal balance of the competition, to make the offer attractive and interesting, placing it in a competitive position with other physical activities, at least regarding the dissemination and conveyance of the event to the public.

2. Outcome Uncertainty

One of the key factors driving fan demand for team sports is the excitement generated by the **uncertainty of the outcome** in league games. While some purist fans simply enjoy watching athletes with exceptional abilities perform regardless of the result, many attend games to see their team win, especially when it involves a close contest against a strong opponent[4].

The theories previously analyzed were later revisited by other authors and economists, with a significant contribution from **Rottenberg** in 1956. He examined the concept of outcome uncertainty, arguing that the competitive level is directly related to uncertainty. His hypothesis predicted that, all else being equal, the closer the competition between teams, the greater the interest in the sport, and consequently, the greater the likelihood of a total turnout[5]. For example, **Team A and Team B** confer benefits to the league not only through increased attendance at their own matches but also at matches involving **Teams C and D**, hence the externality. A single club that continuously dominates a league can have a negative effect on other teams, lowering their attendances and reducing spectator interest in the long run. This concept is especially reiterated in the American sports industry, which we will address more in detail later.

To also examine the characteristics of the European system, **Sloane[6],** for example, considers the single team as a reference point rather than the professional league, emphasizing the importance of the emotional and psychological aspects that particularly characterize spectators/fans. Specifically, Sloane argues that competitive balance, essential for the **sustainability** of sport itself, cannot be achieved only through the individual efforts of the clubs, which are part of the competition, but must be regulated by external interventions that allow for a balanced competition. This is because individual clubs are more focused on achieving victories to satisfy their fans and generate economic

[4] Quirk, J. and Fort, R. (1992) 'Pay Dirt: the Business of Professional Team Sports'
[5] Rottenberg, S. (1956) 'The baseball Player's Labor Market', Journal of Political Economy
[6] P. J. Sloane, "The Economics Of Professional Football: The Football Club as a Utility Maximize

revenue as quickly as possible. However, often tends to foster a short-term managerial thinking that can, in the worst cases, lead to the failure of the club itself, as seen with teams like **Parma** in football or **MPS Siena** in Italian basketball.

In contrast, **the American model**, studied by authors like Rottenberg and Neale, focuses on sports management that prioritizes competitive balance among franchises, with an emphasis on medium- to long-term economic and financial stability. This approach is intrinsic to the American system, transforming each game into a major sports event aimed at maximizing economic returns. The model seeks to maintain balance and uncertainty, which in turn generates greater spectator interest.

3. Considerations on Competitive Balance in Sports Competitions

In discussing **competitive balance** in sports competitions, it is essential to consider the different goals of the participating teams. Teams are not all the same: some are born in larger and more important cities, with a longer history and greater sporting tradition, while others represent less populated cities and are more recent in their foundation. Consequently, in all **professional leagues**, there are teams with a larger following and, therefore, higher economic revenues, and teams with a smaller following and more limited revenues.

"This **phenomenon** creates a distinction between fans loyal to a specific team, known as 'committed' fans, and 'uncommitted' fans, who do not support a particular team but prefer to watch balanced competitions. It is not entirely accurate to say that all fans desire a high level of outcome uncertainty in a competition; in fact, **prestigious clubs** and their committed fans are often satisfied when their team achieves as many victories as possible, aiming for success in their respective competitions. This success, in turn, allows the sports organization to generate higher revenues, which can be reinvested to build an even stronger team, further increasing fan satisfaction.

Thus, achieving an optimal level of competitive balance in major professional leagues is a complex issue and a subject of debate among experts. A notable contribution in this context comes from **Gerrard**, who argues that a league that becomes too predictable, with teams that are significantly better equipped both technically and financially, ultimately damages the league economically. Consequently, the public loses interest in following a league with a predictable outcome.

This concept is also supported by economists like **Rottenberg, Zimbalist, and Szymanski** [7] , who highlight how the first professional baseball league in the United States failed in the mid-20th century due to the enormous economic disparities between franchises, which made the league very unbalanced. The subsequently founded baseball league recognized the crucial importance of establishing a solid competitive balance for all competition matches.

Szymanski[8], in 2003, further emphasized the importance of outcome uncertainty for neutral spectators watching sports events from home through pay-TV. He argued that for this category of spectators, watching a balanced match is more important, while for committed fans who have an emotional involvement in the match, the victory of their team, even if predictable, is more relevant.

In conclusion, competitive balance and outcome uncertainty are essential components of sport. Temporary dominance can expand fan followings and interest, but continuous dominance risks making the results predictable and uninteresting. **The long-term survival** of a sport depends on the correlation between competitive balance, outcome uncertainty, and spectator interest. A **competitive league** tends to maintain match uncertainty, which in turn sustains spectator engagement. In contrast, an unbalanced league tends to reduce match uncertainty, which can lead to a decline in spectator interest. While not all games can be perfectly balanced, especially when one team has home advantage, the performance level of the disadvantaged team can often help bridge the gap.

Although **competitive balance** is a desirable element in sports, it is not always feasible to maintain, particularly in the short term. **Top teams** generate higher revenue streams, enabling them to acquire the best talent. Moreover, investors with significant financial power have entered the process, undermining the integrity of competition. For sport's

[7] S. Szymanski and A. Zimbalist, "Americans Play Baseball and the Rest of the World Plays Soccer" (Brooking, Institution Press, 2005).
[8] S. Szymanski, "Incentives and Competitive Balance in Team Sports" (European Sport Management Quarterly, 2003).

governing bodies, particularly in the **United States**, it has been crucial over the years to establish both structural and financial regulations that limit the dominance of wealthier teams, to prevent the competition from becoming too predictable, and thus less appealing to the public, especially uncommitted spectators.

The **sports management** tools adopted in the United States to ensure competitive balance in major leagues are made possible by specific exemptions from antitrust regulations, aimed at safeguarding the technical and financial survival of less renowned, lower-revenue franchises. Without these regulations, smaller teams would be overwhelmed by a free market largely controlled by wealthier franchises, against which they could not compete economically.

CHAPTER 3: THE ROLE OF FINANCIAL REGULATION IN COMPETITIVE BALANCE IN VARIOUS SPORTS:

The establishment of financial regulations in the sports context represents a **key factor** for guaranteeing the integrity and justice of competitions and sustainability within sports organizations. **Over the years**, the exponential increase in revenues generated by sport events, sponsorships, and broadcasting rights has led to unprecedented growth in the economic value of professional sports. However, this development has also introduced a series of challenges related to the competitiveness and financial stability of sports organizations.

To address these challenges, many federations and sports leagues have implemented a range of **financial regulations** aimed at limiting and controlling club expenditures, ensuring a fairer distribution of resources, and preventing the risk of bankruptcy. Among the key measures adopted are salary caps, financial fair play regulations, revenue redistribution mechanisms and expenditure controls. These tools aim to preserve the stability of competitions, preventing a few wealthy clubs or teams from monopolizing championships, while simultaneously ensuring long-term sustainability.

In this **paper** we will conduct an in-depth analysis of financial regulations in three globally significant sports: **football, basketball and Formula 1**. The aim is to examine how each of these sports has developed and implemented specific economic policies, with particular focus on the impact these measures have had on the competitiveness and stability of their respective leagues and championships

1. Financial Regulations in Football

In the **football sector**, the development of a managerial culture comparable to that of traditional businesses has a significant impact. Historically, football clubs have prioritized sport success with the goal of winning as many trophies and victories as possible, often at the expense of economic sustainability. The **substantial investments** made to strengthen the team were often carried out without sufficient attention to costs and the club's overall financial health. The absence of an effective control system led many teams into situations of severe financial instability, only balanced by continuous and often considerable capital injections from owners. These contributions were considered in many cases non-recoverable.

However, with the gradual reduction of such **financial support**, many clubs found themselves on the brink of bankruptcy, highlighting the need for more prudent and sustainable management. Only with the introduction of recent, increasingly strict regulations on financial oversight and accountability clubs have begun to pay more attention to their finances, partially reducing the significant deficits recorded each year. It is clear that capital injections from club owners are not a sufficient solution. This should not be seen negatively, as it encourages the development of more sustainable business models, allowing clubs to continue competing in constantly evolving markets and competitions.

1.1 The First Regulations

In **June 2000**, the UEFA Executive Committee introduced the first licensing manual to regulate the registration of clubs for competitions it organizes. The UEFA license became a mandatory requirement for teams that, by qualifying through their respective national championships, aimed to participate in **European competitions**. It is therefore a minimum criterion to be met: failure to obtain a license precludes admission to UEFA tournaments

Exclusion from competitions not only causes reputational damage to the team in question but also results in financial loss, given the missed revenue from TV rights and the prizes that UEFA distributes to participating teams.

Although the license was introduced by UEFA, the functions of issuance and control are delegated to individual national bodies. An example is the **FIGC** (Italian Football Federation), the entity designated to issue such a license in our country. In Italy, therefore, all Serie A clubs adhere to the rules and principles of the UEFA manual. Admission to the **Serie A championship** entails for the clubs the obligation to:

- Accept the decisions of the competent bodies regarding the definition of the Manual, its application, and any modifications to it;

- Accept the jurisdiction of the Chamber of Conciliation and Arbitration for Sport established at CONI to resolve any disputes related to the interpretation and application of this Manual;
- Comply with the requirements and criteria specified in the Manual;
- Provide all statements signed by the corporate bodies and the documentation required by the Manual and the UEFA Licensing Office to verify full compliance with the criteria;
- Submit to the UEFA Licensing Office all the documentation provided for in the Manual, within the specified deadlines;
- Accept the implementation of random checks and/or targeted verifications by UEFA, exclusively through the bodies responsible for the Licensing process, concerning all documentation necessary to demonstrate compliance with the criteria set out in the Manual;
- Accept the sanctions imposed by the competent bodies for non-compliance with the criteria, non-compliance with deadlines and procedures, failure to submit the required documentation, submission of untruthful or incomplete documentation.

The goal of introducing the licensing system by UEFA is to strengthen and improve the conditions for the participation of individual clubs in European competitions through:

- The general improvement of the organizational and managerial standards of European football
- The enhancement of infrastructures, with particular attention to safety conditions and the quality of services for spectators and the media
- The improvement of relations between players, coaches, and referees
- The promotion of training and education of young talents
- The improvement of the economic and financial management of clubs, increasing their transparency and credibility, and protecting the interests of creditors
- Ensuring the regularity of competitions, including from an economic and financial standpoint

- Guaranteeing the smooth running of international competitions throughout the sports season.

To obtain the UEFA License, it is necessary to meet certain criteria, divided into five macro-categories[9]:

- Sporting criteria
- Infrastructure criteria
- Organizational and personnel-related criteria
- Legal criteria
- Economic and financial criteria

All criteria to be met for the attainment of the License are ranked according to four different degrees of importance, reflecting their varying binding nature. The first three criteria (A, B, and C) are considered binding for all clubs applying for a license. Specifically:

- **"A" Criteria**: In case of non-compliance with a criterion, the UEFA License is not granted
- **"B" Criteria**: Unlike "A" criteria, these can be met through multiple chances, but like the former, failure to comply results in the denial of the UEFA License
- **"C" Criteria**: Where certain criteria are not met, the license is not denied; instead, an official warning is sent to the non-compliant clubs, indicating the terms and methods by which they must comply with the requests
- **"D" Criteria**: These are considered "best practice recommendations"

The objectives that UEFA aims to enforce are fundamental as they define the guidelines that clubs must follow to demonstrate the financial health of the organization, a topic that is increasingly relevant. If all teams followed these rules, the entire sector would benefit, with more balanced competitions, making football a more attractive product for fans.

[9] Deloitte&Touche, 2008 Manuale per l'ottenimento della Licenza da parte dei club

Furthermore, this would generate higher revenues, sponsorships, advertising and substantial income for the teams and UEFA.

1.2 Financial Fair Play

In September 2009, the UEFA Executive Committee approved **Financial Fair Play (FFP)** [10]:, which was officially introduced in May 2010 through the signing of the **"UEFA Club Licensing and Financial Fair Play Regulations[11]"** by representatives of Europe’s leading football clubs. The primary objective of FFP was to address the increasing levels of debt accumulated by clubs, encouraging them to establish financially self-sufficient models in the long term. The main goals of FFP were:

- Introducing greater discipline and rationality in the financial management of clubs
- Reducing economic pressure on wages and transfer fees, thereby limiting inflationary effects
- Encouraging clubs to sustain themselves through their own revenues
- Promoting investment in youth development and infrastructure
- Protecting the long-term profitability of European club football
- Ensuring that clubs promptly settle their debts.

The introduction of Financial Fair Play was driven by a pressing need to create a healthier financial system and reduce the economic disparities among football clubs. In the years preceding FFP, some clubs invested vast sums of money to secure dominance in football competitions, often at the cost of fairness and financial sustainability. This trend led to many clubs accumulating unsustainable levels of debt, further exacerbating the financial imbalance within European football.

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[10] UEFA Club Licensing and Financial Fair Play Regulations Edition 2018, UEFA
[11] UEFA Club Licensing and Financial Sustainability Regulations Edition 2024, UEFA

1.3 Key Elements of Financial Fair Play and the Transition to the New Regulations

The UEFA decided to replace the old **Financial Fair Play** with a more recent **UEFA Club Licensing and Financial Sustainability Regulations (2024 edition)**. This new framework represents an evolution of the previous regulatory system and is designed to ensure the financial sustainability of clubs participating in UEFA competitions. While the 2024 regulations retain several core principles of FFP, they introduce significant modifications aimed at strengthening financial oversight and promoting long-term sustainable business models for football clubs.

The shift from **Financial Fair Play** to the new **financial sustainability framework** reflects UEFA's broader approach to moving beyond short-term financial discipline and focusing on the long-term stability of clubs. Although FFP primarily emphasized the **break-even requirement** and the **absence of overdue debts**, the new regulations build upon these pillars, introducing more rigorous and comprehensive criteria to ensure holistic financial sustainability:

- **Break-Even Requirement (Articles 58-64 of FFP)**: Under the FFP, the core principle was the **break-even requirement**, which required that clubs not spend more than they earned during a specific monitoring period. While this principle has been retained in the 2024 financial sustainability framework, it has been expanded and reinforced with stricter regulations on club spending. The new framework imposes more precise limits on player wages and transfer spending, aiming to reduce the **cost-to-revenue ratio** and control the inflationary pressures within the transfer market.

- **Absence of Overdue Debts (Articles 65-68 of FFP)**: Another key element of FFP was the obligation for clubs to have no overdue payables to other clubs, employees, or tax authorities. The new **financial sustainability regulations** strengthen this requirement by enhancing the monitoring process and enforcement mechanisms to ensure that debts are settled promptly. Clubs are now subject to more frequent audits, with severe penalties for any delay in settling financial obligations, ensuring greater financial accountability across the board.

The new framework diverges from the Financial Fair Play model by increasing the scope of regulatory oversight, providing a more comprehensive approach to financial management. Some of the key innovations introduced include:

- **Enhanced cost control**: In addition to maintaining the break-even requirement, the new regulations impose stricter limits on overall expenditure, particularly related to wages and transfers. This ensures that clubs avoid excessive short-term spending, which could potentially expose their financial stability over the long term.
- **Long-term financial planning**: A significant innovation in the 2024 regulations is the requirement for clubs to submit **multi-year financial projections**, defining their strategies for maintaining financial sustainability.
- **Focus on infrastructure and youth investment**: The new framework encourages greater investment in strategic areas, such as youth academies and sports infrastructure, recognizing that sustainable growth depends on a balanced approach to long-term investment and operational cost control.

The transition from **Financial Fair Play** to the new financial sustainability framework was necessary to address several shortcomings that emerged during the implementation of FFP. While FFP achieved some success in reducing overall debt levels among clubs, it failed to fully mitigate the economic disparities between the wealthiest clubs and those with more limited financial resources. The new **UEFA Club Licensing and Financial Sustainability Regulations (2024 edition)** introduce more effective mechanisms to ensure a fairer distribution of resources and promote long-term stability across European football.

For instance, FFP's focus on the break-even requirement did not adequately address the rising inflation in player wages and transfer fees, which continued to distort the market and amplify the financial dominance of wealthier clubs. The 2024 regulations aim to combat these issues more effectively by implementing tighter spending controls and providing more robust oversight of club finances.

The transition from **Financial Fair Play** to the new financial sustainability regulations marks a dramatical evolution in UEFA's governance model. The new framework is designed not only to enforce financial compliance but also to encourage a more stable and equitable football environment. By promoting responsible investment, encouraging long-term financial planning and imposing stricter controls on spending, the 2024 regulations aim to create a more balanced and sustainable football ecosystem.

1.4. Key Financial Criteria

The **financial criteria** within UEFA's Club Licensing and Financial Sustainability Regulations (2024 edition) are central to maintaining competitive balance by ensuring clubs operate within their financial means. This section outlines the key financial criteria that clubs must meet to participate in UEFA competitions. The financial criteria established by UEFA cover several key areas designed to ensure that clubs are financially healthy, transparent, and responsible. These criteria include the submission of financial statements, compliance with the net equity rule, avoidance of overdue payables, and the preparation of future financial information.

1.4.1 Annual Financial Statements

One of the most fundamental financial requirements for clubs is the submission of **audited annual financial statements (article 67)**. These documents are crucial as they reflect a club's overall financial situation by providing a transparent view of their revenues, expenses, assets, and liabilities over the past financial year.

The main purpose of requiring audited financial statements is to ensure **financial transparency** and **accountability**. Clubs must not only disclose their income sources but also how they are spending their money.

The requirement to submit these statements, which must cover the financial year ending in the period before the club's UEFA competition participation, holds clubs accountable for their financial practices leading up to the current season. This regulation prevents clubs from hiding debts or other financial issues, which could otherwise distort competition by allowing financially unstable clubs to over-invest in player acquisitions or infrastructure without sufficient financial backing.

The submission and scrutiny of these financial statements are aimed at preventing situations where clubs accumulate unsustainable levels of debt, which could ultimately lead to financial collapse or force them out of competitions, thus disturbing the competitive balance.

1.4.2 No Overdue Payables

A crucial aspect of the financial regulations is the requirement that clubs must not have overdue payments. **Articles 71 through 74** of the UEFA regulations emphasize that clubs must not have overdue financial obligations towards other football clubs, their employees, social and tax authorities, or UEFA itself. This condition aims to ensure that clubs maintain a responsible financial outlook by settling all debts promptly and avoiding financial disputes that could destabilize the sport.

There are four major types of overdue payables that clubs must avoid:

- **Payables to other clubs (Article 71)**: Often related to transfer agreements, clubs must ensure they settle debts arising from player transfers to other clubs. Overdue payments on transfer fees can provide clubs with unfair advantages by allowing them to acquire talent without immediately paying for it.
- **Payables to employees (Article 72)**: Clubs must not have overdue salary payments to players, coaches, and staff. Delays in salary payments can create unrest within the club and can lead to talent loss or performance issues.
- **Payables to tax and social authorities (Article 73)**: Clubs must comply with their obligations to tax authorities and social security agencies. This ensures that clubs fulfill their legal responsibilities and do not use deferred tax liabilities to channel funds into football operations
- **Payables to UEFA and licensors (Article 74)**: This includes payments to UEFA for participation fees, fines, and other obligations. Failure to pay UEFA can lead to disqualification from competitions or other sanctions.

By enforcing this rule, UEFA promotes **financial discipline** across its member clubs. It obliges clubs to maintain fiscal responsibility and encourages them to adopt more sustainable long-term financial models. This contributes to stabilizing the financial ecosystem of European football, ensuring that clubs cannot continue to operate indefinitely in debt. It also indirectly supports smaller clubs, as larger clubs with greater financial leverage are restricted from delaying payments to gain short-term competitive advantages.

1.4.3. Net Equity Rule

The net equity rule is a fundamental aspect of UEFA's financial sustainability framework, designed to prevent clubs from accumulating excessive debt. This rule specifically requires clubs to maintain **positive net equity**, meaning that the value of their assets must exceed their liabilities.

Net equity (article 70) is a crucial indicator of a club's financial health, as operating with negative equity essentially means running on debt, which poses significant risk to long-term viability. As part of the licensing process, clubs must submit documentation proving their financial position. UEFA actively monitors these equity levels and can impose sanctions, such as warnings, fines, or even exclusion from competitions, on clubs that fail to maintain a positive net equity.

The net equity rule is particularly important to prevent wealthy clubs from accumulating large debts to outspend their competitors. By introducing this rule, UEFA ensures that clubs maintain a balanced financial position, preventing them from relying on unsustainable debt to gain a competitive advantage over more financially conservative clubs.

1.4.4 Future Financial Information

In addition to historical financial data, **Article 75** requires clubs to submit future financial information. This includes a forecast for the upcoming seasons that reflects the club's ability to continue operating efficiently. These projections help UEFA assess whether clubs will be able to meet their financial obligations going forward, including wages, transfer fees, and operational costs.

This forward-looking requirement acts as a safeguard, ensuring that clubs are not only financially stable in the present but also have a clear and realistic plan for future financial health. It prevents clubs from engaging in short-term, high-risk financial strategies that could compromise their long-term viability, thus protecting the competitive integrity of UEFA competitions

1.5. Voluntary and Settlement agreement

UEFA, recognizing the need to improve the financial sustainability of clubs and maintain competitive balance in European competitions, introduced two key mechanisms: the **Voluntary Agreement** and the **Settlement Agreement**. These agreements, governed by the **UEFA Club Licensing and Financial Sustainability Regulations (2024 edition)**, allow clubs to establish plans to rectify their financial situation under the supervision of the **Club Financial Control Body (CFCB)**, UEFA's financial oversight body.

The **Voluntary Agreement**, officially introduced in 2015, is a flexible regulation that allows clubs to voluntarily propose an economic recovery plan approved by the CFCB. This agreement enables clubs to present a structured plan to stabilize their financial situation over a set period, offering additional support to clubs facing difficulties.

To be accepted, a Voluntary Agreement must meet specific criteria as outlined in the new regulations:

- **Valid UEFA license and no qualification in the previous year**: The club must hold a valid UEFA license to participate in European competitions but must not have qualified for such competitions in the preceding season. This allows clubs, not immediately under Financial Fair Play monitoring, to establish a corrective financial plan.
- **Qualification for a UEFA competition in the current year**: The club must be qualified for a UEFA competition in the year it proposes the agreement, ensuring that only clubs actively competing at the European level can submit a Voluntary Agreement. This guarantees that the clubs involved have a genuine need to remain compliant with UEFA requirements during the monitoring period.
- **Changes in ownership or governance**: The club must have undergone a notable change in ownership or control within the 12 months preceding the application.

This requirement indicates that the club has restructured its governance, a necessary step in initiating a financial recovery process.

- **Absence of previous agreements or sanctions**: The club must not have signed any other Voluntary or Settlement Agreements in the previous three fiscal years, nor should it have been subject to disciplinary sanctions related to Financial Fair Play during that period. This prevents repeated use of the mechanism and guards against systematic abuse of the financial tools provided by UEFA.

The **Voluntary Agreement** must be detailed and include a series of specific obligations that the club commits to fulfilling. Specifically, the plan must outline:

- **Clear budgetary objectives** for each year of the monitoring period (up to a maximum of four years);
- **Guarantees of business continuity**, demonstrating the club's ability to operate sustainably throughout the term of the agreement;
- **Financial commitments from owners or shareholders**, including a legally binding obligation from a stakeholder or shareholder to financially support the club in case of economic difficulties.

The plan must be approved by December 31 of the season preceding the agreement's activation and must cover a maximum of four seasons. During this period, the club is required to meet all the financial objectives agreed upon with the CFCB

1.5.1 The Settlement Agreement

The **Settlement Agreement** is a more complex tool, designed for clubs that have already breached Financial Fair Play regulations and require immediate corrective intervention. Unlike the Voluntary Agreement, the **Settlement Agreement** is not initiated by the club but is proposed by UEFA when financial non-compliance is detected.

A Settlement Agreement is initiated when a club fails to meet the break-even requirements or other financial regulations. In this scenario, the club acknowledges its violations and commits to rectifying its financial situation within a timeframe agreed upon with UEFA. The main elements of a Settlement Agreement include:

1. **Negotiated Settlement**: The club acknowledges its violations and accepts a structured recovery plan.
2. **Additional Restrictions**: Unlike the Voluntary Agreement, the Settlement Agreement may impose stricter limitations, such as reductions in the number of players registered for UEFA competitions, wage caps, or transfer restrictions. These measures are implemented to ensure that club does not incur further debts during the recovery period.
3. **Duration and Monitoring**: The Settlement Agreement is typically subject to strict oversight by the **CFCB**, which closely monitors the club's finances throughout the agreement period. If the club fails to meet the agreed obligations, immediate sanctions can be imposed, including exclusion from UEFA competitions.

1.6 Types of Sanctions

The financial regulations imposed by UEFA on clubs are continuously monitored by the **Club Financial Control Body (CFCB)**, the entity responsible for ensuring that clubs participating in European competitions comply with economic sustainability criteria. The CFCB is tasked with reviewing and verifying the financial information provided by clubs and is empowered to impose sanctions in cases of non-compliance.

These penalties are outlined in Article 8 of the UEFA Club Licensing and Financial Sustainability Regulations (2024 edition), aimed at ensuring clubs operate sustainably and maintain competitive balance. The sanctions include:

1. **Warnings and Reprimands**: For minor violations or as a call for improved financial practices.

2. **Fines:** Imposed for failing to meet financial obligations, with amounts varying based on the infraction.

3. **Points Deduction:** Applied domestically, affecting the club's league standing as a deterrent for repeated violations.
4. **Withholding of Revenue**: UEFA may retain part of the club's earnings from European competitions as a penalty for severe breaches.
5. **Transfer Restrictions:** Prevents clubs from registering new players in UEFA competitions when debts or financial imbalance occur.
6. **Squad Limitations**: Caps on the number of registered players or aggregate player wages.
7. **Exclusion from Competitions**: The critical penalty for serious financial breaches, impacting both the club's finances and visibility.
8. **Revocation of Titles or Awards**: Used in extreme cases for significant rule violations.

Sanctions can be combined, tailored to the gravity of the violation. The CFCB also monitors financial compliance through regular audits, ensuring clubs adhere to the financial rules, and applies immediate sanctions when breaches occur under Voluntary or Settlement Agreements.

The monitoring and enforcement of financial regulations are continuously overseen by the CFCB, which ensures that the financial information provided by clubs is accurate and in compliance with UEFA's rules. Violations may be detected through regular audits or reports from licensors. If a breach is identified, the CFCB initiates a disciplinary process that includes a thorough investigation and the imposition of appropriate sanctions.

If a club fails to comply with the terms of a Voluntary or Settlement Agreement, the CFCB has the authority to impose immediate penalties, such as exclusion from future competitions or the revocation of revenue from UEFA events. Additionally, the **CFCB** can impose temporary or permanent restrictions on a club's financial operations.

In conclusion, the sanctions provided for in **UEFA** regulations are crucial to maintaining financial stability and competitive balance in European football. Through a rigorous system of control and enforcement, the **Club Financial Control Body** ensures that clubs operate in compliance with the rules, preventing the occurrence of situations of excessive debt and promoting responsible management of economic resources.

2. Financial Regulations in Formula 1

After providing an overview of the financial regulations introduced in football, another area where fundamental measures have been implemented to maintain competitive balance is Formula 1. **Formula 1** is considered the pinnacle of circuit motor racing, where advanced technology, human ingenuity, and extreme speed come together to create a unique spectacle. Currently, Formula 1 enjoys immense popularity thanks to its substantial media expansion, which each year captivates a growing number of spectators and consistently attracts increasing crowds during race weekends.

However, behind the scenes of this shining spectacle lies a reality shaped by massive investments, financial strategies, and economic disparities that profoundly affect competition. The introduction of the Budget Cap has been one of the most revolutionary measures in the history of Formula 1, aimed at rebalancing these financial dynamics and promoting a more equitable and sustainable competition. In the following paragraphs, we will explore in detail the history, motivations, implications, and regulations related to the Budget Cap in Formula 1, with the goal of offering an in-depth understanding of this complex and crucial aspect of the racing world

2.1. The History of Financial Disparity in Formula 1

Formula 1 was officially established in 1950[12]. with its first World Championship organized by the "**Fédération Internationale de l'Automobile" (FIA)**. The inaugural season included seven races, including the renowned Monaco Grand Prix, arguably still the most iconic and coveted race today, and the Indianapolis 500, which was part of the World Championship until the 1960s.

Initially, the costs of building cars and participating in the championship were relatively modest, and the financial disparity between teams was less pronounced. However, from the early **1960s** the advent of innovative technologies led manufacturers to introduce

[12] The Evolution of Formula 1: From 1950 to Present Day, Motorsport Illustrated

dramatic innovations in their cars to remain competitive. The vehicles became lighter and more powerful, partly due to the introduction of twelve-cylinder engines. Over time, however, costs began to rise, highlighting how teams with greater financial resources, such as **Ferrari, McLaren, and Lotus**, could invest more in research and development, gaining a substantial competitive advantage.

The situation worsened in the 1980s and 1990s. Smaller teams struggled due to limited budgets and difficulty attracting new investors, while larger teams, benefiting from the emergence of sponsorship deals, could spend vast sums to develop more competitive cars.

In the early 2000s, spending in Formula 1 increase rapidly, with the top teams' budgets exceeding hundreds of millions of dollars annually, while smaller teams often struggled to gather even a fraction of these amounts. This surge in costs was driven by a combination of factors, including substantial research and development expenses, high wages for staff and technical personnel and growing logistical costs associated with the global travel demands of the sport.

During the following decade, financial disparity continued to extend forcing smaller teams to fight for survival while larger teams consolidated their dominance. The introduction of increasingly advanced technologies and the ever-growing demands for performance further exacerbated this dynamic.

Despite the financial difficulties faced by some teams, Formula 1 continued to attract a vast audience. In **2019**, the competition achieved a remarkable milestone, with 1.92 billion television viewers, establishing itself as one of the most-watched sports globally. This expanding viewer base further contributed to the sport's economic growth and visibility, solidifying Formula 1 as an international phenomenon.

2.2. The Structure of Modern Formula 1 Teams and Technological Strategies

Currently, **10 teams**, officially referred to as "constructors," participate in the Formula 1 championship, competing across **21 Grands Prix** over a nine-month season. Each constructor is responsible for developing two cars, with the aim of accumulating the highest number of points based on race results, as they fight for the two most prestigious titles: the **Constructors' Championship and the Drivers' Championship**.

To cover the substantial costs of competing in Formula 1, securing multiple sources of funding is crucial. The primary revenue for constructors comes from sponsorships, which play a decisive role in the financial structure of the teams, while other income streams, such as merchandising sales and end-of-season revenue distribution, complement these earnings. Despite these additional revenues, sponsorships remain essential to ensuring the survival and competitiveness of the teams.

Formula 1 constructors require significant annual investments to design, develop, and build their cars. Each team must produce the chassis and bodywork in-house, though other components, like the power unit and engine, may be sourced from external suppliers. This flexibility allows teams to manage their costs and technical resources more effectively. For instance, **Williams and Haas F1 Team** acquire their power units from Honda and Ferrari, respectively. While outsourcing these components consumes a substantial part of the budget, it enables teams to reduce their research and development (R&D) expenses.

Some constructors, such as **Ferrari, Mercedes, and Alpine** (Renault's racing division), manufacture key components like the power unit and engine internally, securing a potential competitive advantage. This strategy has a considerable impact on the teams' budgets, allowing those with more financial resources to invest heavily in developing high-performance cars.

Consequently, financially stronger teams can increase their investments, further widening the economic gap with smaller teams. This growing disparity threatens the competitive balance of the championship, as larger teams extend their lead over those with fewer resources.

To address this issue, the FIA developed regulations aimed at preserving the integrity of the competition, resulting in the introduction of the Budget Cap.

2.3. Budget Cap: Introduction and Implementation

Before the official introduction of the **Budget Cap** in 2022, several attempts were made to control costs in **Formula 1**. For instance, in 2010, the **FIA** introduced the **Resource**

Restriction Agreement (RRA) [13], which set a budget limit of $70 million. However, this cost cap did not include expenses for engines, drivers, and the teams' academies. The initiative was proposed in response to the monetary crisis between 2007 and 2009, during which many sponsors reduced their support, leading some teams, such as Toyota, BMW, and Honda, to withdraw from the sport due to excessive costs and declining revenues. The agreement, however, lacked effective monitoring and enforcement mechanisms, which ultimately led to its termination in 2013.

In addition to the attempt at a similar Budget Cap, other cost-control measures were implemented, such as limiting on-track testing and introducing technical regulations aimed at reducing expenses. While these measures contributed to some extent in containing costs, they did not fully address the issue of financial disparity, highlighting the need for a more rigid and effective regulatory framework.

The decision to introduce a **Cost Cap** in Formula 1 was the result of years of discussions and negotiations between the FIA, **Liberty Media** (Formula 1's owner), and the teams. These negotiations were often complex and contentious, with various teams expressing concerns about the impact of the Cost Cap on their competitiveness and sustainability

2.3.1 Objectives and Structure of the Budget Cap

The official announcement of the Budget Cap was made in 2020, with implementation set for **January 1, 2021**. The primary motivations behind the introduction of the Budget Cap are outlined in **Article 1.3**[14], of the **Formula 1 Financial Regulations** (dated **February 18, 2022**), which state:

- **"To promote the competitive balance of the Championship"**: The aim is to reduce the gap between the leading teams and those at the back, allowing all teams to compete on a more level playing field.
- **"To ensure the long-term financial stability and sustainability of F1 teams"**: The objective is to safeguard the sport's sustainability by preventing excessive costs from endangering the survival of teams, making Formula 1 more attractive

[13] F1 Teams Reach New Resource Restriction Agreement,2010
[14] Formula 1 Financial regulations, FIA, 2022

to new investors and sponsors, while creating a more stable and predictable financial environment.

- **"To promote sport fairness of the Championship"**: The aim is to increase the unpredictability of races and on-track competition, thereby enhancing the sport's appeal to fans.

Initially, the spending limit was set at **$145 million** per team for 2021, subsequently reduced to **$140 million** in 2022 and **$135 million** in 2023. These regulations apply to all teams registered for the Formula 1 championship and form an integral part of the terms and conditions for participation.

Relevant costs, defined as expenses linked to the car's performance and the team's track operations, must be reported and comply with the established spending limit. The regulations cover a wide range of expenses, including those related to technical staff, the development and production of cars, while excluding costs such as driver salaries, marketing expenses, and activities unrelated to Formula 1.

2.3.2 Categories and Exclusions of the Budget Cap

The **Budget Cap** includes several categories of expenses, such as:

- Development and production costs for the cars.
- Operational expenses, including staff costs (excluding the top three highest-paid salaries).
- Testing and simulation costs.
- Race and logistical expenses.

However, certain specific costs are excluded from the Budget Cap (article 3 of the FIA regulation):

- **Marketing Costs**: All expenses directly attributable to marketing activities are excluded from the calculation of relevant costs.
- **Driver Compensation**: This includes wages, travel, and accommodation for F1 drivers and related personnel, as well as compensation for reserve drivers or those involved in other competitions.

- **Key Personnel**: Compensation for the three highest-earning individuals within the reporting group, along with travel and accommodation expenses and employer social security contributions.
- **Historic Asset Activities**: Costs related to the management of historic assets, such as vintage cars.
- **Non-F1 Operations**: Costs linked to non-F1 activities, including personnel, utilities (electricity, gas, water), equipment leasing, and maintenance.
- **Support Activities**: Expenses related to human resources, finance, legal operations, and property management.
- **Employee Bonuses and Benefits**: Employee bonuses, capped at 20% of total fixed salary or a set maximum, and benefits related to layoffs, long-term illness, or disability.
- **Championship Participation Costs**: Payments to the FIA for team registration, participation in the championship and Super Licenses for drivers.
- **Engine Development and Components**: Costs related to power unit supply, alternative fuel development and engine oil development.
- **Depreciation and Valuation Adjustments**: Depreciation, amortization, impairment losses and changes in the value of tangible and intangible assets.
- **Foreign Exchange Gains and Losses**: Recognized gains and losses from foreign currency operations.
- **Social Security Contributions**: If a reporting group entity is required to pay social security contributions, any amount exceeding 13.8% of total employee compensation is excluded.
- **Travel and Accommodation Costs**: Travel and accommodation expenses for staff involved in competitions or car testing.
- **Entertainment and Corporate Events**: Entertainment expenses for employees, limited to $1 million per year.
- **Other**: Financial penalties, power unit costs and coverage for staff absences.

These exclusions ensure that the core costs of running a competitive Formula 1 team are managed under the Budget Cap, while allowing for flexibility in certain areas critical to the broader functioning of the team.

2.4 Cost Cap Administration

The Formula 1 financial regulations introduce a series of measures aimed at monitoring and ensuring team compliance with the established spending limits, through a rigorous system managed by the **Cost Cap Administration**. This entity is responsible for overseeing the financial regulations, exercising specific powers, and performing critical functions, as outlined in **Article 6** of the Formula 1 Financial Regulations.

The **Cost Cap Administration** holds the primary responsibility of monitoring team compliance with financial rules, including the authority to initiate investigations if there is suspicion of non-compliance, and to take appropriate enforcement actions in cases of confirmed violations. One of its key duties is to ensure the confidentiality of all sensitive information received from teams, using proper procedures to safeguard this data.

All official communications between F1 teams, the Cost Cap Administration, and other entities such as the **Cost Cap Adjudication Panel** and the **ICA** (International Court of Appeal) must be conducted in one of the two official FIA languages, English or French. If requested, teams must provide certified translations of any submitted documentation at their own expense.

The administration can issue guidance notes to help teams comply with financial regulations; however, these notes are advisory and do not carry regulatory authority. Additionally, team CFOs may request written clarifications on the interpretation of the financial regulations and responses to such requests are shared with the CFOs of all other teams, without disclosing any confidential information.

One of the fundamental tasks of the **Cost Cap Administration** is to review the **Reporting Documentation** submitted by teams to assess their compliance with the regulations. To assist in this evaluation, the administration may involve an independent auditing firm to help analyze the documentation and conduct comparative analyses aimed at identifying potential anomalies.

This robust oversight framework ensures that all teams operate within the financial guidelines set forth, promoting fairness and transparency in Formula 1’s competitive environment.

After the review process, the **Cost Cap Administration** determines whether a team has complied with the financial regulations. If the team is found to be complying, a certificate of compliance is issued. However, if a breach is detected, the administration can pursue one of two options: either negotiate an **Accepted Breach Agreement (ABA)** with the team or refer the case to the **Cost Cap Adjudication Panel** for a formal decision.

2.4.1 Regulatory and Investigative Role

Another important function of the **Cost Cap Administration** is its **Regulatory and Investigative Role**. During the reporting period, the administration may request additional information or documentation from teams to ensure proper regulatory oversight. This can include reviewing relevant transactions, such as those between related parties or teams and identifying areas of the regulations that may require clarification.

In cases of suspected non-compliance, the administration has the authority to initiate investigations, potentially supported by an independent auditing firm. Teams are required to fully cooperate with these investigations, providing access to documents, electronic records, business premises and ensuring the availability of key personnel.

F1 teams also have the right to file complaints against other teams if they believe financial regulations have been violated. Complaints must meet specific criteria, including a detailed identification of the violations, the submission of valid evidence, and filing the complaint within a designated period (between January 1 and April 30 following the reporting period). If the complaint meets all the requirements, the **Cost Cap Administration** launches an investigation and submits a recommendation report to the **Cost Cap Adjudication Panel**.

The **Cost Cap** management system in Formula 1 is designed to ensure an elevated level of financial transparency and integrity. Through a comprehensive set of rules, rigorous review procedures and well-defined investigative and sanctioning mechanisms, the system aims not only to monitor adherence to spending limits but also to maintain competitive balance among teams, all while protecting the confidentiality of sensitive information.

2.5 Categories of Financial Rule Violations

The **Formula 1 financial regulations** establish a strict framework to ensure that teams operate within the defined spending limits, thereby maintaining competitive fairness. Within this regulatory framework, which we have previously analyzed in depth, violations are classified into various categories, each with specific consequences and sanctions. **Article 8** of the **Financial Regulations** defines these categories, which include Procedural Breaches, Submission Failures, and Budget Cap Breaches.

A **Procedural Breach** occurs when a Formula 1 team fails to comply with a procedural aspect of the financial regulations or a specific determination, excluding submission failures, which will be treated separately. Examples of procedural breaches include:

- **Late Submission**: Failure to submit documentation within the required timeframe.
- **Failure to Submit Interim Documentation**: Not providing interim reports as required.
- **Lack of Cooperation**: Failing to cooperate with the Cost Cap Administration during reviews or investigations.
- **Obstruction**: Actively hindering or obstructing the investigation process.
- **Inaccurate or Misleading Documentation**: Submitting false or misleading financial data.
- **Non-Compliance with Accepted Breach Agreements (ABA)**: Failing to adhere to the terms of a previously agreed ABA.
- **Violations of Articles 1.8, 1.9, or 1.10**: Non-compliance with specific provisions within these articles of the financial regulations.
- **Failure to Submit Requested Information or Documents**: Not providing additional information requested by the Cost Cap Administration.
- **Failure to Submit the Incremental Used Inventory List**: Not submitting the list of incremental used inventory as required.

Instead, Budget Cap Breaches are classified into two main categories:

1. **Minor Overspend Breach**:
   A minor overspend breach occurs when a team exceeds the established spending limit (**Cost Cap**) by less than 5%. This overspend can be detected through the documentation submitted by the team or after a review by the Cost Cap Administration. The **Cost Cap Adjudication Panel** may impose a financial penalty and/or minor sporting sanctions, such as points deductions, restrictions on aerodynamic testing or other penalties.
2. **Material Overspend Breach**:
   A material overspend breach occurs when a team exceeds the spending limit by at least 5%. This is one of the most severe violations under the financial regulations. The **Cost Cap Adjudication Panel** is required to impose a **points deduction** in the **Constructors' Championship** and may also apply further sanctions, including exclusion from the championship or suspension from one or more races, as outlined in **Article 9.1(c)**

2.5.1 Type of Sanctions for Financial Rule Violations

The **Regulations** provide a broad spectrum of sanctions to ensure that teams comply with the established spending limits and procedural rules. **Article 9** of the Financial Regulations outlines in detail the penalties applicable for violations identified in **Article 8**, with sanctions varying according to the severity of the infraction.

A **financial sanction** typically consists of a fine, the amount of which is determined on a case-by-case basis, considering the nature and gravity of the breach. The fines can vary significantly, reflecting the potential or actual impact of the violation on the competitive balance and financial transparency of the championship.

There are two types of sporting sanctions: the **Minor Sporting Penalty** and the **Material Sporting Penalty**. Both types include the same range of penalties, but a Material Sporting Penalty carries a more severe impact than a Minor Sporting Penalty. The penalties include:

- Public Reprimand
- Deduction of Constructors' Championship Points

- Deduction of Drivers' Championship Points
- Suspension from One or More Stages of a Competition
- Limitations on Testing
- Reduction of the Cost Cap

When determining the appropriate sanctions, the **Cost Cap Adjudication Panel** considers any aggravating or mitigating factors. This allows a Formula 1 team to improve its standing and potentially receive a less severe penalty by addressing these factors.

Aggravating factors that may increase the severity of a sanction include:

- **Bad Faith**: Intentional dishonesty, such as fraud or deliberate concealment of information.
- **Multiple Violations**: Committing several violations in the same reporting period or in previous periods.
- **Magnitude of the Overspend**: A significant overspend of the Cost Cap.
- **Lack of Cooperation**: Failing to cooperate with the **Cost Cap Administration** or independent auditors.

On the other hand, mitigating factors that may reduce the severity of a sanction include:

- **Self-Reporting**: Voluntary disclosure of a violation.
- **Previous Compliance**: A history of adhering to the Financial Regulations in previous reporting periods.
- **Force Majeure Events**: Unforeseen circumstances beyond the team's control.
- **Full Cooperation**: Complete collaboration with the Cost Cap Administration during investigations.

In addition to any sanction listed in **Article 9.1**, the **Cost Cap Adjudication Panel** has the authority to impose stricter monitoring on a Formula 1 team. This intensified monitoring may involve increased financial oversight to ensure the team fully complies with financial regulations in the future.

Furthermore, if a team's annual financial reporting is found to be incomplete, inaccurate, or significantly misleading, and if the Cost Cap Adjudication Panel determines that the **CEO, CFO, Team Principal**, or **Technical Director** of the team knew or should have reasonably known about these discrepancies, individual sanctions may be imposed. These sanctions are outlined in the **International Sporting Code**, except for fines, which cannot be imposed on individuals.

2.6 Accepted Breach Agreement

When the **Cost Cap Administration** determines that a Formula 1 team has committed a **Procedural Breach** or a **Minor Overspend Breach**, it may decide to enter into an **Accepted Breach Agreement (ABA)** with the team involved. It is important to note that this decision is entirely at the discretion of the Cost Cap Administration, and there is no right of appeal against this decision.

An **Accepted Breach Agreement** may include various conditions and obligations for the team, depending on the nature and severity of the violation. These can include:

- **Specific Obligations or Conditions**: The ABA may set specific obligations or conditions that the team must fulfill within a set period or on an ongoing basis.
- **Enhanced Monitoring Procedures**: The agreement may require stricter monitoring of the team to ensure no further breaches occur.
- **Financial Penalties or Minor Sporting Sanctions**: The ABA may impose financial penalties or minor sporting sanctions, similar to those that the **Cost Cap Adjudication Panel** could impose for the same type of infraction. However, the Cost Cap Administration does not have the authority to impose specific minor sporting sanctions, such as those described in Articles 9.1(b)(ii), 9.1(b)(iii), and 9.1(b)(vi).
- **Costs**: The ABA may include a clause requiring the team to cover the reasonable costs incurred by the Cost Cap Administration in relation to the team's compliance investigation and/or the preparation of the ABA itself.

Once the ABA is agreed upon, the Cost Cap Administration is responsible for monitoring the implementation and compliance with the agreed conditions. If the team fails to comply with the terms of the agreement, the Cost Cap Administration must refer the team to the **Cost Cap Adjudication Panel**, and such non-compliance will be treated as **Procedural Breach**[15].

To enter into an Accepted Breach Agreement (ABA), the Formula 1 team involved must:

- **Acknowledge the Breach**: The team must acknowledge that it has violated the financial regulations.
- **Accept the Penalties**: The team must accept the penalties and/or enhanced monitoring procedures imposed by the ABA.
- **Cover the Costs**: The team must agree to bear the costs detailed in the ABA, as described in Article 6.29(d).
- **Waive the Right to Appeal**: The team must waive the right to contest the ABA in any forum.

The Cost Cap Administration, to maintain transparency, will publish a summary of the terms of the ABA, including details of the breach, the penalties imposed, and any enhanced monitoring procedures. However, all confidential information will be omitted from the publication. A specific example of this process can be examined through the ABA implemented with **Red Bull Racing**, which we will analyze in detail.

2.7 The impacts of the Budget Cap in the paddock

The introduction of the **Budget Cap** represented a true revolution in the **Formula 1 paddock**, with teams such as **Mercedes**, **Ferrari**, and **Red Bull** expressing concerns about its potential impact. One of the primary worries was the possibility of having to reduce staff and limit investments in **research and development**.

Additionally, there were doubts about the ability of the **Cost Cap Administration** to effectively monitor spending and prevent attempts to circumvent the rules—issues that did arise in specific cases, as we will discuss later. For smaller teams, the reaction was notably different, with outfits like **Williams**, **Haas**, and **Alfa Romeo** strongly supporting

[15] Examining Formula One's cost cap, Alex Wills, Tom Maturi, Adam Leigh, Norton Rose Fulbright, 2023

the introduction of the Budget Cap. They saw this regulation as an opportunity to close the gap with the top teams and compete more equally, creating a more solid financial environment that would be attractive to new investors and sponsors.

One of the key objectives of the **Budget Cap** is to reduce the gap between leading and trailing teams. Although larger teams continue to benefit from their experience and infrastructure, the Budget Cap has helped level the playing field, allowing smaller teams to become more competitive.

This has resulted in more balanced races and a less **predictable championship**. With the spending limits imposed by the Budget Cap, teams have been forced to operate more efficiently, encouraging innovation and the search for creative solutions to enhance car performance without exceeding the budget.

Furthermore, teams have had to optimize their use of available resources, focusing on **priority projects and reducing waste**. Teams have also had to revise their development strategies, no longer distributing unlimited resources across multiple projects, but instead prioritizing areas that offer the highest return in terms of performance.

In conclusion, the **Budget Cap** marks a significant turning point in the history of the sport. Although there are criticisms and challenges to overcome, the Budget Cap has the potential to make the competition fairer and more sustainable in the long term by reducing the financial gap between teams, promoting efficiency and innovation and creating a more stable financial environment. However, the success of this initiative will depend on the FIA's ability to effectively monitor spending and adapt the rules to the evolving needs of the sport. With a proactive and collaborative approach, Formula 1 can continue to evolve and thrive as the pinnacle of motorsport.

3. Regulations in the Basketball Environment: Usa and Italy

After analyzing two distinct realities, such as football and Formula 1, this section will examine the mechanisms introduced in the world of **basketball**, aimed at promoting **competitive balance** and maintaining a level of uncertainty in the outcomes of key sporting competitions.

As previously mentioned in the theoretical description of the concept, the unpredictability of results is a crucial element for generating public interest and, consequently, attracting spectators, both at live events and through various media platforms. The central issue remains the ability to attract **financial resources**, which can be channeled into the sector that most captures the audience's attention.

The strategies aimed at promoting competitive balance can vary in nature and approach. There are **balance strategies** designed to ensure stability and uncertainty in competitions, with the goal of enhancing economic returns by offering a more balanced and engaging spectacle. This approach is typical of the **American-Anglo-Saxon perspective**, which, as discussed in the second chapter, views competitive balance as a foundation for the development of both the sporting and media phenomenon.

In contrast, there is the **European and Latin mindset**, where achieving sporting success is the primary goal. This often leads to imbalances in competitions, favoring a few wealthier clubs and thereby compromising the flow of resources across the entire sporting environment

3.1 Situation in the United States

Following this line of thought, various methods have been proposed over time to balance the financial conditions among clubs. Some of these methods are quite simple, such as the equal distribution of resources generated by competitions among all participating clubs, while others are more complex and account for multiple variables simultaneously. It is no coincidence that many of the qualitative methods to be analyzed later are widely used in nearly all U.S. professional leagues, with **basketball** being no exception. In fact, in the United States, basketball stands out not only for the interest generated through spectacular and engaging events, but also as an example where sports and business merge into a single activity aimed at creating economic resources.

However, it is important to note that applying these strategies in **non-U.S. contexts** presents various challenges. In addition to obstacles related to historical traditions and different ways of perceiving sports, there are technical and structural complications, especially about promotion, relegation systems and participation in international competitions, where access is closely tied to results achieved in domestic competitions.

These factors can significantly complicate even simple mechanisms like the equal distribution of resources. For instance, distributing resources based on results could create an economic flow outside the immediate competitive environment, connecting or overlapping with the financial dynamics of higher or lower-level leagues.

Moreover, participation in multiple competitions, including international tournaments, could raise questions about whether clubs qualifying for such events should receive more or fewer resources. These issues do not arise in contexts where competition structures are closed, as seen in major U.S. professional leagues like the **NFL**, **NHL**, **NBA**, and **MLB** (National Football League, National Hockey League, National Basketball Association, and Major League Baseball, respectively).

The methods referenced above, which are clear in the management of these sports, can be categorized into three main approaches, each of which will be analyzed in detail in the following sections:

- Revenue sharing
- Salary cap
- Luxury tax

3.1.1 Revenue sharing

Revenue sharing[16] is a competitive balance tool often used to maintain competitive balance in various business sectors. As the term suggests, it involves distributing the profits from a business activity among multiple parties. In a typical business scenario, this approach is adopted when those starting the venture lack sufficient resources or are unwilling to bear the full risk themselves. They seek out a partner, agreeing to share both the investment and the risks, with both parties benefiting from the division of any resulting profits or losses.

In the **sports industry**, this strategy takes on characteristics specific to the field. Unlike traditional business models, where only two parties might be involved, sports leagues and competitions typically consist of a much larger group of participants. In sports, the

[16] Revenue Sharing in Professional Sports Leagues, Duane Rockerbie, 2024

business risk is naturally shared across the entire competition or league, since generating profits depends on the participation of multiple teams in every event.

If a game is unappealing or overly one-sided, both teams suffer from lower revenues in terms of ticket sales and media rights, even without a **formal revenue-sharing agreement**. A predictable, one-sided match draws little interest from fans, sponsors, or investors. On the other hand, the biggest financial gains come from high-profile matchups—games where evenly matched teams compete, creating excitement and uncertainty for everyone involved.

However, this assumption works on the premise that the primary goal is **profit maximization**, as is typical of the American business model. In contrast, the **European model** places greater emphasis on sporting success, with a focus on maximizing victories. In this context, **resource redistribution** is a balancing mechanism, reducing the disparity in resources invested between the top teams and smaller clubs, allowing the latter to partially close the gap in terms of availability. For higher-level teams, this redistribution results in a reduction in available resources. However, in the **European context**, this reduction is not directly proportional to the decrease in investment, as top clubs compete with other major international teams that may not be subject to revenue-sharing mechanisms. Consequently, while the overall talent pool available to elite teams may not significantly reduce, smaller clubs will benefit from increased resources that, while improving their competitiveness, will not eliminate the existing disparity.

The dynamics described lead to an overall improvement in the level of competition; however, they hide a potentially dangerous implication: The **increase in costs**. This consequence arises from the fact that top-tier clubs are unlikely to accept a reduction in talent within their teams.

These clubs will try to maintain their initial competitive position, often through excessive investments, which could worsen their debt levels and compromise their overall financial stability. Similarly, smaller clubs, driven by newfound enthusiasm, may fall into the same trap without prudent management, risking that the intended benefits of **revenue sharing** result in a worse overall outcome, potentially triggering a vicious cycle that could lead to a decline in profitability.

This scenario takes place within a framework of **maximizing victories**, where every club seeks to increase the talent available to enhance its chances of success. However, by shifting perspective to one of **profit maximization**, the effects of this model change accordingly: in this context, clubs are not incentivized to significantly increase their talent pool because the primary goal is not victory but profit. The improvement of the team would only occur if there were a direct correlation between talent and financial outcomes, but this link is weak and influenced by numerous variables.

What happens is a middle ground between these two extremes. Thus far, it has been assumed that all clubs share the same ideas, but it is more plausible that clubs pursue different goals. Typically, a **top club** will continue to prioritize getting talent, especially due to international competitions, which are particularly important in the European context, but it will have fewer resources to achieve this goal. O

n the other hand, a club with limited resources, for which the benefits of a better league position do not justify the necessary financial effort, will be more inclined to improve its financial situation through redistribution, without feeling an immediate need to invest in new talent.

3.1.2 Salary cap

The **second financial control** instrument used in American sports is the salary cap, definitively introduced in 1983 following an agreement between the **NBA** and the **NBPA** (National Basketball Players Association), which led to the drafting and signing of the **CBA** (*Collective Bargaining Agreement*). The salary cap sets a maximum budget that limits the amount of money teams can spend on their players' salaries, a threshold that is determined annually by the CBA after negotiations between the league and the NBPA.

There are **two main types** of salary caps: the soft cap, which allows teams to exceed the predetermined budget under certain circumstances, and the hard cap, which does not permit any breaches and is primarily used in the NHL (National Hockey League) and the NFL (National Football League). The **NBA**, on the other hand, has opted for the implementation of a soft cap, thus allowing teams to exceed the predetermined threshold in specific cases, but at the cost of paying a penalty for doing so.

The primary goal of the **salary cap**[17]. is to minimize economic disparities between franchises, a term used in the United States to refer to clubs, thereby ensuring a high level of competitiveness within the league. Without a regulatory mechanism, the differences in resources between the wealthiest teams and the less affluent ones could increase significantly, leading to a concentration of the most talented and expensive players in a few teams, resulting in a loss of balance, appeal, and interest for a substantial portion of the games.

A **salary cap** system, on the other hand, promotes a more homogeneous distribution of talent among the franchises, as it induces all teams to adhere to spending limits, preventing a few organizations from monopolizing the best players and thereby enhancing the overall competitiveness of the league. The presence of a salary cap, in addition to preventing the dominance of the wealthiest teams, enables more effective cost control, preventing excessive contracts that could undermine the financial stability of the franchises. Furthermore, it helps prevent teams from making extravagant expenditures, thus keeping a balance between competitiveness and long-term financial solidity.

3.1.3 Luxury Tax

In a **soft cap system**, NBA teams have the possibility to surpass the salary cap limit; however, this option incurs a **Luxury Tax**[18], which is a progressive tax imposed on teams whose salary expenditures exceed a predetermined threshold set up by regulatory guidelines. This system was formulated to dissuade excessive spending by certain teams, imposing penalties on those that surpass the salary cap. The Luxury Tax escalates progressively compared to the magnitude of salary cap excess, thereby functioning as an additional deterrent against exorbitant **salary expenditures**, in that way safeguarding the competitive equilibrium of the league.

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[17] Salary Caps and Competitive Balance In Professional Sports Leagues, Evan S. Totty and Mark F. Owens, 2011
[18] Salary Caps and Luxury Taxes, Dennis Coates, Bernd Frick, Oxford Academic, 2012

Notably, the revenue generated from the Luxury Tax is redistributed among franchises that remain within the salary cap limits, with 50% allocated to these teams. This redistribution enables more fiscally prudent organizations to obtain financial benefits and encourages more economically sustainable practices. An illustration of this system is clear in the case of the **Brooklyn Nets**. During the 2022-2023 season, the Nets incurred a substantial Luxury Tax of 108 million dollars resulting from a salary cap excess of 34 million dollars. This instance exemplifies how franchises with considerable financial resources may opt to exceed the cap, consenting to pay significant penalties in order to sustain a competitive roster, while also facing consequential financial ramifications

3.2. Financial Regulation in the Italian context

In this first phase, we analyzed the financial regulations operating mainly in the American landscape, in particular in the NBA. In the following paragraph, however, we will deal with the Italian context, a different system from the American one.

The **Italian Basketball Federation (FIP)** has developed a complex and articulated regulatory framework to ensure the financial stability of affiliated sports clubs, with particular attention to teams participating in professional leagues. This system was created to prevent situations of economic crisis that could endanger the competitiveness, balance and reputation of the league, while ensuring a high level of transparency and accountability in the management of economic resources.

3.2.1 The Regulatory Structure

The **Enforceable Regulations of Professional Sectors** (Regolamento Esecutivo per il Settore Professionistico”) [19] approved by the Federal Council of the **FIP**, it represents the regulatory basis on which the entire economic-financial control system is based. The regulation states that affiliated companies must adhere to strict standards of fairness, loyalty and transparency in their business operations. The resolutions of the Federal Council have the force of law within the activity organized by the FIP, and each affiliated

[19] Regolamento esecutivo settore professionistico, FIP, 2023, delibera n.39/23

company is obliged to operate in accordance with these provisions, which cannot contradict the Statute of the FIP or the Organic Regulations.

One of the main responsibilities of the affiliated companies concerns the keeping of accounts and the preparation of the financial statements. Companies must use a **chart of accounts** that allows the preparation of financial statements in accordance with current regulations, and the financial statements must be audited by a company registered in the register of statutory auditors at the Ministry of Economy and Finance.

3.2.2 The Role of the Technical Commission of Control (Commissione Tecnica di Controllo)

In parallel, the "**Commissione Tecnica di Controllo" (Comtec),** established at the Italian Basketball Federation (FIP), plays a decisive role in supervising the financial operations of the affiliated companies. Comtec has the task of conducting periodic checks aimed at verifying that the companies follow the economic and financial sustainability criteria established by the FIP. This monitoring aims to ensure that companies operate in a financially balanced manner, maintaining an appropriate income-expense ratio.

Comtec's main objectives include:

1. **Financial sustainability surveillance**: Through detailed analyses, the commission checks that companies do not expose excessive debt or mismatches in financial resources.
2. **Verification of compliance with budgetary constraints**: The FIP imposes certain spending limits for companies, and Comtec is responsible for ensuring that these constraints are respected, thus preventing situations of financial risk that could endanger the stability of the companies.
3. **Corrective actions**: In the event of anomalies or critical issues found in the financial statements, Comtec may request corrective actions, such as debt repayment plans or the review of financial management, in order to restore economic balance

Professional clubs are obliged to provide Comtec with a **copy of the financial statements** approved by the shareholders' meeting within 15 days from its approval. The financial statements must be enhanced by management reports and audits. In the event of failure to approve the financial statements, the companies are required to present preliminary results according to the criteria provided for by the Civil Code.

Transparency obligations are essential to maintain an effective control system and to prevent behavior that could lead to the economic instability of the league. The regularity in the transmission of financial information to the FIP is an indicator of the financial soundness of the companies and their ability to operate in compliance with the rules.

Comtec has extensive powers to ensure that companies comply with financial requirements. The commission may order **inspections** of companies to examine documents and records necessary to assess the economic, financial and accounting situation. In addition, federal inspectors, appointed by the Federal Council, have the right to access all accounting records and to summon company executives for clarification or further information. In the event of irregularities or non-compliant behavior, Comtec is obliged to report these violations to the **Federal Council**, which may decide to apply sanctions. Penalties can vary according to the severity of the infractions and can include warnings, fines, or operational restrictions, such as the impossibility of registering new athletes until the financial situation is rebalanced.

3.2.3. Financial Rebalancing and Penalties

In case a company has financial imbalances, a system **of rebalancing mechanisms** is provided to bring the economic situation back within acceptable limits. Companies may be invited by the FIP to take corrective measures such as capital increases, payments to cover losses, or other forms of financing. The aim is to ensure that all companies maintain prudent financial management and can honor their financial commitments, minimizing the risk of insolvency.

The **Executive Regulations** provide specific rules for contracts between clubs and members, ensuring that all contracts comply with the models provided for in the collective agreements and approved by the FIP. Contracts must be deposited with the FIP and, in the event of changes to the economic conditions, these must be formalized in writing and deposited with the competent League or Association. Athletes' transfers are also subject to strict regulation, with the obligation to comply with the deadlines set out in the **Annual Organizational Provisions** and FIBA regulations for international transfers. Compliance with these rules is essential to prevent disputes and ensure the regularity of market operations. Failure to comply with the FIP's financial regulations results in significant penalties.

Penalties shall be gradual and proportionate to the seriousness of the infringements, and may include:

1. **Warnings**: used for minor violations, often accompanied by warnings to remedy the situation within a set deadline.
2. **Fines**: Imposed for more serious offences may vary according to the extent of the economic offence.
3. **Operating restrictions**: for example, the blocking of memberships until the club proves that it has rebalanced its financial situation.
4. **Exclusion from the championship**: in the most serious situations, the club can be excluded from the championship for the running season or for several seasons, until it is able to meet all the economic and financial requirements.

In conclusion, the financial regulations adopted by the **FIP** as well as those analyzed in **American contexts** aim to ensure the economic stability and competitiveness of the teams, favoring a sustainable and responsible management of resources. Through tools such as revenue sharing, salary cap and constant monitoring of clubs' financial conditions, an attempt is made to balance economic disparities and keep interest in the sport high, both nationally and internationally.

However, the effectiveness of these measures greatly depends on strict enforcement and the ability of control bodies to monitor and promptly intervene in the event of irregularities. The importance of these regulations lies not only in the prevention of economic crises, but also in maintaining the integrity and credibility of the sports system and the adoption of control mechanisms, although with challenges and limitations, represents a fundamental step in building a more transparent, balanced and sustainable sports environment.

CHAPTER 4: ANALYSIS OF 3 SPECIFIC CASES

After examining the financial regulations in the three reference sports, we will delve into some **specific cases** in which these regulations have been violated to gain a competitive advantage.

The first case that will be analyzed is that relating to **Manchester City and its fictitious sponsorships**, examining how these practices have influenced the competition.

Next, we will delve into the budget cap violation committed by **Red Bull Racing** and the subsequent **ABA agreement** with the Cost Cap Administration, which had significant implications in the world of Formula 1. Lastly, we will conclude with the tax fraud committed by **Ferdinando Minucci** in the Mens Sana Basket case, highlighting the consequences of these actions in the basketball sector.

This review aims to highlight the abuses of financial regulation in various sports, offering a comprehensive view of the ways in which some individuals and organizations have tried to circumvent the rules to gain an unfair advantage.

1. Sponsorships and control of the Club Financial Control Body: The Manchester City's Case

In recent decades sports in general and football in particular have taken on a new commercial dimension, generating significant revenues thanks, in part, to the phenomenon of the so-called "Sponsorship.". All teams have consequently become commercial enterprises and spectacle and competitiveness of the participating clubs grew and revenues increased.

Sponsorships fit into this context: The objective for the entire **European sport context** was and remains the creation of a system capable of attracting new investors, with the aim of generating ever-increasing revenues and achieving full economic self-sufficiency.

UEFA, on its official website, states: " If a club's owner injects money into the club through a sponsorship deal with a company to which he is related, then UEFA's competent bodies will investigate and, if necessary, adapt the calculations of the break-even result for the sponsorship revenues to the level which is appropriate ('fair value') according to market prices. Under the updated regulations, any entity that, alone or in aggregate together with other entities which are linked to the same owner or government, represent more than 30% of the club's total revenues is automatically considered a related party[20]".

Therefore, there is a maximum threshold for the **injection of liquidity** (in terms of sponsorships) by club owners, a threshold that must be respected to avoid the sanctions provided by the regulations. This is because not every European club owner is able to make substantial injections of funds through sponsorships; in fact, they can rarely do so beyond certain expenditure limits set by UEFA. These limits are defined as **"fair value,"** which means a suitable or market value. The definition of "market value" depends on the specific cases that UEFA's appointed **Commission** examines and evaluates.

To find the right market values for **Financial Fair Play purposes**, UEFA has relied on legal and financial experts who are completely independent of national federations. These experts have specifically analyzed the sponsorship market and the commercial appeal of the clubs.

The assessment of the so-called fair value of a sponsorship operation, according to the Financial Fair Play regulations, is relevant in that, if there is no evidence of a suitable market value, UEFA excludes that revenues derived from transactions with related parties can be included among the components of income (relevant income). In this way, for UEFA, any revenue deriving from these "out of market" sponsorships is excluded from the calculations for compliance with the so-called **"break-even" rule**. In this context the case of Manchester City and its inflated sponsorships fit perfectly.

1.1 Historical Development and Transformation of Manchester City

Manchester City Football Club, based in Manchester, England, is one of the oldest football clubs in the country. It was founded in 1880 as St. Mark's and was later renamed Manchester City in **1894**. For much of its history, the club remained in the shadow of the more renowned Manchester United, another team with a rich football tradition also found in the same city. Although Manchester City had won some trophies, including national

[20] Financial fair play: all you need to know, 2015, UEFA

championships and domestic cups, it was not considered a dominant force in European football.

The turning point came in 2008 when the club was bought by the Abu Dhabi United Group, led by **Sheikh Mansour bin Zayed Al Nahyan**, for an estimated £210 million[21]. This acquisition was part of a growing trend where billionaires and sovereign wealth funds invest in sports teams as instruments of soft power and international promotion. **Sheikh Mansour's** acquisition not only provided substantial financial resources but also led to a complete restructuring of the club, from its infrastructure to its sponsorship agreements.

Within less than a decade, this acquisition enabled Manchester City to transition from a mid-to-high-tier **Premier League club** to becoming one of the most powerful and wealthy teams globally. This progress was made possible by a significant influx of capital, which allowed the club to get internationally renowned players, build new sports facilities, and invest heavily in the development of its youth sector. Furthermore, under Mansour's ownership, the club expanded its brand globally through the City Football Group, a network of affiliated teams in various regions around the world, thereby consolidating its international presence.

1.2. Financial Fair Play and Sponsorship Compliance Issues

With the acquisition of Manchester City by the **Abu Dhabi United Group** in 2008, the club rapidly ascended to the top tiers of European football, eased by significant financial investments. However, this swift rise brought the club under the scrutiny of UEFA, particularly its financial regulatory body, the C**lub Financial Control Body (CFCB),** for potential breaches of Financial Fair Play (FFP) regulations.

During the 2013-2014 season, **Manchester City** faced its first qualification for European competitions, causing the submission of its financial accounts to UEFA for review. As previously analyzed, the regulations specified that a club could incur a maximum deficit of €45 million over the preceding two seasons, with this limit being reduced to €30 million for subsequent seasons. Additionally, UEFA required careful assessment of

[21] "Manchester City agree takeover deal with Abu Dhabi group", The Guardian, 2008

sponsorship contracts, particularly those with entities affiliated with the club's new owners, to ensure that they were not artificially inflated, thereby distorting competition.

UEFA so focused its attention on the commercial revenues reported by the club, raising concerns over several sponsorship agreements with companies from the **United Arab Emirates**, such as **Etihad Airways**, the club's main sponsor[22]. The contract included brand exposure for Etihad on player jerseys and the stadium, as well as naming rights for the Etihad Stadium and the club's training center. These commercial agreements, with an economic value of **400 million of pounds**, raised questions about their impact on the club's financial statements and their possible overvaluation, leading to an investigation by UEFA authorities.

According to UEFA, the sponsorship contracts with Etihad Airways and other companies from the United Arab Emirates appeared to be inflated compared to their actual market value. This led the financial control body to suspect that these agreements were being used as a mechanism to circumvent Financial Fair Play (FFP) regulations. The central issue was that the revenues generated from these sponsorships far exceeded what other clubs of similar stature could obtain from their sponsors, suggesting that these funds were, in fact, directly linked to Sheikh Mansour, the owner of Manchester City, and the commercial entities associated with him.

Such a practice, according to UEFA, would have enabled Manchester City to bypass the key principle of FFP, the "break-even requirement," which requires clubs not to exceed a certain level of losses. The break-even rule mandates that expenses on wages and transfers must be covered by actual revenues, such as sponsorships, television rights, and ticket sales. UEFA contended that the funds from Etihad and other companies did not represent genuine sponsorships but rather direct capital injections from the club owner. This would have allowed Manchester City to report higher revenues and continue to invest heavily in the transfer market without facing FFP sanctions[23].

[22] "Manchester City condemned for blocking UEFA but Etihad sponsorship cleared", SoccerMag, 2024
[23] "Club Financial Control Body Adjudicatory Chamber decision on Manchester City Football Club" UEFA

1.3. Investigations, Sanctions, and the Appeal Process

In 2014, following a thorough examination of the case, UEFA imposed initial sanctions on Manchester City for violations of the Financial Fair Play (FFP) regulations. **These sanctions included**[24]:

- A fine of €60 million, with only €20 million required to be paid immediately, while the remaining amount would be suspended on the condition that the club complied with financial requirements in the future.
- A restriction on the number of players eligible for registration in the UEFA Champions League, thereby reducing the maximum squad size for the competition.
- Limitations on expenditure for new signings in subsequent transfer windows, aimed at preventing further breaches of financial regulations.

Despite these **punitive measures**, the club continued to attract high-profile players and to achieve success in both domestic and international competitions. However, tensions between Manchester City and UEFA increased in the ensuing years.

1.3.1 Escalation of Investigations and the UEFA Verdict

In 2018, investigations into the club escalated following revelations from **Football Leaks**, a platform that publishes confidential documents related to the football industry. The documents that were leaked suggested that the club had engaged **in financial practices** intended to circumvent FFP regulations. Notably, one of the most serious allegations concerned the sponsorship agreement with Etihad Airways: Football Leaks disclosed that only a fraction (approximately £8 million) of the total **£67.5 million** was actually paid by the airline. The remaining sum was reportedly financed through private funds linked to the club's owner, **Sheikh Mansour**, thereby violating UEFA's regulations on financial transparency and fairness[25].

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[24] "Decision of the Chief Investigator of the CFCB Investigatory Chamber: Settlement Agreement with Manchester City Football Club Limited", UEFA, 2014,

[25] "Man City ban latest: FFP investigation, the allegations and potential punishments explained", The Standard, 2019

The leaked internal emails revealed a deliberate strategy by Manchester City to hide these transactions, with the goal of avoiding more stringent scrutiny by football authorities. These actions further fueled the debate on the effectiveness of FFP in ensuring fair competition, particularly concerning how clubs with significant financial resources could exploit the system to their advantage.

Consequently, in **2020 UEFA** started a further investigation into Manchester City, this time involving more serious charges based on the leaked documents and information. Subsequently, UEFA issued a severe verdict against Manchester City, accusing the club of **repeated violations** of FFP regulations and of not cooperating during the investigation process. The accusations centered around alleged **"covert financial flows"** and the failure to transparently declare commercial funds, compounded by the submission of documents and data to the CFCB that were considered incomplete or misleading.

In response to these findings, UEFA's financial control body resolved to impose further sanctions on the club, this time enacting an exemplary punishment: **a two-season ban** from European competitions and a fine of **€30 million**. This ruling **would have barred** Manchester City from taking part in the Champions League, one of the club's primary aims, thereby threatening not only its reputation but also its future financial prospects linked to television rights and prize money from UEFA competitions.

1.3.2 The Tribunal Arbitral du Sport (TAS) Verdict

Manchester City, following the receipt of the verdict, immediately appealed to the **"Tribunal Arbitral du Sport", (TAS).** Subsequently, after the hearing in July 2020, TAS decided to annul the judgment issued on **February 14, 2020**, by the CFCB Adjudicatory Chamber, replacing it with the following provisions:

a) Manchester City was found in violation of Article 56 of the Club Licensing and Financial Fair Play Regulations.
b) The club was fined €10 million, to be paid to UEFA within 30 days of the arbitral decision.

The “Tribunal Arbitral du Sport”, (TAS) concluded that the lack of confessions or concrete documentary evidence led to the collapse of the principal charges, resulting in what was essentially an acquittal due to insufficient evidence.

Nevertheless, the club was found guilty of not cooperating with the investigations conducted by UEFA authorities, which included management under Sheikh Mansour and Chairman Khaldoon Al Mubarak, leading only to a financial sanction

1.4. Implications for Financial Fair Play and the Future of Competitive Equity in Football

The **growth model of Manchester City,** sustained by substantial investments from the United Arab Emirates, has proved a new paradigm of success in global football but has also caused numerous criticisms regarding competitive equity and financial sustainability. Although the capital influx has allowed the club to reach remarkable levels of success, enhancing infrastructure and acquiring top-tier talent, this progression has generated a crucial debate on the fairness of the economic advantage enjoyed by clubs supported by seemingly limitless resources.

The **Financial Fair Play (FFP)** framework is based on a set of criteria intended to ensure that clubs do not spend beyond their earnings, thereby promoting a balance between revenue and expenditure. However, the **Manchester City case** has revealed the structural vulnerabilities of these regulations, illustrating how clubs backed by foreign capital or financial elites, often linked to sovereign states or global conglomerates, have been able to expand by navigating around the rules. Such clubs have employed extraordinary sponsorships and funding from family groups to artificially inflate their resources, thus evading the restrictions set forth by FFP.

Although the **“Tribunal Arbitral du Sport”, (TAS)** mitigated the sanctions imposed by UEFA in 2020, it also highlighted the deficiencies of the current system, intensifying the discourse on the necessity for more rigorous reforms to ensure greater transparency and equality among clubs.

This situation has prompted many observers to advocate for a substantial revision of FFP regulations, with the aim of better adapting them to the evolving global financial landscape and mitigating disparities among clubs. Proposals for enhancing **financial regulation** in European football include:

- Greater transparency in sponsorships and commercial contracts to prevent the misuse of external funds disguised as legitimate revenue.
- More stringent controls on the relationships between clubs and their sponsors to ensure that contracts are established according to their actual market value.
- Tighter limits on spending for transfers and salaries to reduce the financial gap between the wealthiest clubs and their more modest counterparts.
- More frequent and thorough financial monitoring to prevent violations from being discovered years later, as was the case with Manchester City.

From this perspective, UEFA has attempted to adapt to the new demands of modern football by introducing, in **April 2024**, a new regulatory framework called the **"UEFA Club Licensing and Financial Sustainability Regulations."** This regulation aims to set up competitive stability, thereby eliminating the risk of creating an imbalanced competition where a small number of clubs systematically dominate tournaments, to the detriment of the general interest. Such a scenario could not only diminish the appeal of football for fans but also undermine the very credibility of the sporting system.

2. The Red Bull Racing ABA

2.1. The Growth of Red Bull Racing and the Financial Disparity in Formula 1

Red Bull Racing, founded in 2005[26] following the acquisition of the **Jaguar Racing team** by Red Bull GmbH, quickly established itself as a major contender in the Formula 1 landscape. Red Bull Racing was created as an extension of a brand not inherently linked to the automotive world, to enhance the visibility of the Red Bull brand through one of the most globally followed and technologically advanced sports.

[26] "Breve storia illustrata di Red Bull Racing", Red Bull Team, 2019

Significant financial disparities among participating teams have historically characterized Formula 1. Backed by the vast financial potential of Red Bull GmbH, Red Bull Racing entered the scene as an emerging force, investing heavily in car development and the acquisition of high-profile talent, including both drivers and engineers.

This **growth model** highlighted the limitations of a system that favored financially stronger teams, allowing them to gain a significant **competitive advantage** over teams with fewer resources. Unlike other sports, which have financial regulations in place to limit spending, Formula 1 had historically lacked similar control mechanisms, until the introduction of the budget cap.

The introduction of the **budget cap** represented a monumental change for Formula 1, aiming to reduce the influence of financial resources on sporting outcomes. Red Bull Racing, one of the teams with the highest level of expenditure before the implementation of these limits, had to adapt to the new regulations. However, it continued to benefit from a **solid financial foundation**, working to optimize the development of the car within the new spending constraints without compromising its competitiveness.

2.2. Violations and Financial Penalties: Exceeding the Budget Cap

However, in 2022, following reviews conducted by the **Cost Cap Administration**, Red Bull Racing was accused of exceeding the budget cap during the 2021 season, the same year **Max Verstappen** won his first world title. The FIA found an **"overspend"** by Red Bull, showing that the team had exceeded the spending limit imposed by the budget cap. This led to an in-depth investigation into the team's accounting methods and potential discrepancies in the allocation of financial resources[27].

Red Bull contested the allegations, attributing the **overspend** to misinterpretations of the new regulations and to expenses not related to car development. Nevertheless, the FIA upheld its position, and after extensive negotiations, Red Bull agreed to an **Accepted Breach Agreement (ABA),** thereby avoiding more severe penalties, such as disqualification from the championship.

[27] RBR Public Summary ABA / Article 6.32, 2022, FIA

The **ABA** was formalized on October 26, 2022, between the FIA Cost Cap Administration and Red Bull Racing. It acknowledged that the team cooperated promptly and transparently throughout the review process. Despite the complexities of the new Financial Regulations, being their first year of implementation, no fraudulent intent was found on the part of Red Bull. This cooperation was a key factor in the FIA's decision to propose an ABA instead of enforcing harsher penalties.

2.2.1 Details of the Violations

The violations identified primarily involved two areas:

1. **Procedural Breach:** Red Bull committed a procedural error, violating Article 8.2(e) of the Financial Regulations, by submitting inaccurate documents related to the relevant costs for 2021. Specifically, the documentation either excluded or incorrectly accounted for costs totaling £5,607,000, resulting in an understatement of the total expenses.
2. **Minor Overspend Breach:** After the accounts were reviewed, it was found that Red Bull's relevant costs for 2021 exceeded the spending cap of £118,036,000 by £1,864,000, amounting to an overspend of 1.6%. This falls under the category of "minor violations" as outlined in Article 8.10(b) of the Financial Regulations.

Red Bull acknowledged incorrectly reporting several costs, including:

- Misreported catering expenses and bonuses.
- Costs related to activities not connected to Formula 1.
- Incorrect depreciation of capital assets.
- Errors in the calculation of costs reimbursed by Red Bull Powertrains Limited.

Following Red Bull's acceptance of the violations, the FIA imposed the following sanctions:

- **Financial Penalty:** A fine of $7 million, to be paid within 30 days of the signing of the ABA.

- **Minor Sporting Penalty:** A 10% reduction in Red Bull's ability to conduct aerodynamic testing for a period of 12 months, impacting their technical development efforts.
- **Reimbursement of Administrative Costs:** Red Bull was required to cover the costs incurred by the Cost Cap Administration for the preparation of the ABA.

The agreement reached is a final and non-appealable resolution. However, the ABA specifies that any future non-compliance by Red Bull would result in additional penalties, including the possibility of referral to the Cost Cap Adjudication Panel.

2.3. The reactions of the other teams

The Red Bull case has raised significant questions about the effectiveness of the financial regulation system within Formula 1, proving how teams with greater financial resources can still exert considerable influence on the competition, even after the introduction of the budget cap.

The **current system** has areas of ambiguity, as certain categories of expenditure, such as those related to infrastructure or the salaries of certain employees, are excluded from the **spending cap**. This leaves room for potential discrepancies between wealthier teams and those with limited resources. Teams like Red Bull, backed by **substantial financial resources,** have been able to take advantage of these gray areas, securing a competitive edge despite the existence of a formal spending limit.

Reactions from other teams were swift. Some of Red Bull's main rivals, such as **Mercedes and Ferrari**, expressed concerns about the transparency of the system and the severity of the penalties imposed by the FIA. **Toto Wolff**, team principal of Mercedes, emphasized that even a slight overspend of the budget cap could have a significant impact on a car's competitiveness, particularly in Formula 1, where minor technological advantages can determine victory or defeat in a race. He argued that such violations threaten the integrity of the sport. Wolff called for stricter sanctions, asserting that they must serve as a deterrent to prevent teams from attempting to circumvent the regulations.

Mattia Binotto, ex-team principal of Ferrari, voiced similar criticisms, arguing that the penalties imposed on Red Bull were not proportionate to the advantages gained.

According to Binotto, the **10% reduction** in aerodynamic testing capability does not represent a sufficiently dissuasive penalty, especially considering the benefits Red Bull achieved in 2021. This, he pointed out, calls into question the effectiveness of the financial regulation system and its ability to maintain competitive fairness.

2.4. The Future of the F1

Considering these criticisms, it becomes evident that the **financial regulation system** in Formula 1 necessitates further reforms to ensure a genuinely fair and transparent competition. Primarily, it will be imperative to establish clearer and more uniform criteria for classifying expenditures, thereby reducing ambiguities that can be exploited by teams with greater financial resources.

Moreover, there is a need to enhance the mechanisms for monitoring and auditing team expenditures. The FIA should implement a more stringent monitoring system and conduct more comprehensive periodic audits to prevent discrepancies from emerging only at a later stage, as was the case with Red Bull. An external and independent auditing system could provide increased transparency and ensure that expenditures are genuinely in line with the limits imposed by the regulations.

The **sanctions** imposed on Red Bull have sparked considerable debate regarding their efficacy in preventing future violations. Numerous observers and rival teams have criticized the penalties as being inadequate relative to the competitive advantages gained. The **$7 million fine** and the **10% reduction** in aerodynamic testing capacity for 2023 were regarded as lenient measures, particularly in a context where even minor differences can significantly impact race performance.

The **future of Formula 1** will largely depend on the ability of the financial regulation system to maintain competitive equilibrium among the teams. Although the introduction of the budget cap represents progress toward greater equity, the issues that have surfaced in the Red Bull case underscore that further refinements to the system are necessary. Teams with substantial financial resources will likely continue to seek regulatory loopholes to gain a competitive advantage. Therefore, a more transparent regulatory framework, reinforced by appropriate sanctions and stringent oversight, will be essential to preserve the sport integrity of Formula 1 and maintain long-term interest in the competition.

3. Mens Sana Siena Basket and Ferdinando Minucci Case

3.1 Ferdinando Minucci and the Golden Era of Mens Sana Basketball Siena

After discussing the **financial norms and regulations** introduced in the basketball sector in the previous chapter, it is pertinent to examine a specific case that had a significant impact on the Italian sports landscape. In this context, the example of Mens Sana Basketball Siena and its president, **Ferdinando Minucci**, stands out as particularly emblematic.

Ferdinando Minucci was one of the most influential sports executives in **Italian basketball**, primarily known for his role at the helm of **Mens Sana Basket Siena**, one of the most decorated teams in the national basketball scene. Under his management, Mens Sana experienced a **golden era,** winning eight Italian championships (including seven consecutively), five Italian Cups, and seven Italian Super Cups. The team also regularly took part in the Euro League, reaching the Final Four on four occasions.

Minucci began his career with Mens Sana as **Vice President in 2004**, later becoming **President from 2008 to 2012**, and finally serving as an advisor until the club's liquidation in 2014. His leadership not only elevated Mens Sana to the pinnacle of Italian and European basketball but also attracted significant sponsorships, such as that with Monte dei Paschi di Siena. This support enabled the team to maintain a high-caliber roster, providing the financial resources necessary for sustained success.

3.2. Financial Scandal and Legal Proceedings

However, Minucci's illustrious career was overshadowed by severe legal and disciplinary charges. In **2014**, Mens Sana Basket was embroiled in a financial scandal that led to its declaration of bankruptcy. The **Italian Revenue Agency** uncovered alleged irregularities in the club's administrative management, particularly in the contractual arrangements with players. These accusations started a lengthy and complex investigation conducted by **the Public Prosecutor's Office** in Siena.

According to the investigation, Minucci and other Mens Sana executives allegedly orchestrated a complex system of invoicing for non-existent or inflated operations, aiming to create slush funds and evade taxes. These funds were purportedly used to pay undeclared salaries to players and other staff members, allowing the team to maintain a level of competitiveness that would otherwise have been financially unsustainable.

The charges brought against Minucci primarily centered on the violation of Article 59[28] of the **Justice Regulations** of the FIP (Italian Basketball Federation), which pertains to acts of sporting fraud. The FIP Federal Prosecutor accused Minucci of securing an illicit competitive advantage for Mens Sana by engaging in operations that distorted the fairness of sporting competitions.

The trial was characterized by a heated debate between the prosecution and the defense. The **Federal Prosecutor** sought to prove that the illicit financial operations carried out by Minucci had indeed compromised the fairness of the competitions, enabling Mens Sana to win titles and achieve successes that would not have been possible under normal circumstances.

On the other hand, Minucci's defense emphasized the alleged lack of concrete evidence linking the financial irregularities to Mens Sana's sporting achievements. Minucci's lawyers argued that the team had always won fairly on the field and that the accusations of sporting fraud were based on assumptions rather than demonstrable facts. Additionally, the defense questioned the applicability of Article 59 itself, arguing that the regulation was too vague and did not clearly define what constituted sporting fraud.

[28] "Regolamento di Giustizia FIP" article 59:
1) Acts of sporting fraud include: a) Any act aimed at circumventing the regulations on the age of players in youth categories or involving the participation of athletes who have exceeded the age limits established for each championship.
b) Any other act aimed at securing an illicit advantage for a registered member or an affiliate. 2)Acts of sporting fraud is sanctioned with a ban ranging from three to five years. In cases of attempted fraud, the penalty is reduced by up to two-thirds. 3)In cases of particularly severe sporting fraud, or in instances that damage the image of the national basketball movement, the penalty of expulsion can be applied

3.3. The Controversial Verdict

After years of investigations and debates, the trial concluded on June 18, 2021[29]. The outcome was marked by a plea bargain from Ferdinando Minucci, resulting in a sentence of 4 years and 10 days of imprisonment, as well as the confiscation of €3.7 million. Minucci was also acquitted of some of the charges brought against him.

The offenses for which the former General Manager of Mens Sana Siena Basket reached a plea agreement include:

- **A criminal conspiracy related to over-invoicing**, for which he had immediately admitted his responsibility, along with some of the allegations of bankruptcy.
- **Inflated invoices** to create slush funds that were distributed to players, staff, and coaches for their services, allowing the club to compete with better-equipped teams.

The Federal Tribunal of the Italian Basketball Federation (FIP) further sanctioned Minucci with expulsion, a penalty that entails permanent exclusion from any federal activity, thereby marking the end of Minucci's career in Italian basketball.

3.4 Impact on Italian Basketball

The verdict received a range of reactions. On the one hand, some welcomed the **Tribunal's decision**, viewing it as a strong statement against corruption and irregularities in the world of sports. On the other hand, **Minucci's defense** and supporters criticized the ruling, considering it unjust and based on insufficient evidence. Minucci's conviction had significant repercussions not only for him but also for Mens Sana Basket, which was severely affected by bankruptcy and subsequent sporting sanctions. The team, once dominant in Italian basketball, saw its sporting empire collapse, including the revocation of two titles and relegation to the lower leagues. Furthermore, this case had a lasting impact on the Italian sports world, raising questions about how financial and legal controls are managed in sports organizations and what measures should be implemented

[29] Crac Mens Sana, Minucci patteggia 4 anni, Laura Valdesi; La nazione, 2021

to prevent future irregularities. The Minucci case remains an emblematic example of how sporting success can be called into question by non-transparent management practices and how sports justice can intervene to restore fairness in competitions.

The collapse of Mens Sana Siena significantly affected the competitive balance of Italian basketball. During the team's peak success, the close relationship with Monte dei Paschi di Siena and the financial inflow guaranteed by its sponsor allowed Mens Sana to significantly outpace other teams, creating a competitive disparity that undermined the integrity of the league.

With Siena’s downfall, the Serie A championship underwent a shift, allowing teams that had suffered from its dominance, such as Olimpia Milano and Virtus Bologna, to reassert themselves on the national stage. The collapse of Mens Sana proved that a model based on unsustainable financial practices, even if it leads to extraordinary success in the short term, is ultimately destined to fail. The need to ensure economic sustainability and managerial transparency has appeared as one of the key lessons learned from the Mens Sana Siena case

3.5 Strengthening of Sanctions

The FIP has introduced tougher penalties for clubs that do not follow the new financial rules. Penalties can include large fines, automatic relegation to lower categories and, in the most severe cases, the revocation of the license to take part in championships. The introduction of more stringent sanctions aims to function as a deterrent against any fraud or irregularities, setting up a regulatory framework that incentivizes transparent and responsible behavior by clubs.

The FIP has always looked to strengthen its financial control system by signing partnerships with the Revenue Agency and other Italian tax authorities. This collaboration allows for more efficient sharing of club information, allowing joint monitoring of financial operations. The coordinated approach aims to prevent and counter any attempts at tax evasion or concealment of undeclared economic resources, thus helping to ensure compliance with tax and sports regulations.

The Minucci case was emblematic not only for basketball but for the entire sports landscape. It has shaken an entire nation, leading many to doubt the correct controls conducted by the relevant authorities. The FIP, through the strengthening of its regulations, has set itself the main aim of improving economic sustainability and promoting financial transparency in clubs. The enhancement of controls and the tightening of sanctions have been positively welcomed within the sports world, as they represent a fundamental step to avoiding new scandals and ensuring more transparent management.

In terms of competitive balance, these interventions are crucial to prevent the formation of imbalances deriving from illegal financial practices. Allowing them to compete on a fairer basis, reducing the risk that teams with financial resources from non-transparent sources can distort the competitive balance of the league. Thus ensuring that sport successes are the result of sustainable and rules-abiding economic management.

3.6 Comparative Analysis between the Juventus Case and the Sanctions Imposed on Ferdinando Minucci

The **severe sanctions** imposed on ex-president Ferdinando Minucci serve as a key point of reference for analyzing how, in different sports contexts, disciplinary measures for similar economic violations have been applied in varying degrees. In this context, it is particularly interesting to compare Minucci's case with the recent scandal involving **inflated transfer fees** that affected **Juventus F.C**., in order to understand the differences in treatment between basketball and football, as well as the respective approaches taken by sporting and judicial authorities.

3.6.1 The Juventus Case (2022-2023)

The case of inflated transfer fees that emerged in **2022-2023** involved Juventus F.C. and several other Italian football clubs, revealing a series of suspicious accounting practices. Juventus was accused of manipulating its financial statements by **overvaluing players sold** and purchased, with these transfers not corresponding to their actual market value. These operations allowed the club to gain financial advantages by masking real losses and enabling it to meet the financial requirements set by the Italian Football Federation (FIGC) and UEFA, particularly in relation to **Financial Fair Play regulations**.

Investigations by the **Turin Prosecutor's Office** and the sports justice system uncovered multiple financial irregularities, showing that many players had been traded at inflated market values to generate fictitious profits. These exchanges were often merely accounting transactions, without actual monetary exchanges, aimed solely at improving the **club's balance sheets.**

3.6.2 Comparison of Sanctions

A **deeper analysis** of the sanctions imposed on Ferdinando Minucci and the Juventus executives reveals significant differences not only in the severity of the penalties but also in how the two cases were handled by the relevant authorities. In **Minucci's case**, the financial irregularities not only violated sports regulations but also triggered criminal proceedings that resulted in a sentence of 4 years and 10 days in prison, along with the confiscation of €3.7 million. Furthermore, his expulsion from the Italian Basketball Federation (FIP) marked a complete exclusion from the sports world, effectively ending any future career prospects in basketball.

The severity of the sanctions imposed on Minucci, and the Mens Sana Siena club appears particularly drastic when compared to the penalties faced by the **Juventus executives**. In the case of Juventus, despite the confirmed manipulation of accounts through inflated transfer fees, which significantly impacted the club's financial reports, the criminal consequences were much less severe**. Andrea Agnelli, Fabio Paratici, and Maurizio Arrivabene** were handed sporting disqualifications ranging from **8 months to 2 years**, but none of them faced imprisonment or major criminal repercussions. Even from a financial perspective, the confiscations and fines imposed were less stringent compared to those affecting Minucci. Additionally, while Mens Sana Siena was declared bankrupt, Juventus only received a points deduction which, although it affected their sporting ambitions, did not jeopardize the club's stability or its participation in top-tier competitions.

The comparison between the **Juventus case and Ferdinando Minucci's situation** highlights not only a disparity in the severity of the sanctions but also notable differences in how financial violations are treated depending on the sport and the institutional importance of the entities involved.

The **sanctions** against Minucci, which were much harsher both personally and criminally, reflect a stricter approach to financial misconduct in the world of basketball, leading not only to the downfall of the executive but also to the collapse of a historic club like Mens Sana Siena. In contrast, the penalties imposed on the Juventus executives, while impactful on a sporting level, were significantly lighter and did not carry substantial criminal or economic consequences.

This **comparison** raises questions about how financial violations are addressed differently depending on the sport and the media and institutional weight of the clubs involved. In football, Juventus was able to maintain its competitive and institutional relevance despite serious financial irregularities. In basketball, however, Mens Sana Siena paid a much higher price for similar violations. This underscores the need for greater consistency in sanctions to ensure that, regardless of the sporting context, justice is applied equally, preserving the integrity of competitions and enforcing economic rules across all sporting arenas.

And to think that **the CONI's Board of Guarantee**, the highest body for the legitimacy of internal sports justice, has set for itself the goal of fulfilling a nomophylactic function

CONCLUSION

This paper has sought to highlight how financial regulations in sports are designed to maintain competitive balance and ensure the long-term sustainability of competitions. However, a critical issue that emerged from the analysis is the competitive advantage that some sports organizations have attempted to gain by circumventing or violating these regulations. The central question posed is whether breaking these financial rules truly provides a sustainable advantage and, at last, whether it is worth the cost.

The paper has illustrated various cases where teams tried to gain a competitive edge by either violating or ambiguously interpreting financial rules. In the short term, bypassing these regulations can allow a team to invest sums beyond the imposed limits, enabling them to acquire top talent or develop more advanced technologies. This results in an immediate advantage in terms of sporting success, allowing the team to dominate competitions, achieve more frequent victories, and generate increased revenues through sponsorships, merchandising, and broadcasting rights. However, this competitive benefit is often temporary and entails significant risks.

The case of Manchester City, penalized by UEFA for sponsorship irregularities, demonstrates how violations can compromise not only a club's future prospects but also its international reputation. In fact, beyond immediate financial losses, breaching the rules can severely damage a club's image, reducing the interest of sponsors and fans, and limiting its ability to attract new investments. Similarly, in Formula 1, the case of Red Bull highlighted how exceeding the budget cap not only led to financial sanctions but also raised questions about the team's sportsmanship, undermining public trust in the results. At last, the Minucci case cast doubt on the credibility of the entire basketball sector, further underscoring the broader impact of such violations.

The analysis conducted in this paper suggests that, in the long term, attempting to gain a competitive advantage by violating financial regulations is risky and furthermore counterproductive. While breaking the rules may appear to offer immediate benefits, the cost of sanctions and the damage to reputation destroy the gains obtained.

Moreover, financial regulations are designed to promote fairer and more sustainable competition, where the uncertainty of outcomes and competitive balance play a crucial role in maintaining spectator interest and the economic appeal of sports.

In conclusion, the paper has demonstrated that although breaching financial regulations may provide a short-term competitive edge, such a strategy ultimately showed ineffective and harmful in the long period. Compliance with financial regulations should, therefore, not be viewed as an obstacle, but as a long-term strategy to ensure the success and sustainability of sports competitions.

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