

# European football clubs under FFPR regulation

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**Abstract:** Soccer is the most popular sport in the world. The sport originated in Europe, and European professional soccer dominates the sport. The biggest leagues and clubs are in Europe; Europe produces most of the top players, and those who are not European are attracted by high salaries to play in Europe. Despite this, European soccer clubs are rarely profitable and financial crises are common. Over the past two decades, advances in broadcasting technology have expanded the reach and revenue levels of European clubs at an alarming rate, but the financial situation of European professional clubs appears to have worsened. 2010 saw the announcement of a set of regulations known as Financial Fair Play (FFPR) by European soccer's governing body, UEFA, designed to provide financial safeguards for European soccer clubs. In 2010, UEFA, the governing body of European soccer, announced a set of regulations known as Financial Fair Play (FFPR), which aims to bring "discipline and rationality" to the finances of European soccer clubs. This paper analyzes the literature and explains in detail the meaning and implications of FFPR.

**Keywords:** European soccer clubs; UEFA Fair Play Regulations; Policy controls.

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## 1. Basic information of FFPR

### 1.1. Background of FFPR

Since the 90s, increased broadcasting and marketing revenues have largely expanded the budgets of European professional football clubs, especially those of the most well-known. In addition, foreign investors began targeting several of these well-known clubs. With Roman Abramovich becoming Chelsea's boss. In the broader economic context, the European football market has grown exponentially over the past two decades. A large part of this growth is due to European football's "big five" leagues, namely the Premier League (England), Bundesliga (Germany), La Liga (Spain), Serie A (Italy) and Ligue 1 (France). These five leagues account for 54.5% of the total revenue of the entire market (24.6 billion euros). At the time of writing, the Premier League comfortably outranks the Big Four competitors (from a revenue perspective) as the highest-paid league in European football. Despite the increase in revenue, European football clubs have found it difficult to balance their accounts in the past. In fact, over the past decade or so, there has been growing concern about the financial woes of European club football, [1] pointing out that clubs are still unable to break even despite increasing revenues. In the five-year period from 2006 to 2011, the net losses of 734 European member clubs increased by 760% [2], and European club football faced serious debt problems.

It was in this context that the governing body of the sport, the Union of European Football Associations (UEFA), intervened and, in 2009, introduced a set of rules called the Financial Fair Play Regulation (FFPR), which aims to introduce financial discipline and accountability into the decision-making process of European football clubs, put an end to "financial doping" and ultimately protect the long-term survival of the European football industry. This major regulatory intervention was finally approved in 2010 and implemented in 2011.

### 1.2. Specific content of FFPR

The FFPR stipulates that in order to be allowed to

participate in UEFA club tournaments (Champions League and Europa League), clubs must meet five broad categories of requirements related to sporting, infrastructure, personnel, legal and financial issues. The overall objectives are aimed at standards in all aspects of football, including caring for young players, promoting good management practices, improving sports infrastructure, and protecting the integrity of the UEFA tournament. Specific financial goals are aimed at the clubs' financial sustainability, including increasing transparency and credibility, setting benchmarks for the club, protecting creditors, introducing financial discipline, the need to operate on revenue, and emphasizing responsible spending to support long-term financial sustainability. In particular, with the introduction of FFPR, football clubs are required to submit annual audited financial statements (i.e., income statement, balance sheet and cash flow statement), including explanatory notes of important accounting policies. After verifying these documents and the BER, UEFA's Club Financial Control Body (CFCB) will decide what disciplinary measures and sanctions to take if the club does not comply: warnings, reprimands, fines, deductions, withholding of UEFA match revenue, prohibition of registration of new players in UEFA competitions, limitation of the number of players a club can register for UEFA competitions, disqualification of ongoing matches and/or exclusion from future competitions, cancellation of titles or awards.

The CFCB could also take a rehabilitative approach by reaching settlement agreements with non-compliant clubs, providing them with a roadmap to meet BER in the near future. The first sanctions against clubs that did not comply with the BER were put in place after the first BER assessment in May 2014, and the conditions for non-compliance came into effect for the 2014/15 season. From June 2015, the scope of the FFPR may be expanded to include clubs that have not yet qualified for UEFA competitions but are expected to participate in the future. The power of FFPR lies in the fact that the disclosure of BER and subsequent sanctions can also humiliate the public and disappoint fans, thereby inspiring football clubs to change their practices.

According to Articles 58-63 of the FFPR, clubs will comply with BER if the "relevant expenses" do not exceed

the "relevant income" or exceed the "acceptable deviations" during a series of reporting periods called "monitoring periods". Specifically, article 58, paragraph 1, clarifies the concept of income as follows: "Revenue is defined as ticket revenue, broadcasting rights, sponsorship and advertising revenue, commercial activities and other operating income, plus profits from the disposal of player registrations or income from the disposal of player registrations, excess gains from the disposal of tangible fixed assets and financial income. It does not include any non-monetary items or certain income from non-football operations. Article 58(2) clarifies the concept of related expenses as follows: "Related expenses are defined as costs of goods sold, staff benefits and other operating expenses, plus costs of amortization or obtaining player registration, finance expenses and dividends. It does not include depreciation/impairment of tangible fixed assets, amortization/impairment of intangible fixed assets (except player registration), expenditures on youth development activities, expenditures on community development activities, any other non-monetary items, financial costs directly attributable to the construction of tangible fixed assets, tax expenses or certain expenses for non-football operations. The concept of "acceptable deviation" is defined in Article 61 as €5 million. The "monitoring period" for the 2013/14 licence seasonal assessment covers the reporting period ending in 2013 and the reporting period ending in 2012. From there, the first three reporting periods are evaluated in each new license season. For example, in the 2014/15 licensing season, the assessment was based on the three reporting periods ending in 2014, 2013 and 2012.

### 1.3. The basic role of FFPR

The FFPR stems from UEFAs willingness to protect the overall long-term viability of the European football industry by reshaping the incentives for decision-makers at football clubs. Explicitly acknowledging the interdependence between clubs participating in specific leagues and competitions, and the impact of this interdependence on the continuity of those competitions. Managers of top-flight clubs have a strong incentive to overspend on big-name players in search of sporting performance. This is because a positive correlation between wage expenditure and league position has been shown that spending more on salaries translates into success on the pitch when all else being equal [3]. However, not all short-term gambling clubs looking to achieve long-term success succeed, which leads to dangerous financial instability and, in some cases, bankruptcy. In financial language, FFPR aims to ensure that football is a constant concern.

At the time of the first discussion of FFPR, football was basically an unprofitable industry and debt levels were unsustainable (half of the clubs were losing money, with annual net losses of all top European leagues increasing from €600 million in 2007 to over €1.5 billion in 2012). Limiting a clubs ability to gamble on sports success by buying big - name players is considered key to ensuring the stability of the entire system: the introduction of FFPR aims to encourage responsible spending by football managers and increase club credibility and transparency for the long-term interests of football (UEFA, 2010.1, art. 2, para. 2). For this purpose, a key performance measure of club performance was established, the so-called break-even requirement (BER): over a three-year rolling period (from the 2011/12 financial year), the clubs performance will be measured on the

breakeven between "related" expenditures and "relevant" revenues according to a determined level of acceptable deviation [4].

BER is the cornerstone of the FFPR architecture, essentially requiring clubs to act as self-sustaining businesses. As UEFA president Michel Platini at the time of the introduction of BER, "living within ones means" is the basis of financial stability, but it has not been the basis of football for many years. The new measures demanded by UEFA are "political", as basic accounting figures and calculations are chosen taking into account specific outcomes (clubs should not overspend on big cards for the sake of the long-term integrity of the game and the interests of football and society as a whole).

BER also brings greater financial transparency in a rather opaque environment, which can have serious adverse financial consequences if not adequately offset by some form of financial transparency. BER becomes a value meter that helps reshape the interests of the football industry. Its calculation methodology reveals a broader concept of club behaviour and performance, aiming to balance sporting performance with financial performance and is the primary media narrative of football and club success.

It was designed with two main objectives in mind, the first being to provide a means by which discipline and rationality can be introduced into club finances to help maintain the stability of European football (UEFA, 2015). Essentially, clubs are told to live within their means (hence the basic concept of "breaking even"). The second argument is that these regulations will make the industry (and individual leagues) more competitively balanced. It is unclear whether UEFAs proposed definition of competitive balance is consistent with the theoretical definition of competitive balance in the academic literature, but it is clear that UEFA does focus on the concept of "competition" between teams in their respective member leagues. It is too early, at least empirically, to achieve both goals, but there is some evidence that the overall financial performance of some leagues related to FFPRs first goal is improving. In fact, in 2015/2016, only Ligue 1 and Serie A recorded a total operating loss in the "big five" leagues, as financial regulation continued to have an impact. However, there is currently little evidence on the accuracy of achieving the second goal related to competitive balance of fair productivity.

## 2. What does FFPR bring to European football?

Despite its clear objectives, some doubts have arisen since its presentation about its possible impact and possible unintended consequences. [5] Criticism of the FFPR is summarized in an earlier discussion and empirical evaluation of a complaint filed with the European Commission by Belgian competition lawyer Jean-Louis Dupont. BER can (illegally) restrict investment, undermine existing market structures (as top clubs may maintain or even increase their leadership), reduce the number and amount of transfers, reduce the number of players under each clubs contract, and the income of the players agent. They conducted a pre -event impact assessment using a quantitative model that simulated football leagues, calibrated based on data from four of the "Big Five". European football leagues dominate the European professional football industry on the pitch and economically: the English Premier League, the French Serie A, the Italian

Serie A and the Spanish La Liga (the German Bundesliga is excluded). Due to some differences between the alliances, their datasets cover the decade before the introduction of FFPR. The models simulation predicts that BER will largely increase the clubs profitability by reducing salary expenses, but also consolidate the competitive advantage of the current top teams by excluding any challenges from clubs funded by wealthy investors. In both respects, FFPR may violate EU competition law.

Professional team sports are fundamentally different from other industries where a company has the potential to thrive if it can eliminate competition and establish itself as a monopoly supplier [6]. However, in sports, it is not worth it for a team to establish such a status due to the joint nature of "production" in sports. It is this concept that fundamentally drives the concept of competitive balance in professional team sports leagues. Their structure and regulations can have an impact on the balance of competition and, in turn, on the "product". In fact, regarding successful sports leagues, states [7], "each competitor has an intrinsic interest in keeping their opponents healthy". In this context, a potential effect is that excessive uneven competition may negatively impact fan interest and, consequently, demand[8][9].

In addition, a large body of literature has studied the impact of UEFA FFP rules on competition. [10] argues that the three main criticisms of FFP – benefiting from the massive injection of "external" funds into payrolls[11], reducing competition in the player market without benefiting from more balanced competition [12], and freezing the current club hierarchy due to market access barriers – are largely unfounded. Franck also suggested that FFPR could even increase competition because it reduced conspicuous payouts to successful clubs in case investors wanted to bet on the winning team. [13] in turn revisits these three criticisms and offers some continuity perspectives.

Essentially, the introduction of FFP hardened football clubs budget constraints. However, soft budget constraints allow companies to overspend because, similar to banks too large to fail, there is little credible threat of dissolution or bankruptcy, which leads clubs to operate under "soft budget constraints" (Franck, 2014) [12]. In this regard, FFPR should put an end to the "zombie race" caused by irresponsible spending by football clubs. Under the new system, if UEFA strictly enforces its new financial fair play rules, non-compliance can result in fines, deductions, and even exclusion or disqualification from the competition.

As a result, managers and investors may shift more risk-averse investments to new players, potentially disrupting the status quo. In a way, FFPR penalizes smaller clubs because it defines club-specific limits compared to payroll limits for North American soccer or basketball players, which are the same for all teams [14]. Ultimately, we believe that FFPR will lead to rigidity of the established hierarchy in football leagues, as it reduces external financing opportunities for smaller clubs. For example, Manchester FC can be there. To be so successful under the current financial fair play rules and to disrupt the order of the Premier Leagues top clubs.

Descriptively speaking, all leagues have seen a decline in the competitive balance after FFPR. In addition, this decline is statistically significant in the leagues of Spain, Germany and France, although the French league still has a better level of competitive balance relative to the others. For England and Italy, there was no significant difference in the level of competitive balance before and after the FFPR. In the case of

England, our findings are consistent with [15], who found no indication of a decline in the competitive balance of FFPR regulations, but rather suggested that there may be a positive impact. However, more research results do not confirm this positive link, and there is evidence that the overall balance of the league has declined, but not significantly when statistically analyzed. In terms of the measure of title race, survival and dominance, the gap in the title race in all five leagues has increased, suggesting that no matter which club wins the league, it wins by a greater point advantage. In addition, for Italy, France and Germany, the number of different championship winners has decreased since the emergence of FFPR. The Bundesliga is also the only league where the number of teams in the top four has decreased after FFPR. In terms of all analytical indicators, the Bundesliga performed poorly, the competitive balance decreased significantly, the championship gap increased significantly, the number of title winners decreased, and the top four clubs decreased. In this case, the outstanding performance (from a sporting point of view) was Bayern Munich (five titles and six top four finished in FFPR after six seasons), while the rest of the efforts, to match their dominance. As can be seen from the data, Bayern Munich is creating a monopoly in German football, similar to some of the clubs proposed by [16] that occurs in English football, which of course goes against the basic premise of professional team sports competition. The German findings are also interesting considering the ownership structure of German clubs and the 50+1 rule. In fact, the associations (Verein in German) have 50% of the voting rights of any football club company, which limits the power of the clubs financiers [17]. This system means that German clubs have historically been opposed to financial takeovers, and on the positive side, this means that clubs are less likely to accumulate debt over a long period of time (especially due to their low debt capacity) This may also be detrimental to clubs trying to improve their performance in such a system, as they are unable to catch up with larger clubs without external funding.

A good example is the case of RB Leipzig (Leipzig), which to some extent circumvents some of the German regulations. Leipzig was founded in 2009 when Red Bull (the energy drink company that owns the club) received a license for a now-outdated five-tier club. Since then, Leipzig have been promoted four times in seven years, joining Germany's top flight in the 2016/2017 season, finishing second and qualifying for the UEFA Champions League. However, in 2018, Leipzig already owed Red Bull 83 million euros, and there were doubts about whether the club was in line with the spirit and spirit of the league in terms of ownership structure. Nonetheless, this is a clear example of Vopels view around the need for external funding from football clubs to attract established elites. Interestingly, the German club has now decided to keep the 50+1 rule, after discussions about easing regulations to stimulate external investment, although the DFLs CEO said he thought the rule was "a bit excessive". The role of external investors is also particularly important here, with "sponsor dads" having made a significant impact in some European football leagues in recent years (notably the Premier League) and investing heavily in clubs they are interested in, which may also affect the financial performance of clubs before and after FFPR. We can attribute the decline in the competitive balance in part to the considerable financial gap that developed between clubs during this period, partly due to the increase in prize money, mainly from broadcasting

contracts from various leagues and revenue generated through pan-European competitions such as the UEFA Champions League. Although some broadcast distributions offer a percentage of transaction-sharing revenue in various leagues, there is no real revenue sharing in European team sports. This has led to a situation where the richest and most successful clubs continue to earn a significant share of the revenue stream, causing damage to other clubs in the league. Regarding Germany and Spain (both leagues have significantly reduced the competitive balance after FFPR), both leagues have just begun to distribute their broadcasting rights more collectively between clubs, while previously clubs were free to negotiate their own rights (which meant that Barcelona and Real Madrid in Spain and Bayern Munich in Germany were able to have a monopoly on broadcasting revenue). In contrast, the EPL has one of the most equal broadcast distribution mechanisms, and the league did not see a significant change in the competitive balance over the time period studied.

It is too early to judge at this stage whether a more concentrated distribution will favor the competitive balance of these leagues (Germany and Spain), and further research in this area is needed once data is available. In addition, there is no empirical test on the competitive balance of TV deals and subscriptions, so it is important not to generalize here and recognize that there are other underlying factors at play. As some data provided in the Annual Review of Football Finance publication suggests, these regulations seem to have an impact on financial health. While we cannot say that FFPR is causal, due to other important factors at play and the available results do indicate a general decline in the competitive balance of Europe's five major leagues since the introduction of the rules. With this in mind, and given that the FFPR limits the possible losses and external investment in clubs, how will small clubs close the gap with big clubs financially and on the pitch? In its current form, will these regulations only maintain the status quo in European football? This could be the case in some of these leagues in the post-FFPR environment, particularly the Bundesliga.

### 3. Summary

In past academic papers, some criticisms of FFPR have been made, particularly regarding the balance of competition and maintaining the status quo of wealthy elite clubs. Under the current regulations, it will also be difficult for any "smaller" club to close this gap, as they limit significant external investment. Therefore, clubs must seek other long-term financing strategies or innovate in their strategic direction to be able to compete. However, innovation and long-term financing can only get you this far in terms of the revenue actually generated. Under the principle of breaking even, clubs that make more always end up with more money to spend. There is no doubt that the introduction of FFPR was good in the first place, but it could have unintended consequences for the competitive balance of European football leagues.

There are also some suggestions for the future. First of all, it is necessary to obtain a complete European competitive balance chart, including all the national football associations that make up UEFA. This will allow people to understand the industry as a whole and draw conclusions about the potential wealth gap between Europe's top five leagues and the rest of the leagues. Second, it would be useful to analyze the competitive balance data and the financial health of European

football clubs before and after the FFPR, taking into account the two main objectives of the regulation. This will allow us to see if these provisions have achieved the desired effect in practice.

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