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UEFA FFP: AN ANALYSIS OF ITS EFFICACY

RESEARCH ARTICLE

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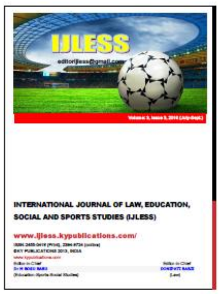

ABSTRACT

Football has seen itself undergoing a paradigm shift in the past decades. As European football grew into the gigantic monolith it is today, an inflow of money found its way into the coffers of the Union des Associations Européennes de Football (UEFA). The Financial Fair Play (FFP) regulations were initiated in principle to create a level playing field between clubs owned by business tycoons and those who are a bit more moderate in comparison. It is a sad sight that today, European club football is in truth, nothing short of an oligopoly of about ten clubs. This distorts the competitive balance not only among them, but among leagues all over Europe. Even though the FFP has been roped in to prevent this there have been widely publicized doubts over its claims of causing a harmonised and tighter regulation for all European clubs. It might be ineffective owing to its incompleteness, plausible inefficacy and humungous costliness. Even though the regulations are welcome with regards to controlling debt, hopes that it will make football more ethical and competitive, are foolhardy. Only time will tell as to how the 'beautiful game' will respond to FFP and how 'fair' and effective it really is.

KEYWORDS: Football, UEFA, FFP, club, regulation, European

1. INTRODUCTION

It is always desirable for a sense of fairness to be involved in all spheres of life, be it anything. Even more so in the case of sporting events; for irregular disparities are often reasons for an unprecedented decrease in popularity. Football, the 'beautiful game' as the connoisseurs and fans call it alike, has seen itself undergoing a paradigm shift in the past few decades. It has captivated the imaginative senses of all mortals who have had the joyous fortune of being engrossed in the so-called subtlety of the game. With time it has had the ability to adapt to the demands of technological intervention too. This also holds true to the organisations who handle the near impossible job of administering football governance the world over. The Union des Associations Européennes de Football (hereinafter referred to as UEFA) has certainly been invaluable in supervising the various nuances of the game without fail. Europe is undoubtedly a major market for the game, and for it to rest safely in its hands for more than half a century, speaks volumes about the credentials of the organisation in itself. As European football grew into the gigantic monolith it has become today an inflow of money found its way into the UEFA coffers in lieu of television rights, sponsorships and the likes. Without a shred of doubt it can be said that it has largely benefitted the game in return. The way it has garnered the attention of the public at large, is laudable, to say the least. Meanwhile club football in the different leagues in the continent amassed high rates of fanfare, with a sizeable Asian and American population turning into overnight supporters. European football clubs waged long-drawn financial battles with one another to earn the services of reputed football players from around the globe. In their relentless pursuit of instant success they started shamelessly adding many a zero than they earned to the monetary figures and reach out to the sporting icons they wanted. Needless to say the situation started getting out of hand and soon reached tipping point. Many a time UEFA had seen itself being shrouded in controversial scenarios, yet the prevalent situation did put the authorities on a spot. The need of the hour was to instil in clubs a sense of confidence to gain long-term survival and stability by revamping the existing financial regulations. UEFA's think-tank came to the fore and developed a formula of sorts to curb the damage, which was a culmination of long proposals and closed room chats churning out fruitful ideas. This brings the author to the subject matter of the paper, 'UEFA Financial Fair Play.'

2. MATERIALS AND METHODS

The author relied on deductive reasoning. The materials were primarily collected from what was available online. The UEFA website and certain other online media were relied upon while completing this work. The opinions of leading scholars in this regard were taken into account. A uniform pattern was followed in the research and subsequent findings have been included.

3. RESULTS AND DISCUSSION

The subject matter of Financial Fair Play regulations deems special attention in the realm of modern day football. The author set out to explain the term *per se* and later went on to mention the minor details involved in the topic. The merits and demerits of the regulations were weighed thoroughly and the author's self-interpretation was the tool with which the analysis was done. The result was that a realistic way of thinking provoked the author to come to the conclusion that the regulations were not ideal and have many a lacuna. However, with certain tweaks and modifications, it could set out to achieve some of its objectives.

FINANCIAL FAIR PLAY- THE TERM AS IT IS

As is known from the aforementioned factual situation, the UEFA Financial Fair Play (hereinafter referred to as the FFP) regulations were initiated in principle in 2009 September by the UEFA Financial Control Panel to prevent clubs from spending an amount more than what they earn. In fact the then UEFA President Michel Platini went on record, saying that the aim was to create a level playing field between clubs owned by business tycoons who heap cash gifts and those who are a bit more moderate in comparison. The principal objectives were to:-

- introduce more discipline and rationality in club football finances
- decrease pressure on salaries and transfer fees and limit inflationary effect
- encourage clubs to compete within their revenues
- encourage long-term investments in the youth sector and infrastructure
- protect the long-term viability of European club football
- ensure clubs settle their liabilities on a timely basis[1]

Incessant worsening financial losses were reported of late from various football clubs. The market conditions were generally difficult which could pose an added threat with respect to the daily functioning of the clubs. For instance liquidity shortfalls could lead to delay in payments to employees and tax authorities. It is in the wake of this that UEFA, after prolonged consultations with the football family, decided to oblige clubs to balance their books or break even over a certain timeframe. According to this welcome concept club expenditure cannot be more than their generated revenues. Moreover transfer and employee payment commitments are to be met at all times. To enable the authorities to keep a track on the wide panorama that is European football, a multi-year assessment was incorporated on a long term basis.

The formation of the two-chamber Club Financial Control Body (hereinafter referred to as CFCB) in June 2012 to oversee the application of the UEFA Club Licensing System and Financial Fair Play Regulations, was approved by the UEFA Executive Committee. It was the Club Financial Control Panel that the CFCB had replaced, the former being the monitoring agency since the introduction of the regulations in May 2010. The CFCB is adorned with the additional distinction of being a UEFA Organ for the Administration of Justice. Its competence includes the ability to impose disciplinary measures in the

[1] http://www.uefa.org/protecting-the-game/club-licensing-and-financial-fair-play/ as visited on 6th of March, 2015

case of non-fulfilment of the requirements, and to decide on cases relating to clubs' eligibility for UEFA club competitions. It is to be duly noted that the procedural rules governing the UEFA CFCB require its members to remove themselves from cases, on their own initiative or upon request if they themselves, their association or a club belonging to that association, or another club with which they are connected in any other way, are directly concerned, or if their independence or impartiality is in doubt.

A period of extensive discussion saw the UEFA Club Licensing and FFP Regulations being approved in May 2010 and updated in the 2012 edition. Its implementation was carefully worked out over a three-year period, involving a mechanism in which clubs participating in UEFA club competitions having their transfer and employee payables were first monitored during the summer of 2011. It was long afterwards that the break-even assessment was first made; during 2013-14. The fantabulous early success of the project proved to be a bitter pill to swallow for all the critics who deemed it to be over-the-board, and has led to an almost unequivocal support amongst the stakeholders of modern football.

MORE INSIGHTS

Financial fair play demands clubs to show that they have paid their bills. It is all about showcasing a vast improvement in the financial health of European club football. The CFCB was installed to verify each club's figures on an annual basis, following which sanctions may or may not be issued. The following are the various disciplinary measures which can ensue out of non-compliance of FFP Regulations:-

- Warning.
- Reprimand.
- Fine.
- Deduction of points.
- Withholding of revenues from a UEFA competition.
- Prohibition on registering new players in UEFA competition.
- Restriction on the number of players that a club may register for participation in UEFA competitions, including a financial limit on the overall aggregate cost of the employee benefits, expenses of players registered on the A-list for the purposes of UEFA club competitions.
- Disqualification from competitions in progress and/or exclusion from future competitions.
- Withdrawal of a title or award.

However, this does not mean by any way that it is mandatory for a club to run only on profit, and in fact clubs can spend up to 5 million euro more than they earn per assessment period (three years).[2] There is scope for an increase in this limit too, provided the club is entirely covered by a direct contribution or payment from the club owner(s) or a related party. The limits are 45 million euro for the 2014-15 season and 30 million euro for seasons 2015-16, 2016-17 and 2017-18.[3] In the following years the limit will be lower, with the exact amount still to be decided. It is to be noted that all such costs are excluded from the break-even calculation in order to promote investment in stadiums, training facilities and youth development. Also relevant is the fact that clubs with enormous debts and those who do not pay their debts, are required to comply strictly with FFP by player or transfer fees as agreed contractually. The UEFA club licensing system was introduced in the 2003-04 season. Since then there have been 44 clubs which have directly sportingly qualified for either the UEFA Champions League or the UEFA Europa League, but were yet not admitted because they did not fulfil the licensing criteria. FFP has been accorded value in the licensing criteria in 2011, after which several clubs who have not paid wages to players or fees to other clubs for transfers have met the wrath of the FFP Regulations.

'BREAK-EVEN' RULE

Break-even requirements are something that European football clubs have had to contend with, since the 2013-14 season, which means in principle that they are not supposed to spend more than they earn. The break-even assessment has been evolved to support smaller and medium-sized clubs more, as the acceptable deficits are set in terms of absolute

[2] http://www.uefa.com/community/news/newsid=2064391.html, as visited on 9th of March, 2015

[3] Ibid

million euros, and not relative percentage. The rule has been structured to bode well for the smaller clubs in the immediate future. It boasts of a monitoring period of three years and is deemed to be highly complex by a vast majority of people.

Financial Fair Play does not have anything to worry about the wealth differentials of clubs as it does not aim to bridge the gap and reach equilibrium. What it really strives to achieve is for clubs to not employ a quick-fix strategy, but to build for success. Investments in youth and stadium infrastructure are favoured too. Non-compliance with the break-even requirement is bound to receive the fury of CFCB in the form of sporting restrictions and financial measures. It is indeed a good incentive for clubs to be break-even compliant during the course of a settlement also, because all sanctions shall cease to apply for the following season, the sole exception, being that of the non-conditional element of the financial measure.

Manageable debt is common practice in industries. Break-even rule succeeds in mitigating losses due to unmanageable debts, to a great extent. Furthermore the European Commission has been exercising in continuous dialogue with the UEFA about the break-even rule, and has offered support time and again. It is encouraging that Michel Platini and the European Union Commissioner for Competition issued a joint statement with regards to the stark similarity between the rules and objectives of the FFP and the policy aims of the EU Commission, amid doubts that the ambiguous benefits of the break-even rule would cause the FFP Regulations to fall foul of European competition law.

THE OTHER SIDE OF THE COIN

It is a sad sight that the European club football of today is in truth, nothing short of an oligopoly of about ten clubs including Real Madrid and FC Barcelona of Spain, Manchester United and Chelsea of England, AC Milan of Italy, Bayern Munich of Germany, and the rest, clubbed together, dubbed as 'the untouchables' by Deloitte.[4] The aforementioned clubs are said to move farther away from the rest of the crop until the gap can never be closed at all. This distorts the competitive balance not only among them, but among leagues all over Europe. Even though the FFP has been roped in to prevent this occurrence there have been widely publicized doubts over its claims of a harmonised and tighter regulation for all European clubs. As the national scenarios are of a different nature altogether it is only fair to expect FFP to trigger certain asymmetric adjustments among clubs. That is why the inherent question as to whether a national regulation of the domestic league could be established independently of other leagues especially when they are the ones locking horns in competitions like the Champions League and Europa League, is ever so significant. Income redistributed among domestic clubs can result in a more favourable competitive balance within the domestic league, but can weaken the international competitiveness of the domestic champions. The inevitable trade-off occurs, and that is why a European-wide harmonised regulation like FFP has the potential to violate national preferences.

Another demerit in the FFP is that its goals are unclear to the extent of which neither an explicit definition of what could be regarded as an acceptable or favourable competitive balance is provided nor are the criteria on how to measure or to evaluate financial stability properly derived. A notable glitch in the FFP involves the acceptable aggregate deviation from the 'break-even requirement' of 5 million euro. Any deviation exceeding the said amount is only allowed if the deficit is guaranteed and entirely covered by contributions from equity participants or related parties. This temporary exception to the 5 million euro rule engages clubs that are primarily financed by donors and private investors to change their management policy so as to be in compliance with the new regulations within a reasonable period of time.

Limiting the deficit of a club and making redundant the opportunity to procure external money will dent its hopes of being in proximity to the domestic champions, be it in any league. Predictably FFP becomes an instrument to restore the competitive balance between the leading European clubs rather than helping the poorer clubs to catch up with their domestic champions. Whether the cost involved in the implementation of FFP Regulations is justifiable is a pertinent issue too. Regardless of its outcome the cost of monitoring and enforcement are likely to be staggering. Clubs have the luxurious option of a mere pretension of adherence to the rules, while in reality they are attempting to declare income from non-

[4] http://www.hwwi.org/fileadmin/hwwi/Publikationen/Externe_PDFs/1210201.pdf, as visited on 10th of March, 2015

football operations as ‘relevant income’, circumventing the restrictions in the process. The detection of this likely-to-become-viral practice will prove to cost millions.

4. CONCLUSION

It is in no way a foregone conclusion that Financial Fair Play will miraculously go on to remedy the disastrous financial situation that club football in Europe finds itself in. A fair summary of its pros and cons will reveal that FFP seems to be ineffective owing to its incompleteness, plausible inefficacy and humungous costliness. Its objectives are largely idealistic too, very difficult to be applied straightaway in the current pragmatic era of football. The problem of debt or insolvency has not been proven to be that serious in professional football and, furthermore there is no way anyone can say that the risk resulting from the insolvency of a single club justifies tighter regulation. In fact such a regulation might turn out to be counterproductive as it unintentionally safeguards established clubs from being challenged by relatively smaller players. Therefore, Financial Fair Play could end up confirming an unbalanced competition rather than making it more even. With an aim to facilitate a little ease and slackening of regulations the author proposes that the current three-year monitoring period for the break-even rule should be extended by up to seven years, This will change the fundamentals of the FFP rules which focus exclusively on preventing clubs recording annual losses. Debt reduction has to be adopted as a part of any change to the rules too.

Even though UEFA FFP Regulations are welcome with regards to controlling debt, hopes that it will make football more ethical and competitive are foolhardy. The rich club owners who upset the financial scale with an endless stream of money do not help the matter. FFP prompts clubs to embark on a fresh path to maximise revenue which thereby result in the world seeing bigger and bigger transfer fee and wage figures. The outrageous money they spend on getting the players is made within no time in the form of shirt sales and endorsements. All it takes is for the accountants to provide the back-up revenue spread-sheets; child’s play for qualified ones. To counter this, and to create a level playing field the author proposes a transfer spending limit, say for instance, that a European club cannot spend more than sixty million euro per season. Spare funds can be utilized to spend even bigger on football transfers and hence, the need of the hour is to involve a wage limit to go with the transfer limit.

It is an unfortunate irony that, like life, in football the rich get richer. A situation might arise when certain clubs can no longer reach the elites of football. The author hopes in good fervor that UEFA’s Financial Fair Play, despite all its lacunae, will bear fruits as envisioned by its makers. It is probably cruel to dismiss the concept which is still in its infancy. Yet only time will tell as to how the ‘beautiful game’ will respond to Financial Fair Play and how ‘fair’ and effective it really is.

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