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Football Governance: business and values

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UEFA Financial Fair Play (FFP)

Information note

1. Introduction

1. Over the last 30 years, the football industry has experienced a period of continued growth. Club and national team football is far more international today than in the past. The success of European club competitions and of the EURO contributed to this situation. At the same time, regulatory changes in the transfer market, the explosion of broadcasting rights, sporting changes, stadia improvements and, more recently, technological innovations, all enabled the football industry to prosper, at least until the arrival of COVID.

2. FFP regulations positively changed the club football landscape over the last decade; it entailed: massive reduction in overdue payables; massive turnaround on clubs' bottom line and operating earnings; reduction of debt levels and better transparency.

3. FFP has received strong, continued and explicit political support from both the European Union and the Council of Europe. In its resolution 1875 (2012) on good-governance and ethics in sport, the Parliamentary Assembly of the Council of Europe stated that "Financial fair play is a key concept" and that it "could serve as a model for other European federations".

4. However, the football ecosystem has evolved over the last decade and UEFA considers that FFP regulations should evolve too, to better serve the agreed objectives and, at the same time, address some criticisms, namely the fact that decisions are taken too late.

2. The positive outcomes of the FFP regulations

5. After several years of operating losses, club football has returned to profitability in recent years. In the 2019 financial year – before the Covid-19 pandemic – clubs reported the second highest operating profits on record. The tables in the appendix show the positive trends in terms of profits (before the transfer activities), reduction of operating losses, improvements in the balance sheets and reduction in overdue payable (OP), with an overall OP balance which remained stable since June 2013 and a decrease in the number of clubs with OP in June 2019. Ten consecutive years of improvements in the health of the balance sheet is likely to end with the pandemic, but the industry was in 2019 (and is today) far better prepared than in 2011, before FFP rules were introduced.

3. Financial implications of the pandemic

6. The consequences of the disruption caused by the pandemic have been severe:

- The interruption of season calendars and restrictions on the number of people in the stadiums (i.e. playing behind closed doors and afterwards with a limited number of attendants) have led to a sharp drop of revenue of all kinds; loss in club revenues amounted to around € 7 billion.

- Fewer players transactions at lower values have resulted in lower transfer profit margins; consequently, transfer profits since 2019 were down by € 2.5 billion.
- The inflexible nature of clubs' cost structures, particularly player wages, lead to difficulties in making cost savings. The ratio of player wages to club revenues has risen to 75%.
- Cost savings have not been sufficient in compensating for lost revenues; thus, club profits were hit by € 5-6 billion.
- Clubs' debt levels have grown on average by 35% and, at present, up to 120 clubs are at risk of falling into negative equity.

7. As a sign of the financial distress, Summer 2021 transfer spend was 42% lower than the peak in 2019, with lower spend in all ten major markets. The pandemic has pushed more than 200 profitable clubs into loss-making territory. The hit to clubs' finances has resulted in the erosion of equity (with clubs reporting thin equity before the crisis being, of course, the most exposed) and a need for cash injections, either through stakeholder equity increases or via third-party debt financing. It is estimated that € 3 billion of equity injections are required to maintain clubs' solvency. This level of equity injections will raise sustainability issues and associated governance matters.

8. The pandemic has also had a wider global impact and football stakeholders are not yet able to entirely assess the direct fall out on most clubs and national associations and indirect results of changes in consumers' behaviour. The pandemic has shaken the footballing landscape and acts as an accelerator for trends that already began in past years (polarisations, change in ownership structures etc.).

4. Towards the FFP 2022

9. In order to cope with the effect of the crisis and to the fact that football had to suddenly halt for a few months, specific emergency measures were introduced in order to provide clubs with some flexibility. Such measures allow clubs to deduct the loss of revenues due to the pandemic from the calculation of the break-even result and provide more time to settle payments. These rules should then be progressively abandoned as business gets back to normality.

10. Moving forward, it is the opinion of UEFA and the stakeholders that FFP regulations should be reviewed. UEFA intends to propose a package of measures to address the new challenges and improve the financial sustainability of European football clubs, while embracing competitiveness and taking account of the new reality of the European club football. It is important that the new rules are adopted in a timely manner in order to provide clubs with a direction, so that they can organise and plan.

11. The reform of the FFP has recently been discussed by stakeholders at the "Convention on the future of European Football" organised by UEFA. There was an agreement that it is only in line with complementary sporting measures that on-pitch competitiveness must be addressed.

12. At this stage, the following outcomes are being considered:

i. The system should focus more on the sustainability of running costs (ex-ante approach, focused on anticipation) rather than being exclusively focused on reviewing the past financial situation (ex-post approach). It should directly focus on control of transfer payments and fees and to players' salaries (e.g. consider the establishment of a ceiling), instead of solely considering the bottom line net result.
ii. The system should allow for sustainable investments that can encourage growth with a focus on talent development.
iii. There should be incentives to address the challenges generated by the flexibility of revenue streams and the rigidity of the cost structure.
iv. The huge diversity of football clubs must be taken into account.
v. Any breaches must be immediately apparent.
vi. The grid of sanctions (and the way to impose them) should be reconsidered, to ensure proportionate and dissuasive sanctions, also paying attention to recidivism; financial penalties must be combined with sporting penalties.
vii. Fulfilling all commitments regarding overdue payables is of critical importance and requires further emphasis.

13. Concerning the timeline, emergency measures will apply to financial years 2020 and 2021. Following stakeholder consultations (which are ongoing) new FFP regulations should be submitted for approval to the UEFA Executive Committee in the course of the season 2021/2022, so as to enter into force in June 2022 (with a transition period between current and new FFP Regulations).

Appendix

Table 1. European top division operating losses / profits before transfer activities

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Losses / Profits (€ million)	- 336	- 382	- 113	323	684	772	844	1 410	732	948

Table 2. European top division operating losses / profits

Year	2009	2010	2011	2012	2013	2014		2015	2016	2017	2018	2019
Losses / Profits (€ billion)	- 1.2	- 1.6	- 1.7	- 1.1	- 0.8	- 0.7		- 0.5	- 0.3	0.6	0.1	- 0.1

Table 3. Balance sheets

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Net equity Assets - liabilities (€ billion)	1.8	1.9	3.3	3.9	4.6	4.9	6.1	6.7	7.7	9.0	10.3
Annual capital contributions (€ billion)	0.5	1.9	1.3	1.5	1.7	1.1	1.3	1.0	0.7	1.5	1.7

Table 4. Overdue payable (OP) – evolution since 2011

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
OP (€ million)	57	30	9	8	5	6	7	4	2