

UNIVERSITY OF TWENTE.

A Contribution to Financial Fair Play in European Football

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Word of Appreciation

During the last four months I have spent a substantial amount of time and energy on a topic that is familiar among a lot of people. Especially the combination of finance, actuality and ethics were enough reason for me to conduct a thesis on Financial Fair Play. Despite a very little knowledge of Financial Fair Play at the beginning, I became well-known with it and enjoyed the last four months conducting research, structuring information and substantiating recommendations.

However, a Master Thesis could not have been written without any input from supervisors, the in depth knowledge of interviewees and people surrounding me who assess the clarity of my thesis from an objective point of view. Although you are responsible for creating your topic, conducting in depth research and structure it in a proper way to answer the main question, I would like to thank in particular my supervisor Henk Kroon. Due to his pragmatic, enthusiastic and critical way of thinking he has made an important contribution to my Master thesis. In addition I would like to thank Reinoud Joosten for assessing my thesis as a second supervisor. Valuable perspectives with regards to financial health could not have been obtained without the time and knowledge of Jan Peter Dogge, Armando Veringmeier and Maureen Niehof.

Management Summary

Financial Fair Play is introduced by the UEFA and is part of their eleven values. The main role of the UEFA is to act in accordance with the best interest of European football. The primary objective of Financial Fair Play is to improve the financial health among European football clubs, by imposing clubs with sanctions if they do not comply with the break-even requirement during a certain period. The Club Financial Control Body of the UEFA is responsible for monitoring, assessing and probably sanctioning clubs when they do not fulfil the regulations. To assess a clubs' financial situation, they have to provide via the licensor all relevant (financial) information to the Club Financial Control Body. In particular, it has been noticed that the 20 largest clubs do almost earn half of the total revenues in European football and that these revenues can be divided into three categories: matchday, broadcasting and commercial revenues. Another important factor is illustrated by the UEFA and contains the fact that 65% of the total revenues are spent on salaries. Not unexpected when a connection exists between salary expenditures and sporting success. An umbrella to Financial Fair Play is Fair Play. Fair Play is about equal opportunities, respecting a game and is dependent on someone's interpretation and situation. Other worldwide sport associations are describing Fair Play as respect for all parties involved, playing to win and equal opportunities. To improve the currently stated Financial Fair Play regulations with a special attention to the break-even requirement, perspectives from three different sources have been obtained. Financial health i.e. stability is more comprehensive than not spending more than you have earned, especially since an obtained break-even result does not have substantial predictive value. Financial ratio analysis with regards to profitability, efficiency, liquidity and solvency can provide you with in depth knowledge of the financial performance i.e. situation of a company. In response to the substantial salary expenditures, several other sport associations apply a salary cap to level talent distributions, to control costs and to maintain the competitive balance within a competition. Specialists in the field of finance endorse the use of ratio analysis to assess the financial health of a company. In addition, they focus on non-financial aspects like the management team and the business model of a company. Also working capital management and the ability to handle a financial setback can help you understanding the financial situation. The Financial Fair Play regulations should include in addition to the break-even requirement, an assessment of several financial ratios, non-financial aspects and the cash position of a football club. Besides, one should consider a limitation on salaries paid by football clubs, especially to control costs and increase the competitive balance. An initial model with the current situation and the proposals made based on extensive research, is provided in the final chapter and can be used by others to further improve the financial situation of European football clubs.

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1. Introduction

Where is sports about and football in particular? Is it a business or is it for fun? How to decide which one is applicable? Is it about winning or is it about money? Or does money enables you to win and does winning contribute to your financial position? Although there might be a grey area, it is obvious that professional football in Europe is business and that both winning and money is of importance, especially since money can be used to 'buy' success¹. With a total revenue of the European top division clubs of 14.1 billion in 2012, an attendance of European league football matches by more than 163 million people and total transfer fees of 10.9 billion in 2012, football on this level is obviously more than a game to practice with friends ones a week². Since it is a business and sponsors, players, spectators, trainers and other employees are involved, continuity and stability is of importance. The UEFA is responsible for organising a competition and stability of football clubs is therefore of importance to them. Corresponding to this objective they introduced the Financial Fair Play regulations, in particular to improve the financial health of European football clubs. In these regulations dozens of articles are discussed to organise, streamline and help European football clubs in a proper way. However, besides the licensing requirement to have no overdue payables, one specific rule does pale all the other rules; the break-even requirement. The obligation of Football clubs who are qualified to play UEFA competition to do not exceed relevant income with relevant costs³. The UEFA wants to improve the financial stability among European football clubs, however they do not clarify their underlying reason. Probably their concerns are based on a research of A.T. Kearney who argues that a substantial amount of football clubs would have gone bankrupt if they were 'normal' businesses⁴. Or perhaps the increasing transfer amounts in European football during the last five years, is reason enough to introduce tighter regulations⁵. Nevertheless, the UEFA wants to improve the financial health in European football via the Financial Fair Play regulations. When a club is qualified to play UEFA competition, but does not comply with the Financial Fair Play regulations, it can face penalties. Clubs can be warned, a fine can be imposed, obtained titles can be withdrawn or a club can be disqualified to play future competition⁶. Manchester City for example agreed with the UEFA that employee benefit expenses cannot be increased for the following two seasons and at least 20 million will be withheld from any revenues earned by

¹ Szymanski, 2003, P.1153

² UEFA Club Licensing Benchmarking Report, 2012, PP. 8-12

³ UEFA Club Licensing and Financial Fair Play Regulations 2012, Part III Chapter 2 article 58, P.34

⁴ A.T. Kearney the A.T. Kearney EU Football Sustainability study, 2010, P.3

⁵ UEFA Club Licensing Benchmarking Report, 2012, P.50

⁶ UEFA, Financial Fair Play: Everything you need to know, 2014

participating in UEFA competitions⁷. Also Paris Saint-Germain agreed to a settlement-agreement with the UEFA. They are not allowed to report a break-even deficit for the financial year ending in 2016 and in connection with this agreement, the contract between the club and the Qatar Tourism Authority has been adjusted to a significant lower fair value⁸. Both clubs agreed in addition that they will be subject to a limitation with regards to the total amount of players they may include in the “A” list for participating in UEFA competitions. Due to the importance of football in almost every living room, for sponsors and for football players, an assessment will be made with regards to the quality of the Financial Fair Play regulations and how they can be improved, especially to enjoy the most popular sport for a significant longer time.

⁷ UEFA Club Financial Control Body, 2014

⁸ UEFA Club Financial Control Body, 2014

2. Research Methodology

Financial Fair Play (FFP) in European football is the central item of this thesis and it is surrounded by several topics, as illustrated in the figure below. This thesis can roughly be divided into two parts. The first part will provide you with a basic understanding of FFP and how it is connected to its related topics and parties. The second part will focus on different sources to improve the current FFP regulations. Both parts are finally the substantiation of an initial model, which will show a combination of both the current FFP regulations and its related sources to develop the FFP regulations. The next figure illustrates these two parts. The numbers in this figure are corresponding with the questions that will be answered in this thesis.

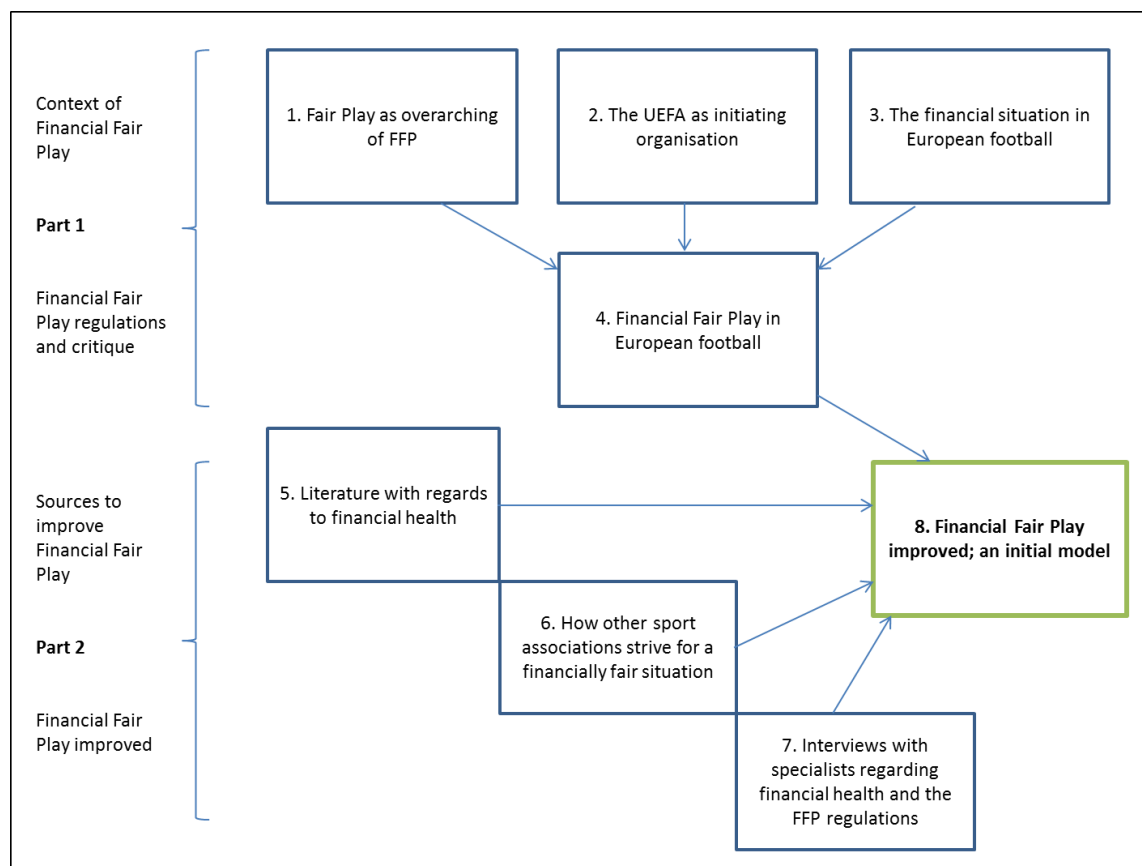


Figure 1, sources to address to obtain an overall understanding of FFP and sources to address to improve the FFP regulations

The first four questions are summarised below and will be answered by means of the described sources.

- 1. What do both literature and other sport organisations tell about fair play?*
- 2. What is the role of the UEFA with regards to Financial Fair Play?*
- 3. What are the key determinants of football clubs' financial results?*
- 4. What is the content of and critique on the Financial Fair Play regulations?*

The first question will be answered by using two sources. First literature will be addressed to obtain a theoretical idea of fair play. Secondly, thoughts of five different sport associations with regards to fair play will be used to obtain a practical idea of fair play. Both sources will be combined to obtain a comprehensive understanding of fair play. The second question will be answered by addressing documents of the UEFA to determine their role in football and how its organisation is structured to obey to that role. To answer the third question several annual reports of football clubs will be addressed, with a particular focus on the income statement to determine the most important items that influence a football club's result. Reports from Deloitte and the UEFA benchmarking report will also be used to draw an overall understanding of finance in European football. After this elaboration on topics connected FFP, the answers on question four will provide a more in depth knowledge with regards to the FFP regulations and its critiques. The regulations will be presented based on official documents drafted by the UEFA. The presented critiques are based on scientific articles from 2011 and later.

This obtained understanding of finance and regulations in European football will subsequently contribute to propose recommendations from different points of view. Therefore the sub questions in part two consists of:

- 5. What does literature tells about enhancing financial health?*
- 6. How do other sport associations strive for financial health i.e. financial fair play?*
- 7. How do finance professionals think football can become financial healthier?*

To address question five scientific literature with a special focus on a company's financial situation will be applied. A focus on literature because the primary purpose of FFP is to improve the financial health in European Football. The sixed question will be answered by approaching documents and financial regulations from associations who oversee sports which can be compared with football. The final source to obtain input to improve the FFP regulations will come from professionals in finance and football. Interviews with specialists in the field of financial health and football will generate thoughts and suggestions to improve the FFP regulations.

By combining the first and the second part, an integrated and initial model can be established. In particular the three sources addressed in the questions, five, six and seven will make it possible to answer the main question of this Master thesis:

8. How can the Financial Fair Play regulations in football be improved in favour of the financial health of European football clubs?

It is an utopia to expect that based on this research football becomes financial healthier in the foreseeable future. However it is highly expectable that the structure of establishing a broad understanding of the current situation and using different perspectives and sources will contribute to an improved model of FFP regulations.

3. Fair Play

The research methodology has illustrated that FFP is a part of Fair Play. To understand the context of FFP, a more in depth view will be given regarding Fair Play. Therefore both scientific literature and information from overarching sport associations will be addressed to obtain such an understanding of Fair Play. After illustrating views from both literature and sport associations, a visualisation will be provided with the most important aspects of fair play to keep in mind for the next chapters.

3.1 Literature

The first paragraph ‘a first thought on fair play’ describes a basic understanding of how fair play evolved in sports and which characteristics are of interest in considering fair play. The subsequent paragraph will present a dominant philosophy on fair play and is titled ‘what is fair play: equal opportunities’. The last paragraph in which literature regarding fair play will be discussed is named ‘what is fair play: respecting game’. By using several key words, ‘respecting the game’ will in the last paragraph be concretised.

3.1.1 A first thought on fair play

A lot of persons do have some ideas of fair play. Keeping the rules, helping a competitor when he is injured, clap your hands when someone makes a terrific goal or just playing sports for fun. Literature did also spend attention to the different perspectives and characteristics of fair play. Fair play is described as on sepia conjured photographs of moustachioed gentlemen with long sleeves and striped blazers, adhering to highly playing standards and moral codes⁹. However, sports developed over time. Besides for the elite, sports democratised and became possible to practice for normal men¹⁰. Since not all thoughts of how to practice sports were unanimous, attendance of sports by different cultures and groups required a more clearly defined playing field¹¹. In the context of football, which is the primary focus of this thesis, fair play has become more and more a topic of discussion. This is reasonable to explain, since there is a correlation between expenses on players’ salaries and a football clubs’ success¹². Can subsequently success be bought by the involvement of wealthy individuals from the Middle East and Russia and is it fair to let them go ahead?

Fair play is not something universal and it can be applied in totally different areas. Its interpretation can differ from country to region and from sport to religion. This conception is

⁹ Loland and McNamee, 2000, P.64

¹⁰ Butcher and Schneider, 1998, P.1

¹¹ Butcher and Schneider, 1998, P.1

¹² Szymanski, 2003, P.1153

partially searched and it stated that Finnish, English and Swedish soccer show different interpretations of fair play¹³. Fairness and fair ways of treatment are also a frequently discussed topic in justice. A certain treatment might be fair for person A but unfair for person B¹⁴. This illustrates the importance of the context of fairness and fair play. Justice can be seen from both procedural justice and interactional justice¹⁵. Are we able to say that something is fair when procedures are just followed or is it about the final treatment of sports or a person? The perception of interactional fairness of peer students or colleagues is significantly associated with each other¹⁶. This illustrates that it is reasonable to assume that in sports beliefs and thoughts are connected between different stakeholders. Another notion is that fairness can be dependent on the perception of fairness by an individual¹⁷. Especially important in this perception is the fact whether one is directly affected by regulations or something similar. An additional dimension can be added to fairness. Based on research conducted in Indonesia and Hong Kong, a distribution of sources can be seen as fair based on both merits and necessity¹⁸.

3.1.2 What is fair play; equal opportunities

Fair play is an element of the level playing field. A level playing field is a metaphor that is frequently used in sports. A level playing field can be seen as a combination of constitutive rules and fairness¹⁹. The first is necessary to realize a game in practice (scoring goals for example) and the second prescribes how to behave during a game. Keeping the formally stated rules is necessary to practice the game. However it is not a guarantee that rule violations will not occur and a fair level playing field will arise²⁰. A fair level playing field can be seen as a playing field where one team does not have to play uphill and the other one downhill, so it refers to rules that favour one competitor 'unfairly' over another²¹. This statement is substantiated by the interpretation that fair play is based on equal opportunities²². In a fair level playing field it is crucial that both teams can put certain skills against each other, and that the team with the best skills wins the game²³. An interpretation supported by the statement which explained that in America fairness is equal to evenly balanced expenditures on talent²⁴.

¹³ Heinilä, 1984 (as cited in Loland and McNamee, 2000, P.64)

¹⁴ Clayton and Opatow, 2003, P.299

¹⁵ Clayton and Opatow, 2003, P.300

¹⁶ Lamertz, 2002, P.19

¹⁷ Skitka, 2002, P.588

¹⁸ Murphy-Berman and Berman, 2002, P.157

¹⁹ Loland and McNamee, 2000, P.65

²⁰ Loland and McNamee, 2000, P.65

²¹ Risse, 2007, P.128

²² Lenk and Gunter, 1989 (as cited in Preuss, 2012, P.1)

²³ Risse, 2007, P.128

²⁴ Maxcy, 2014, P.4

A metaphor like a level playing field only works when its message is very clear²⁵. If subsequently the level playing does not work or does not work enough, common standards can be used to enhance the playing field²⁶. However detecting if a level playing field does not work is very hard²⁷. A definition of an uneven playing field in the context of a country's democracy is presented as: *'as one in which incumbent abuse of the state generates such disparities in access to resources, media, or state institutions that opposition parties' ability to organize and compete for national office is seriously impaired'*²⁸. An illustration of this definition is provided by elaborating on the examples of Tanzania and Botswana. In both countries opposition parties do not have the (financial) resources and access to mass media, which enables the ruling parties to win the elections in both countries for more than 20 years²⁹. In a level playing field, independent if it is sports or politics, equal opportunities are of significant importance to fairly level that playing field.

3.1.3 What is fair play; respecting the game

A definition for fair play is *respect for the game*³⁰. One short definition in which 'respect for the game' is explained is not provided, but the following characteristics have been used to clarify this definition of fair play:

- respect for the game includes respect for the rules of the game;
- competitors are engaged in the same activity;
- Take the interests of the game seriously (transformation of interests);
- Intrinsic motivation and playing sports for their own sake as motivator for respect for the game³¹.

Subsequently these thoughts about fair play must result in *'teaching fair play as respect for the game increases intrinsic motivation, and teaching intrinsic motivation enhances fair play'*³².

In addition to 'respect for the game', another definition of fair play includes the following: *'If voluntarily engages in sporting games, keep the ethos of the game if the ethos is just and if it includes a proper appreciation of the internal goods and the attitude of playing to win'*³³.

²⁵ Leamer, 2007, P.85

²⁶ Leamer, 2007, P.90

²⁷ Levitsky and Way, 2010, P.61

²⁸ Levitsky and Way, 2010, P.57

²⁹ Levitsky and Way, 2010, PP.60-62

³⁰ Butcher and Schneider, 1998, P.9

³¹ Butcher and Schneider, 1998, P.9

³² Butcher and Schneider, 1998, P.19

³³ Loland and McNamee, 2000, P.76

Specific words of this definition will be explained to get a better understanding of what is meant with fair play. Voluntarily can be interpreted like *‘when persons are not forced into engagement or compelled to take part in sports and when they could have chosen otherwise’*³⁴. Internal goods are the goods realised by practicing a specific game. They are the interpretation of *‘the sweet tension of uncertainty of outcome’*³⁵. Internal goods are feelings of excitement in an equal tennis game, the experienced flow of skiers when they achieve 140 kilometres per hour or a perfect hit in baseball. Internal goods can only be achieved when competitors are evenly matched and when they strive for standards of excellence. The major norm is playing to win³⁶.

Based on this literature it can be argued that several characteristics have to be taken into account to assess if a situation is fair:

1. The situation and person involved;
2. If someone is influenced or not and
3. Someone’s interpretation of fair play.

In addition to these three influential factors with regards to fair play, two interpretations of fair play exist:

1. Equal opportunities and
2. Respecting the game.
 - 2a. Internal goods
 - 2b. Respect for competitors
 - 2c. Voluntarily engagement
 - 2d. Intrinsic motivation

By searching after overarching sport associations in the following paragraphs, additional interpretations on fair play might to lead to a comprehensive view on fair play.

³⁴ Loland and McNamee, 2000, P.66

³⁵ Loland and McNamee, 2000, P.73

³⁶ Loland and McNamee, 2000, P.73

3.2 Sport associations

In addition to the discussed literature with regards to fair play, fair play is broadly included by several team sports which can be compared with football. For example: baseball, ice hockey and basketball. Interpretations of fair play from these sports can contribute to a more differentiated view on fair play and will therefore be outlined in the paragraphs below. The titles of the next paragraphs are based on which sport is discussed in that specific paragraph.

3.2.1 Football

The definition of fair play defined by the Federation Internationale de Football Association (FIFA), which is the worldwide overarching organisation of football, is:

“A fundamental part of the game of football. It represents the positive benefits of playing by the rules, using common sense and respecting fellow players, referees, opponents and fans³⁷”.

In addition to the FIFA, the overarching European organisation for football (UEFA), provided a little different interpretation, namely:

“‘Fair play’ means acting according to ethical principles which, in particular, oppose the concept of sporting success at any price, promote integrity and equal opportunities for all competitors, and emphasise respect of the personality and worth of everyone involved in a sporting event³⁸”.

3.2.2 Basketball

Basketball is, as (European) football is, a well-paid team sport. The FIBA (Federation Internationale de Basketball), which is the worldwide overarching organisation of basketball, established a code of conduct and fair play with ten golden rules which applies to the whole basketball family³⁹. Instead of outlining all golden rules in detail, only the self-explaining titles of those rules will be given.

- i. *“Play fair*
- ii. *Play to win but accept defeat with dignity*
- iii. *Observe the rules of the game*
- iv. *Respect opponents, team-mates, referees, officials and spectators*
- v. *Promote the interest of basketball*
- vi. *Honour those who defend basketball’s good reputation*
- vii. *Reject corruption, drugs, racism, violence, gambling and other dangers to our sport*

³⁷ FIFA, Fair Play, 2014

³⁸ UEFA statutes, 2014, P.1

³⁹ FIBA Book 2 Chapter 8, 2010, P.45

- viii. Help others to resist corrupting pressures*
- ix. Denounce those who attempt to discredit our sport*
- x. Use basketball to make a better world”.*

3.2.3 Ice Hockey

The International Ice Hockey Federation (IIHF), which is the worldwide governing body of ice hockey, established a document with regulations in which attention is paid to fair play. Their starting point is treating everyone as you would like to be treated. Officials, players, coaches, parents, spectators and league organizers are fundamental and rules of behaviour and attitudes are outlined to improve fair play and a safe game for all parties involved.

For officials the key objectives are: creating equal opportunities, take safety and respect for each other into account, be objective and constructive, contact with participants, behave as a role model and continue to improve officiating skills.

For players the key objectives are: play hockey for own purposes and not only for winning. Accept rules, teammates and opponents, acknowledge that officials and trainers are there to help.

Coaches have to act on basis of the following codes: be positive towards players and remember that they have other obligations, teach fairness, respect rules and treat players equal, facilitate good material, train to become a better coach and act cooperative with all parties involved.

Codes for parents are; when children choose voluntarily to play hockey, encourage them to play by the rules and that playing is more important than winning. Motivate them positively, even after a mistake or lost match. Never question the judgement of officials publically, respect all the parties involved and be a role model.

Codes for spectators are: respect parties involved and expect that players play for themselves. Act positively and never support aggressive behaviour or language.

Fair play codes for league organizers are: treat equally and in the interests of hockey. Take care of proper equipment and equally matched players. Promote and distribute fair play codes towards all parties involved and relevant distributors⁴⁰.

3.2.4 Baseball

No concrete definition of fair play is provided by the IBAF (International Baseball Federation), which is the worldwide governing body of baseball. However, in their drawn document ‘Code of Ethics’ acceptable and encouraged behaviour and attitudes are outlined to guide and protect the general interests of baseball worldwide.

⁴⁰ IIHF officiating procedures manual section 9, 2009, P.7

All related parties of the IBAF have to act with a dignified and honourable attitude both on and off the field. They have to abide the rules, respect other related parties and help realising real fair play. They have to reject physical or verbal aggression and illegal substances. Their attitude must be cooperative and supportive towards both organisers and the media. Finally, participants have to act like a role model and foster feelings of friendship, companionship and solidarity⁴¹.

The Confederation of European Baseball (CEB), which is the European overarching organisation of baseball, does not provide separate guidelines and principles to act in the best interests of European baseball. However it is reasonable to assume that they fully support the code of ethics presented by the IBAF.

3.2.5 American Football

The International Federation of American Football (IFAF), which is the worldwide overarching organisation of American football, provides core values on their website. Core values within American Football include: respect for team-mates and passion for the game, promotion of the game and a sense of integrity, teamwork and extensive training for the sport⁴².

There are codes of ethics and a fair play prize in flag football. But given this sport is significantly different in practice, magnitude and financial aspects, their guidelines will not be used in providing a view on fair play.

The European Federation of American Football (EFAF), which is the European overarching organisation of American football, does not provide separate guidelines regarding fair play or codes of ethics. As they act on behalf of the IFAF it can be expected that the abovementioned guidelines will be supported by the EFAF.

3.2.6 Cricket

In comparison with the above mentioned sports and their guidelines, cricket does not provide the same sort of document. To improve fair play in cricket, Transparency International conducted a study with regards to abandoning corruption⁴³. Cricket faces problems from match-fixing to questionable financing and from conflicts of interest to insider trading. Transparency International has outlined that a more transparent policy will contribute to oppose corruption⁴⁴. However, it does not report a vision or a clear understanding of what they see as fair play and what kind of behaviour and attitudes are hoped for to achieve fair play.

⁴¹ IBAF, Code of Ethics, P.3

⁴² IFAF, Core Values

⁴³ Transparency International, Fair Play, 2013, P.4

⁴⁴ Transparency International, Fair Play, 2013, P.5

3.3 A combined view on fair play from both literature and sport associations

A combination of both sources with regards to fair play will enable us to define fair play. The following table will therefore summarise the most important characteristics of fair play and will finally serve as input to define fair play, as illustrated below the table. An illustration of key aspects of fair play on behalf of every sport associations is provided in the table below and although not every association focuses on the same aspects, similarities do exist.

Literature	Sport associations
<p>Understanding and considering fair play</p> <ul style="list-style-type: none"> • Fair play is part of the level playing field • Fair Play is multi-interpretable • Fair play is content/person dependent <p>Key aspects</p> <ul style="list-style-type: none"> • Fair play is based on equal opportunities • Fair play is respecting the game <ul style="list-style-type: none"> – Internal goods – Respect for competitors – Voluntarily engaged – Intrinsic motivation 	<ul style="list-style-type: none"> • Football <ul style="list-style-type: none"> – Respect all parties involved – Equal opportunities – Respecting the game / keeping the rules – Sporting success at any price • Basketball <ul style="list-style-type: none"> – Play to win – Observe the rules – Respect parties involved – Act with the best interest for basketball • Ice Hockey <ul style="list-style-type: none"> – Equal opportunities – Winning is not everything – Respect for the rules • Baseball <ul style="list-style-type: none"> – Act like a role model – Respect the rules and parties involved • American football <ul style="list-style-type: none"> – Passion for the game – Respect related parties • Cricket <ul style="list-style-type: none"> – Abandon corruption

Figure 2, the key understandings with regards to fair play from both literature and overarching sport associations

Because this thesis is about Financial Fair Play in football, particular value is attached to interpretations of the FIFA and the UEFA. A combination of both sources illustrates that fair play in particular consists of the following characteristics;

- equal opportunities;
- respect for the game;
- respect for involved parties and
- playing to win.

In addition to these characteristics of fair play, the literature paid significant attention to the context dependency of fair play. The context has to be taken into account at any time when valuing something as fair or unfair.

By emphasizing these characteristics of fair play, the first question is answered. As drafted in figure 1, the UEFA is incorporated in the whole model. They are the overarching association of European football, provided a definition of fair play and introduced the FFP regulations in 2011. Due to the UEFA's involvement, a more elaborated view on their role in football and how they are organised to fulfil that role will be presented in the next chapter.

4. The UEFA's role and organisational structure with regards to FFP

FFP is introduced with the aim to improve the financial health of football clubs in Europe⁴⁵. It contributes to the overall vision and the overall goals strived for by the UEFA⁴⁶. Therefore the next paragraph will pay attention to the overall goals of the UEFA. The second paragraph will focus on how the UEFA is structured. Third, the several departments of the UEFA that needs to monitor, assess and eventually impose sanctions to football clubs with regards to the FFP regulations will be illustrated. Finally, an overview will be provided with the key elements of this chapter applicable later in this thesis.

4.1 UEFA's overall purpose

Based on the UEFA's expressions, it can reasonably be assumed that the UEFA is an association who acts absolutely with the best intentions for football⁴⁷. This interpretation can be substantiated by both their vision and their eleven values they have presented on their website. The UEFA's vision includes the following:

"UEFA – the Union of European Football Associations – is the governing body of European football. It is an association of associations, a representative democracy, and is the umbrella organisation for 54 national football associations across Europe. Its objectives are, among other things, to deal with all questions relating to European football, to promote football in a spirit of unity, solidarity, peace, understanding and fair play, without any discrimination on the part of politics, race, religion, gender or any other reason, to safeguard the values of European football, maintain relations with all stakeholders involved in European football, and support and safeguard its member associations for the overall well-being of the European game⁴⁸".

In addition, the UEFA acts in accordance with eleven key values. These values together are the basis the UEFA uses to evolve future activities and are a summary of the most important interests they promote. The eleven key values are small pieces that match within the definition mentioned above and include the following:

1. In everything the UEFA does, football is the first thing it takes into consideration;
2. The pyramid structure (FIFA, UEFA, member associations) allows acting in the best interests of football;
3. The UEFA operates with all relevant stakeholders and operates in a spirit of consensus;

⁴⁵ UEFA Financial fair play: everything you need to know, 2014

⁴⁶ UEFA Eleven Values

⁴⁷ UEFA Eleven Values

⁴⁸ UEFA About UEFA, 2014

4. Openness, democracy, transparency and responsibility are essential in proper governance;
5. The UEFA will defend the wider spread of football and their benefits it brings to society;
6. Due to sporting and moral responsibilities, the UEFA protects children in football;
7. Protect the integrity of football, especially with regards to betting;
8. Supporting (financial) fair play;
9. Balancing and strengthening national team and club football;
10. Acting as a role model. In this respect for everybody involved is a key element and
11. Supporting the European model of sport, in particular; open competition and opportunity, promotion, relegation and solidarity.

In summary, the UEFA's role is to act with the best interests for football on every football related topic and with all stakeholders involved. The UEFA also aims to achieve particular objectives with regards to the FFP regulations. These objectives will be outlined in cohesion with the FFP regulations in chapter 5.

Because this thesis is primary focused on Financial Fair Play, minor attention will be paid to the overall organisational structure of the UEFA and a more elaborated view will be presented in the next paragraph on the departments of the UEFA that monitors, asses and possibly impose clubs with sanctions with regards to FFP.

4.2 UEFA's organisation structure

To achieve the stated goals and to act with the best interest for European football, the UEFA has structured its organisation in the following manner:

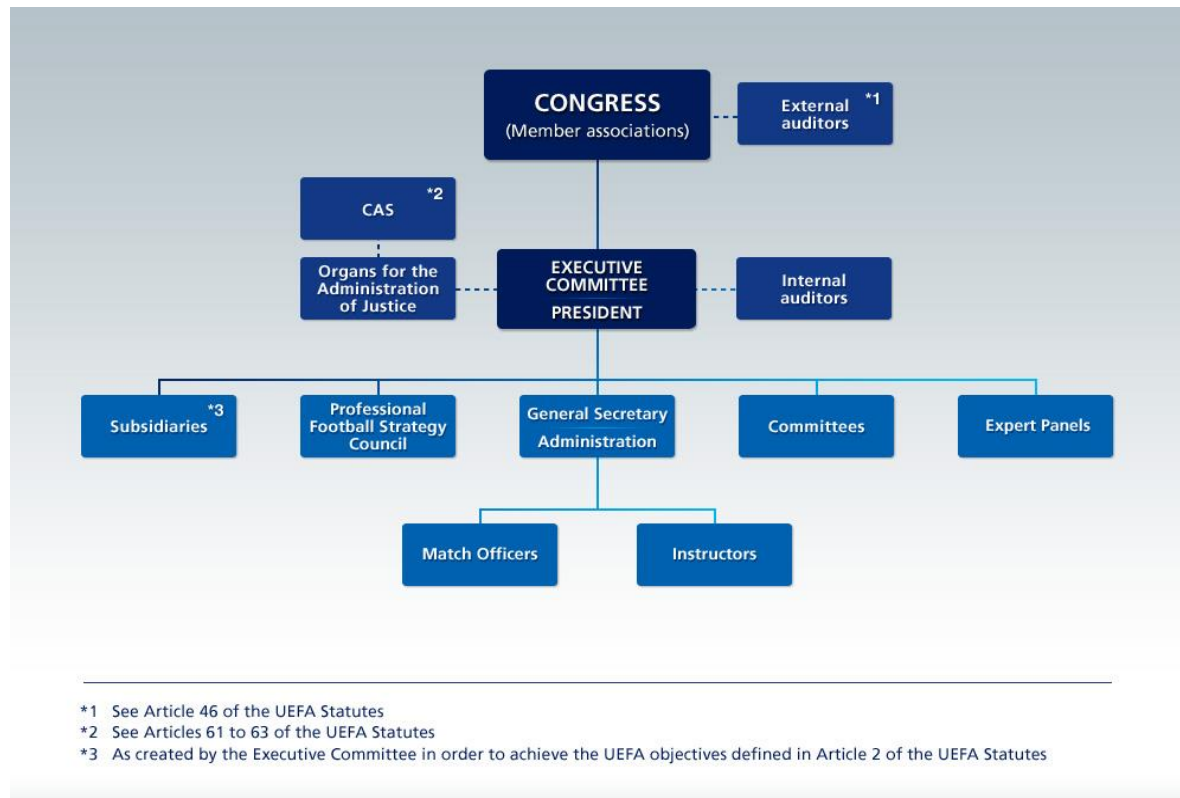


Figure 3⁴⁹, an illustration of how the UEFA has structured its organisation

The congress is the UEFA's supreme control organ which consists of 54 member associations⁵⁰. One president, 15 associations' members and an additional woman are chosen by the Congress and form together the Executive Committee. The Executive Committee is supported by several committees, panels and other departments in achieving the UEFA's stated objectives⁵¹.

The Professional Football Strategy Council consist of 16 vice-presidents and/or representatives and is responsible for the following interests; 4 UEFA vice-presidents represents the interests of the member associations and the common interests of the UEFA, 4 representatives represent the interests of EPFL, 4 representatives represent the interests of ECA and 4 representatives represent the interests of FIFPro Division Europe. The General Secretary is responsible for the organisation, management and direction of UEFA's administration. Finally there are 19

⁴⁹ UEFA About UEFA, 2014

⁵⁰ UEFA About UEFA, 2014

⁵¹ UEFA statutes, 2014, P.10

committees and 6 expert panels with the task to improve European football by advising the Executive Committee in shaping new policies⁵².

4.3 Departments of the UEFA connected to Financial Fair Play

One of the staff functions is fulfilled by the Organs for the Administration of Justice (OAJ). The OAJ consists of UEFA's disciplinary bodies (the Control and Disciplinary Body and the Appeals Body), the Disciplinary Inspectors and the Club Financial Control Body, all visualised in the figure below⁵³.

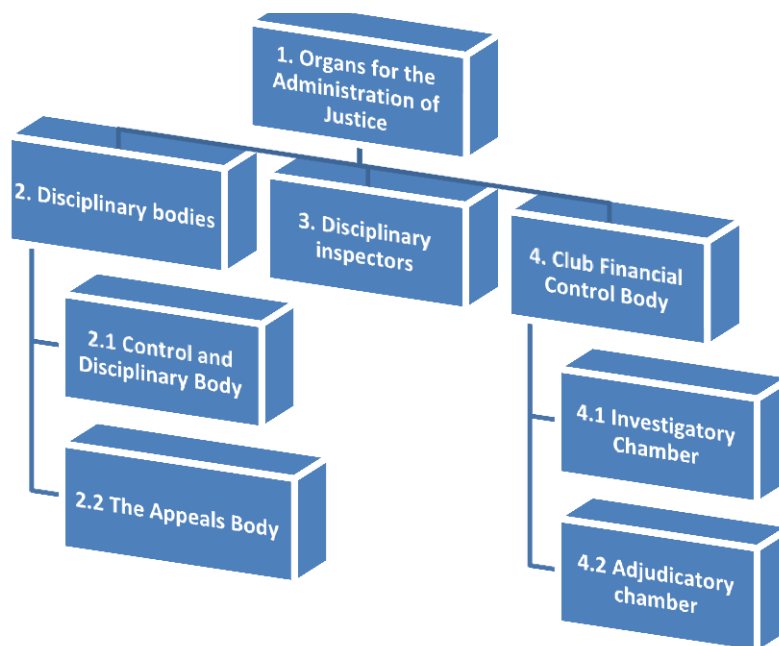


Figure 4, a visualisation of how the Organs for the Administration of Justice are divided into three departments

The disciplinary bodies of the OAJ consist of the Control and Disciplinary body and the Appeals Body. The first is responsible for ruling on disciplinary issues and it can refer issues to the Appeals Body in urgent matters. The Appeals Body's tasks are hearing the appeals towards decisions of the Control and Disciplinary Body and to rule on urgent issues⁵⁴.

The Disciplinary Inspectors represents the UEFA. They initiate and conduct investigations, both on own initiative or on request of the Executive Committee, UEFA's President, the General Secretary or the Disciplinary Bodies. They also lodge appeals against decisions of the Control and Disciplinary Body⁵⁵.

⁵² UEFA About UEFA, 2014

⁵³ UEFA statutes 2014, article 32, P.14

⁵⁴ UEFA disciplinary regulations 2013, article 23-24, P.12

⁵⁵ UEFA disciplinary regulations 2013, article 25, P.13

Important to notice is that both members from the Disciplinary Bodies and the Disciplinary Inspectors are chosen by the Executive Committee and granted by the Congress. All members are not allowed to have position in other Organs or Committees of the UEFA⁵⁶. Finally, both the disciplinary bodies and the Disciplinary Inspectors deal with (non-financial) issues presented in the Disciplinary Regulations of the UEFA⁵⁷.

The Club Financial Control Body (CFCB) replaced the Club Financial Control Panel (CFCP). The CFCB is approved by the Executive Committee to monitor the applications of the UEFA Club Licensing and Financial Fair Play Regulations in June 2012⁵⁸. Compared to the CFCP, the CFCB is part of the Organ for the Administration of Justice and is capable to impose sanctions when regulations are not fulfilled⁵⁹. The CFCB decide whether license applicants, licensees and licensors have fulfilled their obligations at and after the licence was granted. Determine whether monitoring requirements by the licensee are fulfilled and if not, impose disciplinary measures. And finally, decide if a club can participate in UEFA competitions, all according to the Club Licensing and Financial Fair Play Regulations⁶⁰.

The CFCB consists of two chambers, the Investigatory Chamber and the Adjudicatory Chamber. Members of both Chambers are chosen by the Executive Committee⁶¹. The chairman of the CFCB is the same person as the chairman of the Adjudicatory Chamber⁶².

The Investigatory Chamber monitors and investigates the proceedings and is led by the CFCB chief investigator⁶³. Investigations can be initiated on their own initiative or on request⁶⁴. In the final stage of the investigations the CFCB Chief Investigator can decide to dismiss the case, conclude a settlement agreement, apply a fine up to 100.000 euro or pass the case through⁶⁵. The Adjudicatory Chamber decides on cases past through by the Investigatory Chamber and only assesses the existence of an error made by the CFCB Chief Investigator⁶⁶.

⁵⁶ UEFA statutes 2014, article 32, P.14

⁵⁷ UEFA disciplinary regulations 2013, articles 11-16, P.6-9

⁵⁸ UEFA Financial Fair Play, 2014

⁵⁹ UEFA Financial Fair Play, 2014

⁶⁰ UEFA Procedural rules governing the UEFA Club Financial Control Body, article 3, P.1

⁶¹ UEFA Procedural rules governing the UEFA Club Financial Control Body, article 5, P.3

⁶² UEFA Procedural rules governing the UEFA Club Financial Control Body, article 4, P.2

⁶³ UEFA Procedural rules governing the UEFA Club Financial Control Body, article 19, P.7

⁶⁴ UEFA Procedural rules governing the UEFA Club Financial Control Body, article 12, P.4

⁶⁵ UEFA Procedural rules governing the UEFA Club Financial Control Body, article 14, P.5

⁶⁶ UEFA Procedural rules governing the UEFA Club Financial Control Body, article 16, P.6

To increase the independency of the CFCB, a member cannot be a member of other organs or committees of the UEFA or cannot be personally connected towards cases under their attention⁶⁷.

4.4 A combined illustration of UEFA's objectives and role, Fair Play and Financial Fair Play

The UEFA's Executive Committee is chosen democratically (by all member states) and the different bodies are assigned by the executive committee. The UEFA's primary intention is to act with the best intentions for European football. A more concrete definition is provided through the introduction of eleven key values, to which financial fair play belongs. To ensure that clubs adhere to those FFP regulations the UEFA structured its organisation to monitor, assess and impose sanctions if necessary.

Until now fair play, UEFA's role, FFP as part of that role and how the UEFA is structured to fulfil their role, is discussed. These four connected subjects are illustrated in the following figure.

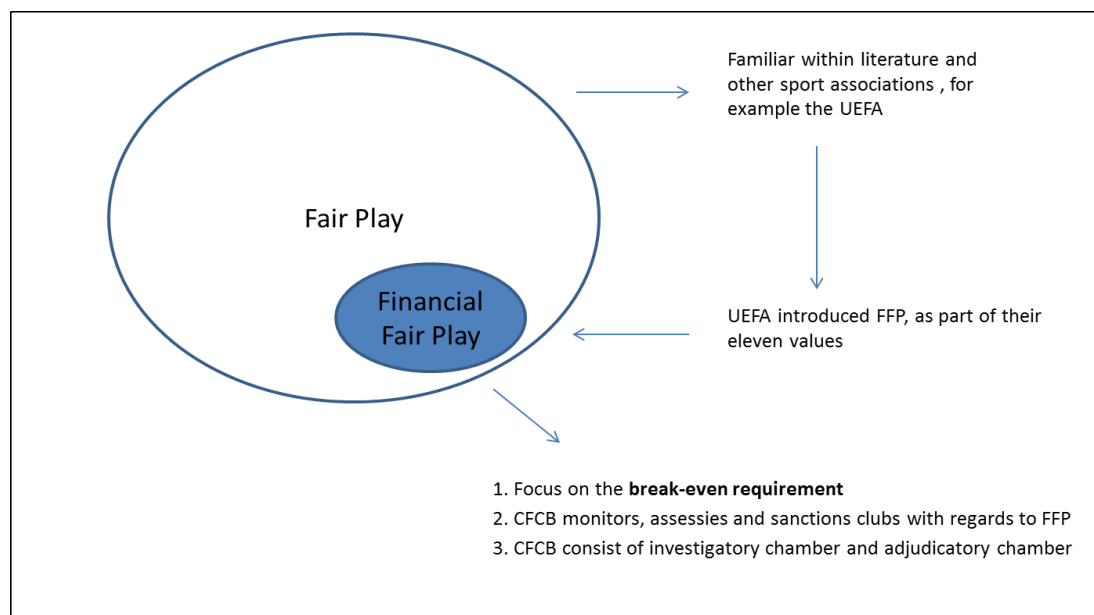


Figure 5, FFP, and its characteristics, as part of Fair Play and the eleven values supported by the UEFA

⁶⁷ UEFA Procedural rules governing the UEFA Club Financial Control Body, article 7, P.3

FFP is executed by the CFCB and presented into a larger picture. It fits within the primary focus of the UEFA to act according to the best interests of European football. The following chapter will serve as an introduction to chapter six in which the FFP regulations will be discussed. It presents the financial situation in European football, the financial situation of certain football clubs in particular and the function of financial statements.

5. Football clubs financial situation

Fulfilling the break-even requirement is a primary objective in the FFP regulations. This requirement is the final outcome of the profit and loss account (adjusted for relevant income and expenses⁶⁸). The first paragraph will therefore focus on an understanding of the financial statements of which the income statements is part. Subsequently an overall picture will be provided of finance in European football and of the 20 biggest clubs in particular. Especially these clubs, since FFP is applicable to clubs who are qualified to play European Competition. Subsequently the main determinants of a clubs' profit or loss will be outlined. The final paragraph summarises those items that are of importance with regards to the next chapters.

5.1 The financial statements

Football clubs have to submit to their licensor (UEFA member association) their annual financial statements, consisting of;

- Balance sheet
- Profit and loss account
- Cash flow statement
- Notes
- Financial review by management⁶⁹

According to the International Accounting Standards Board (IFRS) a presentation of financial statements fulfils the following objective:

“Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management’s stewardship of the resources entrusted to it”⁷⁰.

The balance sheet can provide you with an understanding of the assets and liabilities of a company. It illustrates a company’s assets and how these assets are financed⁷¹. The difference between these two is the equity position of a company. *“Assets are economic resources owned by a firm, that are likely to produce future economic benefits and are measurable with a*

⁶⁸ UEFA Club Licensing and Financial Fair Play Regulations 2012, Part III Chapter 2 article 58, P.34

⁶⁹ UEFA Club Licensing and Financial Fair Play Regulations 2012, Part II Chapter 3 article 47, P.25

⁷⁰ International Accounting Standard 1, 2011, P.3

⁷¹ Palepu, Healy, and Peek, 2013, P.5

*reasonable degree of certainty*⁷². Assets on a balance sheet consist of non-current and current assets. Non-current assets can be for example property, plant and equipment, financial assets and intangible assets (players). Inventory, trade receivables and cash are examples of current assets⁷³. In case of a football club, non-current assets consist for example of intangible sporting assets and property, plant and equipment. Trade receivables and cash are items with regards to current assets⁷⁴.

*“Liabilities are economic obligations of a firm arising from benefits received in the past that are required to be met with a reasonable degree of certainty and whose timing is reasonable well defined”*⁷⁵. Liabilities on a balance sheet consist of non-current and current liabilities. Non-current liabilities can be long-term provisions and bank loans. Accounts payable, bank overdrafts and short-term provisions are examples of current liabilities⁷⁶. Non-current liabilities of a football club can be financial debt and other long-term liabilities. Trade payables and tax liabilities are current liabilities⁷⁷.

The primary objective of information on a cash flow statement is to provide *“users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows”*⁷⁸. The cash flow statement can be divided into three separate parts: cash flow generated by operating activities, investing activities and financing activities⁷⁹. Operating activities of a football club consists of profit before amortisation and player disposals, subsequently adjusted by items like increase or decrease in inventories and short-term debt. Investing activities are subsequently added or subtracted from the cash flow from operating activities. Investing activities for a football club can be investments and disinvestments in immaterial fixed assets (players) and financial and material fixed assets. Financing activities can consist of dividends paid towards shareholders and adjustments in debt positions, and will be added or subtracted from the cash flow from both operating and investing activities⁸⁰. In summary, a company’s net cash flow can be calculated by the sum of cash flow from operations + cash flow from investing + cash flow from financing.

⁷² Palepu et al., 2013, P.7

⁷³ UEFA Club Licensing and Financial Fair Play Regulations 2012, Annex XI; B.1, P.52

⁷⁴ AFC Ajax jaarverslag 2012/2013, P.34

⁷⁵ Palepu et al., 2013, P.7

⁷⁶ UEFA Club Licensing and Financial Fair Play Regulations 2012, Annex XI; B.1, P.53

⁷⁷ AFC Ajax jaarverslag 2012/2013, P.35

⁷⁸ International Accounting Standard 7, 2001, P.1

⁷⁹ International Accounting Standard 7, 2001, P.2

⁸⁰ AFC Ajax jaarverslag 2012/2013, P.38

Notes in the financial statements shall *“present information about the basis of preparation of the financial statements and the specific accounting policies used, disclose the information required by IFRSs that is not presented elsewhere in the financial statements and provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them”*⁸¹. The notes in an annual report of a football club can incorporate several guidelines, for example:

- foundations for the valuation of assets and liabilities; transfer amounts, (in)tangible fixed assets, provisions and lease obligations;
- foundations for the acknowledgement of the obtained result; revenues, salaries, tax obligations and
- financial risk management; credit management, currency risks and interest risks⁸².

Besides a clarification of the foundations of a football clubs' financial result, calculations and explanations of items on the balance sheet and the income statement are incorporated in the notes of the annual report⁸³. This enables you to obtain an in depth understanding of the underlying figures presented on the balance sheet and income statement.

A financial review by management presents a more detailed view on the composition and development of financial items, like: revenues, expenditures, transfer amounts, taxes, the balance sheet and expectations. For AFC Ajax for example, revenues are divided into revenues earned from football, sponsoring, television, merchandising and other income. Expenditures are constructed by purchasing costs, salaries, depreciation and other costs⁸⁴.

To assess if a football club fulfils the break-even requirement, the income statement has to be used. It enables you to receive an overview of the operating performance of a company over a certain period⁸⁵. Simply said it presents the output (revenues), input used to achieve that output (costs) and the difference is the profit or loss. In calculating these results it is important to keep in mind that financial statements are ex post, subject to interpretation and impressionable by management⁸⁶. Profits and losses are therefore an opinion influenced by different items on the income statement.

⁸¹ International Accounting Standard 1, 2011, P.18

⁸² AFC Ajax jaarverslag 2012/2013, P.46

⁸³ AFC Ajax jaarverslag 2012/2013, P.47-71

⁸⁴ AFC Ajax jaarverslag 2012/2013, P.26-28

⁸⁵ Sutton, 2004, P.3

⁸⁶ Lee and Yeh, 2004, P.378

According to the FFP regulations football clubs are not allowed anymore to make more costs than they have generated revenues. Therefore it is important to be familiar with the items that significantly influence the revenues and costs of football clubs. To obtain such an understanding, financial information and the most crucial items on the income statement from several clubs will be discussed in the next paragraph.

5.2 Finance in football

According to the Football Money League 2014 established by Deloitte, the revenues from the 20 biggest clubs grow up to 5,4 billion euro's in 2012/13⁸⁷. In this top 20, the clubs are located in England, France, Germany, Italy and Spain. Also Turkey entered the top 20 with Fenerbahce and Galatasaray, supported by economic growth and a growing passion for football. A club from Brazil, Corinthians, is ranked 24th in the top 30. Similar to the clubs in Turkey, supported by economic growth and in addition by the organised World Championships in 2014⁸⁸. The influence of population size, income per capita and the overall interests in football largely determines the revenue football clubs can potentially earn and on which the competitive balance between competitors is largely dependent⁸⁹.

The 5,4 billion euro's in revenues can be split up into three main categories: matchday, broadcasting and commercial revenues. Revenues from matchdays consist largely out of gate receipts and season tickets. Revenues from broadcasting are those revenues related to national and international competitions. Commercial revenues consist of sponsorship deals and income from merchandise⁹⁰. The following table illustrates per revenue category the total income of the 20 biggest clubs in European (amounts are in million euros, €)⁹¹.

⁸⁷ Deloitte Sports Business Group, Football Money League 2014, P.3

⁸⁸ Deloitte Sports Business Group, Football Money League 2014, P.4

⁸⁹ Vopel, 2011, P.58

⁹⁰ Deloitte Sports Business Group, Football Money League 2014, P.7

⁹¹ Deloitte Sports Business Group, Football Money League 2014, P.9

	Matchday		Broadcasting		Commercial		Total	
Real Madrid	€ 119	23%	€ 188	36%	€ 212	41%	€ 519	100%
FC Barcelona	€ 118	24%	€ 188	39%	€ 177	37%	€ 483	100%
Bayern Munich	€ 87	20%	€ 107	25%	€ 237	55%	€ 431	100%
Manchester United	€ 127	30%	€ 119	28%	€ 178	42%	€ 424	100%
Paris Saint-Germain	€ 53	13%	€ 91	23%	€ 255	64%	€ 399	100%
Manchester City	€ 46	15%	€ 103	33%	€ 167	53%	€ 316	100%
Chelsea	€ 83	27%	€ 123	41%	€ 98	32%	€ 303	100%
Arsenal	€ 108	38%	€ 103	36%	€ 73	26%	€ 284	100%
Juventus	€ 38	14%	€ 166	61%	€ 68	25%	€ 272	100%
AC Milan	€ 26	10%	€ 141	53%	€ 96	37%	€ 264	100%
Borussia Dortmund	€ 60	23%	€ 88	34%	€ 109	43%	€ 256	100%
Liverpool	€ 52	22%	€ 75	31%	€ 114	47%	€ 241	100%
Schalke 04	€ 43	21%	€ 63	32%	€ 93	47%	€ 198	100%
Tottenham Hotspur	€ 47	27%	€ 73	42%	€ 52	30%	€ 172	100%
Internazionale	€ 19	11%	€ 82	48%	€ 68	40%	€ 169	100%
Galatasaray	€ 35	23%	€ 52	33%	€ 70	44%	€ 157	100%
Hamburger SV	€ 43	32%	€ 25	18%	€ 68	50%	€ 135	100%
Fenerbahce	€ 28	22%	€ 43	34%	€ 56	44%	€ 126	100%
AS Roma	€ 20	16%	€ 66	53%	€ 38	31%	€ 124	100%
Atletico de Madrid	€ 28	23%	€ 53	44%	€ 40	33%	€ 120	100%
	€ 1.180	22%	€ 1.947	36%	€ 2.268	42%	€ 5.394	100%

When taking the top 20 into account, revenues from matchdays are responsible for 22%, revenues from broadcasting rights for 36% and revenues from commercial activities for 42%. Although these are average figures, individual clubs deviate in certain situations remarkable. Paris Saint-Germain for example generates 64% of their total revenues from commercial activities, compared to Juventus where commercial activities contribute for 25% to the total revenues. Another noteworthy finding is that the broadcasting revenues for all Italian clubs are responsible for on average 54% of the total revenues and the revenues from matchdays only for 13%.

Deloitte does only focus on clubs revenues and not every annual report of the abovementioned club is available. However, based on several annual reports from clubs within and outside the top 20, it can be stated that the primary costs of football clubs are the salaries. This is supported by the recent benchmarking report of the UEFA, where they presented that on average 65% of the costs is devoted to salaries⁹². Borussia Dortmund spent a relative low percentage (35%) on salaries⁹³, where Olympic Lyon exceeded 80%⁹⁴. Based on the 2012/2013 income statement of Arsenal, Juventus, Real Madrid and AFC Ajax, it can be concluded that they spent more or less 50% of their revenues on salaries. Another significant cost among these six clubs is the

⁹² UEFA Club Licensing Benchmarking Report, 2012, P.13

⁹³ Borussia Dortmund Annual Report, 2012/2013, P.58

⁹⁴ Olympic Lyon Registration Document, 2012/2013, P.104

amortisation of player registration, on average 15% to 20%. Other operating expenses are the third important item on the income statement of these clubs. Operating expenses consist for example of match operations, advertising and administration and takes on average 20% to 35% of the revenues. Finally, clubs can improve or worsen their result by profits on disposals of player registrations. However, profits or losses on player transfers do not belong to the primary operations of a football club and are not included in the percentages calculated above.

5.3 A combined illustration on Fair Play, UEFA's objectives and role, Financial Fair Play and the role of financial statements

This chapter provided an understanding of the financial statements, presented the financial situation of the biggest football clubs in Europe and the most important determinants of their final results. Keep in mind the position of the largest 20 football clubs, the influence of salaries paid to players and the possible influence of someone's interpretation on the final result of a football club.

A visualisation of this chapter and the previous two chapters is presented in the figure below.

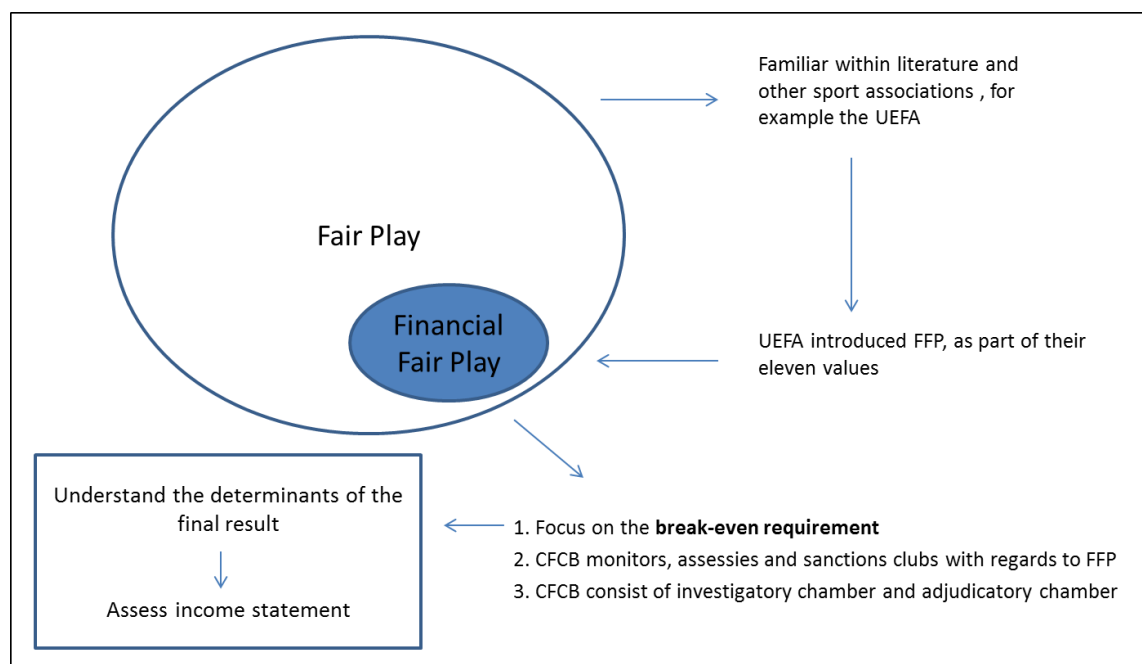


Figure 6, FFP as part of fair play, supported by the UEFA and assessable via the financial statements

Fair play, UEFA's role and structure and the financial situation among the biggest clubs in Europe are discussed so far. Financial Fair Play is part of fair play, is supported by the UEFA and is introduced to improve the financial situation of European football Clubs. Because the break-even requirement is the final result of the income statement, discussing the financial situation of European clubs has helped us to put FFP play in a proper perspective.

6. Financial Fair Play

As mentioned earlier, the FFP regulations will in detail be explained below. Whereupon the critiques on those regulations found in literature will follow. Finally the most important discussed subjects will be summarised in the final paragraph.

6.1 Financial Fair Play regulations

The first paragraph will substantiate the necessity of financial regulations in European football. In the second paragraph the main purposes of the UEFA by introducing the FFP regulations will be outlined. In the third paragraph it will be shown where FFP is all about.

6.1.1 The necessity

Most of us are familiar with the broadly discussed transfer amounts and the generous salaries paid to players. The main purpose of the UEFA by introducing the FFP regulations is to *enhance the financial health of football clubs*⁹⁵. The necessity can be substantiated by an investigation of A.T. Kearney, who argues that if football clubs in Spain, Italy and England were managed like normal companies the leagues would go bankrupt within two years⁹⁶. An additional reason of necessity is that whatever the financial problems of certain football clubs are, governments in several countries are willing to bail out failing clubs⁹⁷. This means that clubs are immune to financial threats and that they are subsequently more likely to accept higher risks.

6.1.2 The main purposes of Financial Fair Play

FFP is not the first attempt to improve the financial health in football. In 2002 fourteen prominent football clubs proposed to maximize players' salaries and in 2006 the UEFA tried to improve the financial stability by tightening the regulations⁹⁸. The applicable Club Licensing and FFP regulations are an adapted version of the UEFA Club Licensing regulations, of which the FFP (monitoring requirements) regulations applies to football clubs who are qualified to play UEFA competition⁹⁹.

FFP is part of the 'eleven key values' introduced by the UEFA and contains the following six objectives:

- *"to improve the economic and financial capability of the clubs, increasing their transparency and credibility;*

⁹⁵ UEFA Financial fair play: everything you need to know, 2014.

⁹⁶ A.T. Kearney the A.T. Kearney EU Football Sustainability study, 2010, P.3

⁹⁷ Lago, Simmons, and Szymanski, 2006, P.8

⁹⁸ Preuss, Haugen, and Schubert, 2012, P.2

⁹⁹ UEFA Club Licensing and Financial Fair Play Regulations 2012, Part III Chapter 2 article 57, P.33

- *to place the necessary importance on the protection of creditors and to ensure that clubs settle their liabilities with players, social/tax authorities and other clubs punctually;*
- *to introduce more discipline and rationality in club football finances;*
- *to encourage clubs to operate on the basis of their own revenues;*
- *to encourage responsible spending for the long-term benefit of football;*
- *to protect the long-term viability and sustainability of European club football”¹⁰⁰*

These financial objectives must provide in the necessity to reduce the over-indebtedness in European football¹⁰¹. In addition, and according to these stated goals, the FFP regulations must also enhance the competitive balance¹⁰².

6.1.3 Content of the regulations

The UEFA constitutes the “Club Licensing and Financial Fair Play Regulations” to adhere to these stated goals. This policy can be divided into two parts. The first part contains the licensing requirements which need to be fulfilled before the licensor (KNVB for example) is able to grant a license and a club is entitled to participate in competition¹⁰³. The financial requirements are in particular focussed on having no overdue payables¹⁰⁴. In addition, clubs need to provide future financial information when she does face a deteriorated net liabilities position or when she cannot submit a statement of ‘going concern’¹⁰⁵.

In addition to these license requirements, clubs who are qualified for UEFA competition have to comply with the monitoring requirements¹⁰⁶. The monitoring requirements consist in particular of the break-even requirement. Although there are certain exceptions presented below, the break-even requirements contains that clubs are not allowed to have more relevant costs than relevant revenues during the monitoring period¹⁰⁷.

¹⁰⁰ UEFA Club Licensing and Financial Fair Play Regulations 2012, Part I article 2, P.2

¹⁰¹ Preuss et al., 2012, P.4

¹⁰² Vopel, 2011, P.56

¹⁰³ UEFA Club Licensing and Financial Fair Play Regulations 2012, Part II Chapter 3 article 16, P.14

¹⁰⁴ UEFA Club Licensing and Financial Fair Play Regulations 2012, Part II Chapter 3 article 49, P.27

¹⁰⁵ UEFA Club Licensing and Financial Fair Play Regulations 2012, Part II Chapter 3 article 52, P.30

¹⁰⁶ UEFA Club Licensing and Financial Fair Play Regulations 2012, Part III Chapter 2 article 57, P.33

¹⁰⁷ UEFA Club Licensing and Financial Fair Play Regulations 2012, Part III Chapter 2 article 58, P.34

The monitoring period exists of three reporting periods:

- T, *“the reporting period ending in the calendar year that the UEFA club competitions commence”*;
- T-1, *“the reporting period ending the calendar year before commencement of the UEFA club competitions”*;
- T-2, *“the preceding reporting period”*¹⁰⁸.

To fulfil the break-even requirement it is allowed when clubs have a deficit up to 5 million over the reporting period (2013/14 and 2014/15 and the period 2015/16, 2016/17 and 2017/18).

Clubs are also allowed to exceed this number up to 45 million for the seasons 2013/14 and 2014/15 and up to 30 million for the seasons 2015/16, 2016/17 and 2017/18. But this is only allowed when the additional deficits between 5 and 45, respectively 30 are fully covered by equity participants and/or related parties without the rise of any obligation for the football club towards their donators¹⁰⁹. Besides, if a club has an aggregate deficit over the monitoring period, they are allowed to compensate this by a surplus of the sum of the break-even results in the 2 years prior to the monitoring period¹¹⁰.

The fulfilment of the break-even requirement includes the following:

*“The break-even requirement is fulfilled if no indicator (as defined in Article 62(3)) is breached and the licensee has a break-even surplus for reporting periods T-2 and T-1”*¹¹¹.

The indicators mentioned in Article 62.3 consist of:

- The auditors’ report includes a conclusion of going concern;
- A strengthening in the net liabilities position;
- The licensee reports no break-even deficit over either or both T-1 and T-2;
- No overdue payables exist as of 30 June of the year that the UEFA club competitions commence.

Even if an indicator is breached, the break-even requirement is still fulfilled when;

“The licensee has an aggregate break-even surplus for reporting periods T-2, T-1 and T; or

“The licensee has an aggregate break-even deficit for reporting periods T-2, T-1 and T which is within the acceptable deviation (as defined in Article 61)

¹⁰⁸ UEFA Club Licensing and Financial Fair Play Regulations 2012, Part III Chapter 2 article 59, P.35

¹⁰⁹ UEFA Club Licensing and Financial Fair Play Regulations 2012, Part III Chapter 2 article 61, P.36

¹¹⁰ UEFA Club Licensing and Financial Fair Play Regulations 2012, Part III Chapter 2 article 60.6, P.35

¹¹¹ UEFA Club Licensing and Financial Fair Play Regulations 2012, Part III Chapter 2 article 63.1, P.38

having also taken into account the surplus (if any) in the reporting periods T-3 and T-4 (as defined in Article 60(6))”¹¹².

In summary, Licensing and FFP regulations contain two key requirements. First, clubs are not allowed to have overdue payables towards other football clubs, employees and the tax/social authorities. Second, clubs comply with the break-even requirement when they fulfilled the requirements for the periods T-1 and T-2 and the indicators given in article 62.3 or when they have achieved an aggregate break-even result for all three periods, eventually compensated by a surplus in T-3 and T-4. Only if a club adhere to those two requirements, the monitoring requirements are fulfilled and clubs are allowed to participate in UEFA competition¹¹³.

Although the break-even requirement is the main focus in the FFP regulations, there are several other criteria outlined by the UEFA. Relevant income decreases when income transactions with related parties have taken place above fair value¹¹⁴. This means that for example parking places cannot be taken into account for 50 million euros. Although this doesn't mean that income above fair value cannot be used to invest in players and salaries, which subsequently increases the chance on higher income by playing UEFA competition. Expenditure on youth and community development activities are excluded in calculating the break-even result¹¹⁵. The same applies to amortisation or impairment of tangible fixed assets, which does not have to be included in calculating the break-even result¹¹⁶.

6.2 Critique on the Financial Fair Play regulations

Since FFP is introduced, several critical articles arise regarding the regulations' effectiveness. However, critiques also exist on the fair level playing field without the introduction of the FFP regulations. It is argued for example that the current football environment causes a playing field in which an initial success can lead to a significant increase in income, which subsequently can be used to develop and to re-qualify for UEFA competitions¹¹⁷. The introduction of the break-even requirement is insufficient to restore the competitive balance and a redistribution of income to avoid the unchallenged dominance of the top football clubs is necessary¹¹⁸. Although the competitive balance is of importance, the main focus of the FFP regulations is on restoring the

¹¹² UEFA Club Licensing and Financial Fair Play Regulations 2012, Part III Chapter 2 article 63.2, P.38

¹¹³ UEFA Club Licensing and Financial Fair Play Regulations 2012, Part III Chapter 2 article 57, P.33

¹¹⁴ UEFA Club Licensing and Financial Fair Play Regulations 2012, Annex X; A, 2J, P.72

¹¹⁵ UEFA Club Licensing and Financial Fair Play Regulations 2012, Annex X; C, 1G & 1H, P.78

¹¹⁶ UEFA Club Licensing and Financial Fair Play Regulations 2012, Annex X; C, 2A, P.81

¹¹⁷ Vopel, 2011, P.55

¹¹⁸ Vopel, 2011, P.57

financial health of football clubs. Critiques on those regulations will be discussed in the next paragraph. These critiques are split-up into separate parts. The first part will discuss critiques that primary focus on the content of the FFP regulations. The second part will discuss critiques concerning the monitoring process and other critiques non-related to the content of the FFP regulations.

6.2.1 Critiques regarding the content of Financial Fair Play

One of the main concerns regarding FFP is towards the allowance of sugar uncles and their ability to expand their influence on football clubs by 'donating' significant amounts of money to undo the red figures¹¹⁹. Under the FFP regulations it is still possible to undo football clubs from their deficits for up to 40 million euros¹²⁰. Connected to this supposition it is expected, due to FFP regulations that the competitive balance between football clubs will deteriorate¹²¹. Even though smaller clubs do not have the ability anymore to spend more than that they earn¹²². The break-even requirement might cause a permanent difference between top clubs and their followers.

Another remark is that football clubs are focussed and eager to obtain prestige and success and they are less interested in making profits. This is partially caused by the short term focus of the media, fans and sponsors¹²³. Subsequently interests of both the UEFA and football clubs are conflicting, since the financial fair play regulations are clearly focussed on achieving an aggregate break-even result, but profits are for football clubs of subordinate interests.

Another concern is about the clarification of relevant income and the fair value of third party transactions¹²⁴. This concern is supported by distrust for disproportional self-interested sponsorship deals and the difficulties the UEFA will face in determining fair 'market-value' and subsequently the task to impose violators with sanctions¹²⁵. Related to fair value is the valuation of players (intangible fixed assets) based on fair value accounting. Amortisation of assets can lead to significant differences in achieved results by a football club¹²⁶. In calculating the relevant income, amounts of sponsorships exceeding the fair market-value will be excluded¹²⁷. However their real, UEFA independent, financial situation can be significant stronger.

¹¹⁹ Preuss et al., 2012, P.2

¹²⁰ UEFA Club Licensing and Financial Fair Play Regulations 2012, Part III Chapter 2 article 61, P.36

¹²¹ Sass, 2012, P.1

¹²² Maxcy, 2014, P.5

¹²³ Vopel, 2011, P.55

¹²⁴ Geey, 2011 (as cited in Preuss, 2012, P.8)

¹²⁵ Maxcy, 2014, P.14

¹²⁶ Preuss et al., 2012, P.9

¹²⁷ Maxcy, 2014, P.14

The Financial Fair Play regulations state that it is allowed to include revenues from non-football operations when they are closely linked to a clubs' stadium/training facilities and are using the clubs' name/brand¹²⁸. However, expenses regarding those operations do not have to be taken into account¹²⁹. From this perspective football clubs with the ability to establish hotels, restaurants and other facilities around their football stadium can obtain large benefits. An example is Manchester City in cooperation with Etihad Airways. They are establishing the Etihad Campus, an area with a sport science centre, youth academy, office space and retail outlets, which will boost the local area's economy¹³⁰.

6.2.2 Critiques other than content related

The difficulties are not only expected from the content, but also from the monitoring process. It is argued that because of different national regulations FFP will have an asymmetric impact on different leagues and different clubs in those leagues¹³¹. The UEFA does land itself with assessing documents from 236 licensees with all different national accounting regulations¹³². A survey among football fans indicated that they support the purposes of financial fair play, although they are not confident that the UEFA will conduct the regulation strictly¹³³.

Fairly conducted or not, it is stated that the costs of implementing, monitoring and imposing sanctions will be significant. Football clubs will for example try to add income from non-football operations to their 'relevant' income. It even raises the question if based on a cost-benefit analysis, the FFP regulations are justified¹³⁴.

A final critique on the Financial Fair Play regulations is that the FFP regulations might cause a reduction in welfare for all parties involved (fans, players, clubs) as long as talent supply elasticity remains intact¹³⁵. Talent supply elasticity refers to a sufficient inflow of talented football players, even when salaries decline.

¹²⁸ UEFA Club Licensing and Financial Fair Play Regulations 2012, Annex X; B, 1K, P.76

¹²⁹ UEFA Club Licensing and Financial Fair Play Regulations 2012, Annex X; C, 1G & 1H, P.78

¹³⁰ Preuss et al., 2012, P.9

¹³¹ Vopel, 2011, P.55

¹³² Preuss, 2012, P.8

¹³³ Hovemann and Lammert, 2011, P.28

¹³⁴ Vopel, 2011, P.58

¹³⁵ Madden, 2012, P.1

6.3 A substantiated view on Financial Fair Play and its connected subjects

In summary, the intention of the UEFA to improve the financial stability of European football clubs seems to be right. Reducing the possible influence of Sugar uncles is a first attempt to do so. The ability for middle class and smaller clubs to overinvest will also decline. However, there are still the following critiques that need to be addressed;

- Sugar uncles can still undo red figures;
- The competitive balance might become (more) distorted;
- The interests of the UEFA and clubs are conflicting;
- Difficulties in determining relevant income and relevant costs;
- Difficulties in determining the fair value of (sponsor) contracts.

In the research methodology a distinction is made between part one and part two of this thesis. Part one includes fair play, the role and structure of the UEFA, the financial situation in European football and the content of and critique on the FFP regulations, all discussed in this and the previous chapters. Both parts, of which the later one will be addressed in the following chapters, are illustrated in the following figure. An in depth explanation of the answers given on previous questions is provided in the text below the figure. In particular to refresh what is discussed previously and because now substantiation is provided to address three perspectives which can be included in the initial model illustrated in the final chapter.

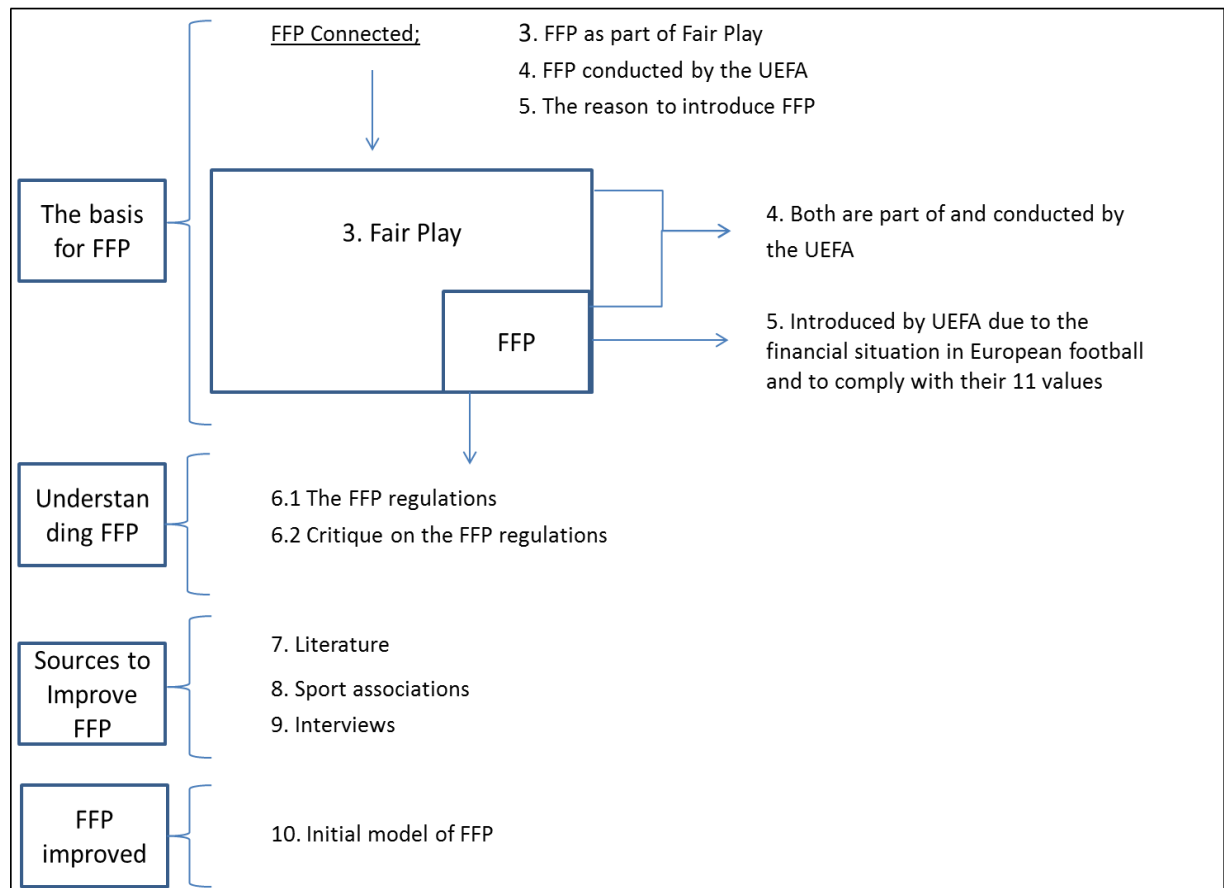


Figure 7, FFP discussed and connected to Fair Play, the UEFA and the financial situation in European football

3. Fair play is about: equal opportunities, respecting the game, respecting all parties involved, playing to win and fair play is also context related. These characteristics are the result of an in depth view on fair play outlined by scientific literature and overarching sport associations, including the UEFA.

4. It's the UEFA's role to act with the best interests for European football. They have concretised this by drawing eleven values, of which (financial) fair play is a part. The Club Financial Control Body is responsible to monitor, assess and if necessary impose sanctions towards clubs if they violate the FFP regulations. Subsequently this department of the UEFA will contribute to one the eleven values and ultimately to the role of acting according with the best interests of European football.

5. Knowing that FFP is about fulfilling the break-even requirement over a period of three years, assessing the financial situation of European football clubs and in particular the most important items on the income statement is of significant importance. The revenues of the biggest 20 clubs consists of matchday revenues (22%), broadcasting revenues (36%) and commercial revenues (42%). After an assessment of several large European football clubs it can be concluded that

salaries are the most important item on the income statement. They count for approximately 55% of the revenues. The amortisation of players is responsible for 15% to 20% of the revenues and operating expenses count for 20% to 35% of the revenues. According to research of A.T. Kearney, European football clubs are financially unstable. Introducing regulations to improve that situation is subsequently proper.

6. FFP is introduced to improve the financial health of European football clubs. Synonym for the FFP regulations is fulfilling the break-even requirement. This means not having more relevant costs than relevant income, assessed over a period of three years. Several critiques arise after the period in which the regulations are introduced. Difficulties in determining the fair value of sponsor contracts and the value of players is one of them. Also the allowance of sugar uncles to undo red figures is still possible. Distorting the competitive balance is a third concern and determining relevant income and costs a fourth.

An overall understanding of FFP and its related topics is achieved. Fair play is explained, the focus and organisation of the UEFA is presented, the financial situation in European football is discussed and the FFP regulations and its critiques are outlined. The following chapters will be used to generate input from different perspectives to improve the FFP regulations and to establish an initial model. The next chapter will focus on literature to assess the financial situation of companies, and if other measures besides the break-even requirement exists. The subsequent chapter will outline how other sport associations strive for a financial healthy situation. The third perspective is obtained from specialist with an in depth understanding of financial health and from an interview with the KNVB. Those three perspectives will be combined and will be integrated with the previous chapters and serve as conclusion to improve the FFP regulations.

7. Improving Financial Fair Play by literature

FFP is introduced with the aim to improve the financial situation among European football clubs.

Financial analysis can be conducted with the aim to assess a company's current and past performance and a company's sustainability. This can be done by using ratio analysis¹³⁶.

However, the UEFA does not request the fulfilment of one of those ratios by football clubs.

Therefore literature will be addressed to review which ratios can be used in assessing and subsequently improving the financial situation among European football clubs. The first paragraph will dedicate attention to the UEFA's interpretation of financial health. The second paragraph will illustrate the usefulness of the balance sheet in assessing a company's financial situation and will subsequently present several ratios to measure the financial situation of a company. The final paragraph will exhibit the most important aspects to keep in mind.

7.1 A retrospect

To enhance the FFP regulations, a quick retrospect of the underlying purposes of FFP is necessary. The main intention is to improve the financial health of European football clubs. To do so, the UEFA applies certain regulations of which the break-even requirement and having no overdue payables are the most important ones. However, they do not provide a definition of what they mean with financial health. Their specific focus on the break-even requirement in the FFP regulations seems to express that financial health is equally to achieving an aggregate break-even surplus over the monitoring period. The following figure simplifies this thought of the UEFA.

FFP regulations	=	Break-even requirement	→	Financial healthy
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Figure 8, the key regulation in the FFP regulations to improve the financial health among European football clubs, is the break-even requirement

This simplified figure shows how the UEFA thinks the financial situation of European clubs can be improved. However they only give an outcome, fulfilling the break-even requirement. When a company is always able to achieve a break-even result, you can conclude afterwards that it is financially stable. However this expectation does not help football clubs to achieve a healthy financial situation in advance.

After years of research there is still no uniform definition of financial stability and which regulations can be introduced to enhance financial stability¹³⁷. Not only football associations, but also several other organisations, governments and policy makers spend significant energy on

¹³⁶ Palepu et al., 2013, P.14

¹³⁷ Allen and Wood, 2005, P.152

financial stability¹³⁸. Nevertheless several interpretations of financial health i.e. stability seems to exist. Financial stability is defined as *‘the joint stability of key financial institutions operating within financial markets and the stability of those markets’*¹³⁹. In this clarification financial institutions can logically be replaced by football clubs and financial markets by the football industry (watching figures, sponsorship deals, and development of talent). A definition of financial instability is as a situation in which access to money is reduced and that a company consequently is forced to reduce its spending. A company’s ability to pay its obligations (interest, principles and other period tied obligation) will be deteriorated in such a situation¹⁴⁰. A situation in which a company could not meet their loan principle/interest payments, renegotiated their loan term, or renegotiated for reduced principle, or interest payments is also recognised as characteristic of financial distress i.e. financial stability¹⁴¹. Accordingly, a company can be qualified as financially healthy when it does not face financial distress. Besides a definition, financial stability is also a final goal of supervision, regulation and crisis management¹⁴².

7.2 Using the balance sheet to conduct ratio analysis

Improving a football clubs’ financial situation is primarily based on the break-even requirement and therefore the income statement. In addition to the income statement, the balance sheet can partially illustrate the financial situation of a company. The balance sheet can provide you with information regarding debt contracts and liquidation values in case of a default¹⁴³. Especially ratios with regards to short-term liquidity and long-term solvency can provide you with insights on the financial health i.e. stability¹⁴⁴. These are items that cannot be subtracted from the income statement. Financial leverage for example is the ratio of a firm’s liability compared to its equity. In contrast to equity, liabilities do have predefined terms which increases chances on bankruptcy when a company cannot encounter these payments¹⁴⁵. This is supported by Altman who argues that ratio analyses can be used to predict the chance of a company’s failure¹⁴⁶. Besides ratios with regards to liquidity and solvency, assessing a company’s efficiency, profitability and cash flow generation can also contribute to insights about the financial

¹³⁸ Alawode and Sadek, 2008, P.5

¹³⁹ Donath and Cismas, 2008, P.27

¹⁴⁰ Allen and Wood, 2005, P.159

¹⁴¹ Lee and Yeh, 2004, P.380

¹⁴² Garicano and Lastra, 2010, P.599

¹⁴³ Barth, Beaver, and Landsman, 1998, P.4

¹⁴⁴ Palepu et al., 2013, P.196

¹⁴⁵ Palepu et al., 2013, P.196

¹⁴⁶ Altman, 1968, P.590

performance i.e. stability of a company¹⁴⁷. Therefore these aspects in combination with an in depth view on liquidity and solvency will be discussed in the next paragraphs.

7.2.1 Assessing a company's performance and efficiency

To assess how well a company manages the funds invested by its shareholders, the return on equity (ROE) can be calculated. It measures the performance of a company by the following formula:

*"Return on Equity; Net profit / Shareholders' equity"*¹⁴⁸.

Two important aspects need to be taken into account when calculating the ROE. First, when a company is able to generate consistently an abnormal high return on equity, it will attract competition, subsequently the ROE will decline. Second, one should be consistent in calculating the ROE by using the beginning equity, ending equity or an average of both. As long one of those three ways is applied consistently, no particular preference exists (rapidly growing companies excluded)¹⁴⁹.

To obtain a more detailed understanding of a company's ROE, the following decomposed formula can be applied:

*"Return on Equity; Return on Assets * Equity multiplier →*

*Return on Equity; (Net profit / Total assets) * (Total assets / Equity)"*¹⁵⁰.

As illustrated this formula consists of two parts. The return on assets (ROA) which measures how much profit a company is able to make from each euro invested and the equity multiplier which illustrates how many euros a company can deploy in assets compared to the euros invested by its shareholders¹⁵¹.

¹⁴⁷ Palepu et al., 2013, P.181

¹⁴⁸ Palepu et al., 2013, P.184

¹⁴⁹ Palepu et al., 2013, P.185

¹⁵⁰ Palepu et al., 2013, P.185

¹⁵¹ Palepu et al., 2013, P.185

Finally the ROA can be decomposed into the following formula:

$$\text{“Return on assets; (Net profit / sales) * (sales / total assets)”}^{152}.$$

The net profit to sales ratio is known as the net profit margin and measures how much euros of profit a company can keep from their sales made. The sales to total assets ratio is known as asset turnover and indicates how efficient a company deploys its assets¹⁵³.

Based on the annual report of AFC Ajax 2012/2013 and 2011/2012, the following table will illustrate how these ratios will work out, especially to provide a more visualised view. The underlying calculations are included in appendix A.1.

Ratio	2012/2013	2011/2012
Net profit margin (net profit / sales)	17,18%	9,25%
X Asset turnover (sales / total assets)	<u>0,89</u>	<u>0,99</u>
= Return on assets	15,29%	9,16%
X Equity multiplier (total assets / equity)	<u>1,65</u>	<u>1,93</u>
= Return on equity	25,23%	17,68%

Figure 9, the ROA and ROE of AFC Ajax during the period 2012/2013 and 2011/2012

The net profit margin and return on assets has been improved in 2012/2013 compared to the results in 2011/2012. Also the return on equity has increased, despite a decline in the equity multiplier. A lower equity multiplier indicates that AFC Ajax has strengthened their equity position compared to its liabilities. To assess whether these profitability ratios are excellent, average or below average, a comparison should be made with a benchmark consisting of comparable football clubs.

¹⁵² Palepu et al., 2013, P.186

¹⁵³ Palepu et al., 2013, P.186

7.2.2 Assessing a company's liquidity

Liquidity is primary focussed on the ability of a company to fulfil its short term obligations, obligations to comply with within a year¹⁵⁴. Although a fulfilment of these obligations can only be assessed afterwards, estimating a company's ability to do so can be done by several ratios. Especially by the following one, related to a company's current assets and current liabilities:

- *“Current ratio; Current assets / Current liabilities*
- *Quick ratio; Cash and marketable securities + Trade receivables (net) / Current liabilities*
- *Cash ratio; Cash and marketable securities / Current liabilities*
- *Operating cash flow ratio; Cash flow from operations / Current liabilities”¹⁵⁵.*

Where the numerator differs over the formulas, the denominator stays the same. Different nominators are used because it differs per situation if inventory and trade receivables can be liquidated and used to repay a company's liability¹⁵⁶.

By calculating these ratios, an assessment can be made with regards to a company's ability to fulfil its short-term obligations. An illustration is provided in the table below for AFC Ajax during the years 2012/2013 and 2011/2012. The underlying calculations are included in appendix A.2.

Ratio	2012/2013	2011/2012
Current ratio	1,81	1,24
Quick ratio	1,75	1,20
Cash ratio	1,03	0,35
Op. CF ratio	0,51	0,13

Figure 10, the current ratio, quick ratio, cash ratio and operating cash flow ratio of AFC Ajax during the period 2012/2013 and 2011/2012

Based on for example the current ratio it can be concluded that AFC Ajax has more current assets than current liabilities, which is mostly positive. However, stating a rigid number from which the ratio is positive is difficult; therefore one should compare these ratios with other comparable football clubs. Also the development over time of different financial ratios can provide you with knowledge on a company's liquidity.

¹⁵⁴ Palepu et al., 2013, P.196

¹⁵⁵ Palepu et al., 2013, P.196

¹⁵⁶ Palepu et al., 2013, P.196

7.2.3 Assessing a company's solvency

A firm's or football club's long term solvency can be indicated by assessing the composition of equity and liabilities. If a company can rely on more debt financing compared to equity financing or vice versa, depends to a large extent on the predictability of a company's cash flow¹⁵⁷. The following ratios illustrates the mix of debt and equity:

- *"liabilities-to-equity ratio; Total liabilities / Shareholders' equity*
- *debt-to-equity ratio; Current debt + Non-current debt / Shareholders' equity*
- *debt-to-capital ratio; Current debt + Non-current debt / Current debt + Non-current debt + Shareholders' equity"*¹⁵⁸.

Important to notice is potential off-balance sheet financing. Since these obligations are often non-cancellable, it can be included in a company's debt position¹⁵⁹.

By calculating these ratios, an assessment can be made with regards to a company's solvency. An illustration is provided in the table below for AFC Ajax during the years 2012/2013 and 2011/2012. The underlying calculations are included in appendix A.3.

Ratio	2012/2013	2011/2012
Liabilities-to-equity ratio	0,65	0,93
Debt-to-equity ratio	0,61	0,93
Debt-to-capital ratio	0,38	0,48

Figure 11, the liabilities-to-equity ratio, debt-to-equity ratio and debt-to-capital ratio of AFC Ajax during the period 2012/2013 and 2011/2012.

The lower the ratio, the lower the amount of debt compared to a company's equity. As with assessing the liquidity of a company, one should compare these solvency ratios with other companies. Also the development from year to year can be used to assess a company's solvency.

¹⁵⁷ Palepu et al., 2013, P.197

¹⁵⁸ Palepu et al., 2013, P.197

¹⁵⁹ Palepu et al., 2013, P.197

How risky a firms' mix of equity and debt is can be measured by the ability to pay its interests, also called interest coverage ratio:

- *"Interest coverage (earning basis): Net profit + Interest expense + Tax expense / Interest expense*
- *Interest coverage (cash flow basis): Cash flow from operations + Interest expense + Tax paid / Interest expense"*¹⁶⁰.

To measure the ability of a company to meet its additional financial obligations like principles and lease payments, the denominator and numerator can be adjusted¹⁶¹. Due to the fact that AFC Ajax does have a negligible amount of long term debt and therefore does not face any interest payments for the years 2012/2013 and 2011/2012, a similar table as illustrated above cannot be presented¹⁶². Having debt to a certain extent can be beneficial. Debt is tax deductible, normally cheaper than equity, it will reduce wasteful expenditures and communicating with lenders instead of shareholders (the public market) is normally easier¹⁶³. What can be concluded is that, due to the absence of interest payments, AFC Ajax does not have the pressure to fulfil fixed interest obligations. However, restructuring the financing policies might be worth considering due to the mentioned benefits of debt.

The UEFA is trying to enhance financial health among football clubs by imposing them sanctions if they do not fulfil the break-even requirement, which can only be concluded afterwards. The financial crisis, started with the fall of Lehman Brothers is a typical example. Despite banks made enormous profits year after year, several of them have been bailed out. Therefore a broader scope of financial insights like the ratios illustrated can be incorporated in the FFP regulations to improve the financial health of football clubs for the long term.

¹⁶⁰ Palepu et al., 2013, P.197

¹⁶¹ Palepu et al., 2013, P.198

¹⁶² AFC Ajax jaarverslag, 2012/2013, P.36

¹⁶³ Palepu et al., 2012, P.197

7.3 Ratio analysis integrated to assess financial health

The UEFA wants to improve the financial health of European football clubs via an introduction of the break-even requirement. However, it is presented that additional ways to do so exist. The ratio analysis is now incorporated in an elaborated model, illustrated below.

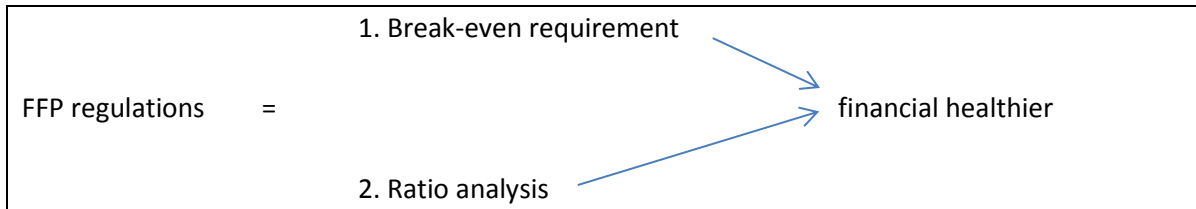


Figure 12, including ratio analysis in the FFP regulations to improve the financial health of European football clubs

By including ratio analysis in the FFP regulations and to require certain ratio levels the chances to become financially more stable increases. In this scenario the ratio analysis and the break-even requirement are of equal weight and contribute together to a healthier situation.

This theoretical part will be combined with the policies applied by several sport associations to sustain the financial health of clubs in their leagues. The following chapter will discuss those policies and serves as a more practical way to cope with financial stability.

8. How other sports try to achieve Financial Fair Play

No other overarching sport association like the UEFA uses the words Financial Fair Play. What they often do, is referring to regulations and agreements between player union bonds and specific sport associations. Sport associations have often tried to regulate the player labour market to improve the competitive balance in leagues, especially to prevent the concentration of all the top talent at large clubs¹⁶⁴. The following paragraph will present the role of both national and continental sport associations and the tools that are often used to adjust the financial playing field. The subsequent paragraph will provide an in depth view on those applied tools, succeeded by a paragraph with the most important characteristics of this chapter.

8.1 Overarching sport associations

In chapter 2.2 several interpretations of overarching sport associations have been discussed. In particular interpretations of sports that can reasonably be compared with soccer. The prior intention was to overthink the financial regulations presented by those continental associations. Subsequently improvements in the current FFP regulations could have been made. However, no one of the discussed associations outlines financial restrictions towards teams in their competitions. Further research has shown that national associations apply specific financial regulations towards their participating clubs, mostly in accordance with the players' union bonds. The next paragraphs will discuss those regulations, the underlying intention and the most reasonable outcome.

8.2 Financial regulations in practise

The National Hockey League (NHL), the National Basketball Association (NBA), the Australian Football League (AFL) and the Aviva Premiership are four sport associations that apply a certain form of financial regulations. There are several other associations who apply financial regulations to improve the competitive balance in a league and to ensure the financial viability of individual clubs. Discussing them all in detail would not be of substantial added value compared to outlining the main concepts introduced by the four mentioned associations.

The NHL applies a salary floor and a salary cap based on the total revenues of previous seasons. For injured players it is allowed to exceed the salary cap and a maximum entry level salary is set at \$925.000¹⁶⁵. The NBA applies a soft salary cap to strive for a fair level playing field and a certain level of competitive balance. There is a minimum and maximum salary players can

¹⁶⁴ Kesenne, 2000, P.422

¹⁶⁵ NHL, NHL sets 2014-'15 salary cap at \$69 million, floor at \$51 million, 2014

receive and in certain situations it is allowed to exceed the salary cap¹⁶⁶. The AFL applies a soft salary cap and amounts exceeding that cap are charged with a luxury tax. In addition clubs distribute a certain amount of money based on their realised revenue¹⁶⁷. Finally, the Aviva Premiership (an Australian rugby union) introduced salary caps to control costs, to improve the long term financial stability and to ensure competitive balance. A limitation on a player's individual salary does not exist and they are allowed to exceed the salary cap with \$440.000 for talent and academy investments¹⁶⁸.

Although these associations are just a fraction of the total associations that regulate their competition by financial restrictions, it is made clear that a soft and hard salary cap, a salary floor, luxury taxes, maximum individual payments, revenue sharing and exceptions for talent developments are frequently applied regulations to improve the competitive balance and the financial viability in sports.

8.3 Content of financial regulations

Revenue sharing arrangements have been introduced to improve the competitive balance between leagues¹⁶⁹. Luxury taxes are used by several sport associations to withhold clubs from spending extreme amounts on player salaries and to distort the competitive balance¹⁷⁰. A luxury tax is a tax that must be paid in situations when clubs spend more than a certain amount of money on players' salaries. In baseball for example amounts paid on luxury taxes go into a pool and will be distributed to 13 small-market teams¹⁷¹. Revenue sharing among clubs is also a way to improve the competitive balance. In North American sport competitions several ways of revenue sharing exist. Sharing in gate receipts and a pool for locally generated revenue, subsequently divided among all league members.¹⁷² The MLB (Major League Soccer) transferred, by its revenue sharing system, \$400 million from high-revenue clubs to low-revenue clubs in 2008¹⁷³.

Despite the existence and influence of revenue sharing and luxury taxes, in particular to adjust the competitive balance, a salary cap is the most noticed regulation used by national sport associations. Especially sports in Australia and the United States are familiar with this regulation.

¹⁶⁶ NBA, Salary cap for 2014-15 season jumps to \$63 million, 2014

¹⁶⁷ AFL, AFL statement: Competitive balance policy, 2004

¹⁶⁸ Premiership Rugby, Salary cap

¹⁶⁹ Kessenie, 2000, P.422

¹⁷⁰ Staudohar, 1998, P.8

¹⁷¹ Staudohar, 1998, P.9

¹⁷² Dietl, Lang, and Rathke, 2011, P.448

¹⁷³ Zimbalist, 2010, P.20

Basketball in 1984-85 and football in 1994 were the first two sports who introduced the salary cap¹⁷⁴. In 2000 it is already argued that salary caps will become more popular in European sports, because many clubs suffer from financial losses¹⁷⁵. A salary cap can be seen as a contradiction to free agency, it is a limitation of how much teams can pay their players¹⁷⁶. Salary caps do prevent clubs from paying salaries they cannot afford.

Two kinds of salary caps does exist, a soft salary cap and a hard salary cap. In case of a soft salary cap it remains possible to exceed the stated cap in certain circumstances. A hard salary cap does not allow an exceeding of the salary cap in any case¹⁷⁷. Salaries are according to several collective bargaining agreements often a percentage of the (previously) earned revenues. At least in the NFL, NBA and NHL they are¹⁷⁸. Although the most logical interpretation of a salary cap is that clubs are not allowed to exceed a certain salary limit, a salary cap can also include a minimum amount clubs have to spend on player salaries¹⁷⁹. The NBA for example has a salary floor. In order to do so, smaller clubs receive subsidization from bigger clubs to reach that minimum. In addition to salary caps for salaries paid to the whole team, a cap can also be imposed to individuals. Because bigger clubs are subsequently able to hire more top players, a deterioration of the competitive balance is expected¹⁸⁰. This is supported by the fact that a concentration of talent reduces competitiveness among clubs¹⁸¹. Despite players can earn as much at smaller clubs, they will logically reasoned choose for the bigger club and the better team. The only consequence of an individual salary cap is a smaller difference between top and regular players' salaries¹⁸².

When a salary cap based on a league's or clubs' revenue might be introduced, it is important to clearly outline what payrolls include. Do you include only the active roster or both the active and inactive roster? The same applies to player benefits. And what about deferred salaries and spending on youth salaries and development¹⁸³. When relevant sources are not included into a clubs' total revenue, players might receive less than the fair share where they are entitled to¹⁸⁴. A characteristic regarding salary caps in the NHL is the increase of salary cap's when revenues are

¹⁷⁴ Staudohar, 1998, P.3

¹⁷⁵ Kesenne, 2000, P.423

¹⁷⁶ Staudohar, 1998, P.3

¹⁷⁷ Staudohar, 1998, P.4

¹⁷⁸ Zimbalist, 2010, P.19

¹⁷⁹ Kesenne, 2000, P.423

¹⁸⁰ Kesenne, 2000, P.428

¹⁸¹ Larsen, Fenn, and Spenner, 2006, P.374

¹⁸² Kesenne, 2000, P.429

¹⁸³ Zimbalist, 2010, P.18

¹⁸⁴ Zimbalist, 2010, P.19

increasing¹⁸⁵. The underlying reason is that clubs' profits will rise otherwise lop-sided more than players' salaries. In the European football situation it is reasonable to introduce a salary cap based on a percentage of a club's revenues, a so called 'relative capping strategy'. Especially because the differences between clubs' revenues are too large to apply a salary cap based on league's revenue¹⁸⁶.

The most reasonable idea is to introduce certain regulations with regards to the salaries paid by football clubs, since the most important item on the income statement are the salaries paid towards players. Salary caps will level the distribution of talent and improve the bottom line of the income statement. By levelling talent, a better competitive balance among clubs might also arise¹⁸⁷. Competitive balance is described as the distribution of wins in a specific league¹⁸⁸. The more equal the wins are divided among clubs, the better the competitive balance in that specific league. A salary cap is the only way to improve the competitive balance within a league and simultaneously prevent small market clubs from being financial unviable¹⁸⁹.

Although the UEFA does not focus on improving the competitive balance of football in Europe, fans do prefer exiting matches and unpredictable outcomes¹⁹⁰. And since the competitive balance can contribute to the main objective of the UEFA to improve the financial health, it is mentioned several times. Additionally, it is argued that club's revenues are determinant by market factors and winning percentages, which is subsequently dependent on a clubs' playing talent¹⁹¹. Winning has a positive influence on an individual club's revenue, but can have a negative influence on a league's revenue when it becomes too strong. Although a salary cap might be preferable to improve the financial situation and competitive balance in football, it is not guaranteed that it can be introduced by the UEFA. Dependent on a fans preference for an unbalanced or balanced league, social welfare might increase or decrease¹⁹². A decrease in social welfare might withhold the European Commission from allowing a salary cap. However, competitive balance and the level of uncertainty is of importance to the total revenues of the league and withholding a salary cap might cause a more unbalanced and uncompetitive league, resulting in lower revenues¹⁹³. In summary, salary caps do provide clubs from spending more

¹⁸⁵ Zimbalist, 2010, P.21

¹⁸⁶ Dietl, Franck, Lang, and Rathke, 2012, P.309

¹⁸⁷ Maxcy, 2014, P.10

¹⁸⁸ Larsen et al., 2006, P.374

¹⁸⁹ Fort and Quirk, 1995, P.1296

¹⁹⁰ Dietl et al., 2011, P.447

¹⁹¹ Kesenne, 2000, P.423

¹⁹² Dietl et al., 2012, P.308

¹⁹³ Kesenne, 2000, P.427

than they can afford, it increases profits, improves the competitive balance, but the feasibility of introducing a salary cap can be withheld when social welfare decreases.

8.4 A salary limitations to improve the financial situation

The following figures will clarify the several characteristics of a salary cap and the different connected subjects to a salary cap. The underlined words in the first figure illustrate the preference based on the literature discussed above.

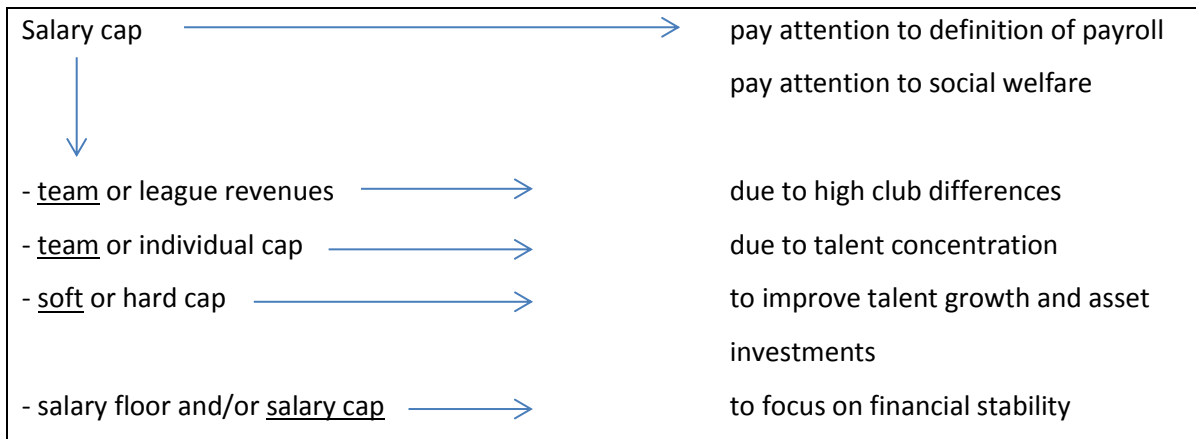


Figure 13, the preferable characteristics of a salary cap and why these characteristics are preferable

Although the current FFP regulations also focus on the bottom line of the income statement, the figure below illustrates that a salary cap will help football clubs to improve their financial situation up front. Instead of determining if the performance afterwards is satisfactory.

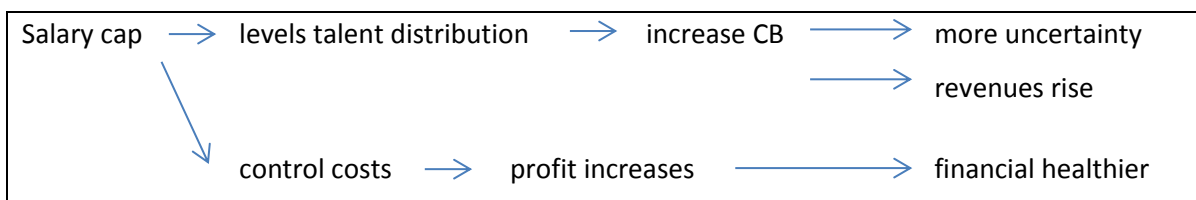


Figure 14, the substantiation of a salary cap to improve the financial situation

The introduction of both a salary cap and luxury taxes is otiose. However, future research might be conducted on the introduction of luxury taxes, especially when a salary cap cannot be introduced. As of this moment a salary cap is proposed to limit, besides certain exceptions, the salaries paid to players. A luxury tax is a realistic option to discourage football clubs from paying high salaries, however it stays possible to reward players with the same amounts of money when clubs are able and willing to pay higher taxes.

9. A field research; how professionals think Financial Fair Play can be improved

This chapter will serve as the last one to generate input to improve the FFP regulations. Firstly, it was the intention to conduct several interviews with finance employees from Dutch football clubs, especially clubs who obtained are qualified for UEFA competitions. However, no club was interested or able to schedule time to take an interview. The primary reason to reject the interview request was a combination of both limited time available and the frequently received interview requests.

However, to obtain information with regards to the FFP regulations and its underlying goal, three interviews were conducted; one with the licensing coordinator of the KNVB, one with a certified accountant and one with a credit analyst. The interview with the KNVB primarily concerns the content of the FFP regulations and the perspective in which the critiques needs to be placed. Both improvements and an individual opinion with regards to FFP were not a topic of discussion. The last two interviews focuses to a large extend on the critique of FFP outlined in chapter 5. During all three interviews questions with regards to financial stability, UEFA's primary purpose for which the FFP regulations have been introduced, have been discussed.

The questions related to FFP consists in particular of; the predictive value of the break-even result for future financial stability, the inclusion of relevant revenues and costs, the establishment of (sponsor)contracts and players fair value, the duration of the monitoring period and the ability to undo losses to a certain extend.

The other part of the interview consists of questions related to determining financial health / stability of a company, especially because the UEFA aims to improve the financial health in European football. These questions consists of; a definition of financial health, the financial and non-financial aspects that influence financial health and how the financial situation of a company can be improved.

The sequence differs in the three interviews. During the interview with the KNVB, the first questions asked were related to the KNVB's opinion on financial health and the second part consists of questions related to FFP. Because it was expected when the questions were reserved, the interviewee would adhere to its first provided answers. A deviated opinion with respect to the UEFA and its regulations is not expectable. During the other two interviews the first questions were related to the FFP regulations and the later questions to financial stability / health. In particular because deviating from a previously given opinion on financial health was

not expected when a certain interviewee is not affiliated with an overarching influential organisation.

The following paragraph will present the most important findings with regards to the three interviews. A detailed elaboration of every interview can be found in the appendix. The final paragraph presents the most important items of this chapter.

9.1 Interview with the license coordinator; Jan Peter Dogge from the KNVB

This paragraph will present the key findings of the interview with Jan Peter Dogge. He heads the licensing division of the Dutch National Football Association (KNVB). Although the initial intention was to obtain ideas to improve the current FFP regulations, the interview was primarily focussed on the content of the FFP regulations, critiques on those regulations and certain general aspects with regards to financial stability.

9.1.1 Answers with regards to financial health

Firstly, the KNVB's and UEFA's primary focus is to run a competition with football clubs who are able to participate after a license is provided. Both the KNVB and the UEFA are not responsible for the financial situation of a football club. No uniform definition of financial health is provided by the KNVB, despite the acknowledgement that the debt and equity positions and negative results are characteristics of a financial healthy situation. In the first instance it is the task of the accountant to assess the financial stability of a football club.

The final result of a football club depends on several revenue streams from which playing European competition is an important one, but less predictive and it can fluctuate. The costs made by football clubs consists largely out of salary expenditures. Aligning certain additional requirements towards salaries paid might improve the financial situation of European football clubs. Building a financial buffer might in addition contribute to the financial stability.

9.1.2 Answers with regards to critique on Financial Fair Play

It is recognised that a break-even result does not have a substantial predictive value. It is one out of several aspects you need to consider in determining the financial situation of a football club. The monitoring period of 3 years is proposed by the UEFA, however it is worth considering to attach more weight to the most recent years. The FFP regulations allow the involvement of 'sugar uncles' to undo the losses to a certain degree. This is reasonable because clubs need time to reorganise their (financial) organisation. In addition 'what is principally wrong against having a 'sugar uncle'?'

The FFP regulations are introduced recently. Therefore it is too early to propose suggestions to improve the current regulations. Independently from the topic related to FFP, it is not the intention to improve the competitive balance between football clubs via the FFP regulations.

9.2 Interview with a certified accountant; Armando Veringmeier from Ten Kate Huizinga

This paragraph will present the key findings of the interview with Armando Veringmeier, a certified accountant and partner at Ten Kate Huizinga. Both critiques on the FFP regulations and questions about financial stability were discussed.

9.2.1 Answers with regards to critique on Financial Fair Play

The break-even requirement is one of the items to assess in considering the financial stability of a company. However, it does not provide any guarantee for future financial performance. A monitoring period of 3 years is rewarded as a proper to assess a clubs financial situation.

However, it is reasonable to attach more value to the most recent years. Of particular importance is a company's ability to pay its bills. Therefore and related to the break-even result, the cash position of a company and its overarching working capital needs to be assessed.

Excluding certain revenues and costs when calculating the final result, is not preferable and does not provide you with a proper view of the financial situation of a company. In particular because investments can carry risks that influence the financial position. Unfavourable final results and cash positions can in addition be compensated by financial guarantees from external parties.

Determining the value of a skybox of one particular club is feasible. However, determining the value of sponsor contracts can be more difficult. As a rule of thumb it can be assumed that a contract is always valued fair, unless a relationship exists between the owner and the sponsor. How larger the distance between those parties, the fairer is a contract's value

9.2.2 Answers with regards to financial health

Not spending more than you have earned is defined as a proper definition of financial stability. Complemented with the ability to absorb setbacks and having guarantees from external parties. Financial aspects that influence the financial stability are: cash flows, the final result and trends in ratios. In assessing equity ratio's it is important to consider the kind of asset. Tangible assets do provide more security than intangible assets, because the latter one can decline significantly faster. Non-financial aspects that influence the financial stability are; the background, experience and education of key persons within the company. Also the business model and the ability to absorb disappointments in certain revenue streams determine a company's financial stability.

Preventing opportunistic behaviour and accepting the fact that you are not able to compete with the best in your competition will also contribute to the financial stability. As well predicting and monitoring cash flows. A final comment with regards to the salary expenditures contains that a certain limitation (percentage) on those salaries will moderate the expenditures.

9.3 Interview with a credit analyst; Maureen Niehof from Rabobank

This paragraph will present the key findings of the interview with Maureen Niehof, a credit analyst at Rabobank. Both critiques on the FFP regulations and questions about financial stability were discussed.

9.3.1 Answers with regards to critique on Financial Fair Play

A final result needs to be assessed in the context of a company's equity and debt position. Also the final results' trend is of importance to obtain a proper view about the financial stability. As well the liquidity position, as part of a company's working capital, is extremely important. The ability if bills can be paid provides you with significant information on the financial stability of a company. Just obtaining a break-even result is insufficient, because creating a financial buffer is impossible. Achieving a break-even result can be a sign, contrary to be satisfied, that additional attention is desirable.

An improved equity position normally improves the financial stability of a firm. However it is of interest to consider the components of a company's equity. More value is attached towards tangible assets compared to intangible assets. Financial room for manoeuvre is also preferable in relation with estimating the value of players. Since players need to be valued against fair value, significant amortisations can arise and will influence the final result of a football club.

3 years is a proper period to assess the financial situation of a company. Only when incidents have taken place during one of the three years, a more extended period needs to be assessed. Assigning more weight to the most recent years is preferable.

9.3.2 Answers with regards to financial health

Financial health depends to a large extend on the background of the entrepreneur (management), the business model of the company and the company's financial situation. A company's financial situation depends largely on the quality of the working capital, its solvability ratios and securities (collateral) provided. The break-even requirement is less important in assessing the financial stability of a company. It can be used to determine how much a company can decline in their performance and when the financier needs to pay additional attention towards that specific company.

Essential non-financial aspects of a company consist of; changing an accountant, the step down of a financial director or the failure to comply with certain administrative obligations. The usage of the account limit can also be an indicator in assessing the stability. All the discussed financial and non-financial aspects can be taken into account when you want to improve the financial stability of a company.

9.4 How the financial specialists and the licensing coordinator expect Financial Fair Play can be improved

As described in the research methodology, three sources would be addressed to generate input from different perspectives to improve the FFP regulations drafted by the UEFA. All sources are discussed in this and the previous two chapters. The most important aspects of the interviews are structured and summarised below.

During the interviews, particular attention is paid to the critiques on FFP and the characteristics of financial health. All three interviewees agreed with additional attention towards the results of the most recent years. They also mentioned the unpredictability of future financial stability via the break-even requirement. Especially Armando and Maureen supported the assessment of (solvency) ratios and the working capital (liquidity) position of a company. In assessing those ratios, more value should be attached to the tangible assets of a company. Additional agreements exist with regards to building a financial buffer/room to manoeuvre to absorb setbacks. Although the reason to exclude certain costs is understandable, to obtain a proper understanding of a company's financial result it is reasonable to include all costs made and revenues earned. Finally, incorporating an assessment of a company's management can improve the financial stability as well.

In the next chapter, all three sources are combined and serve in a way FFP can be improved. Remarks to consider by implementing those proposals will be discussed and issues that need further research are outlined too.

10. An initial model with regards to Financial Fair Play

The primary purpose of the current FFP regulations is to enhance the financial health of European football clubs. The UEFA is trying to do so by obligating clubs to spend less than what they have earned. However, is this proper and complete view of what 'financial health' means and how it can be improved? The intention of this thesis was to provide a model to improve the FFP regulations and to enjoy football for a significant longer time. The following paragraph will comply with that intention.

10.1 An initial model

The following figure incorporates all relevant aspects to improve the FFP regulations and subsequently the financial health of European football clubs. A clarification of the proposed aspects is provided below the figure.

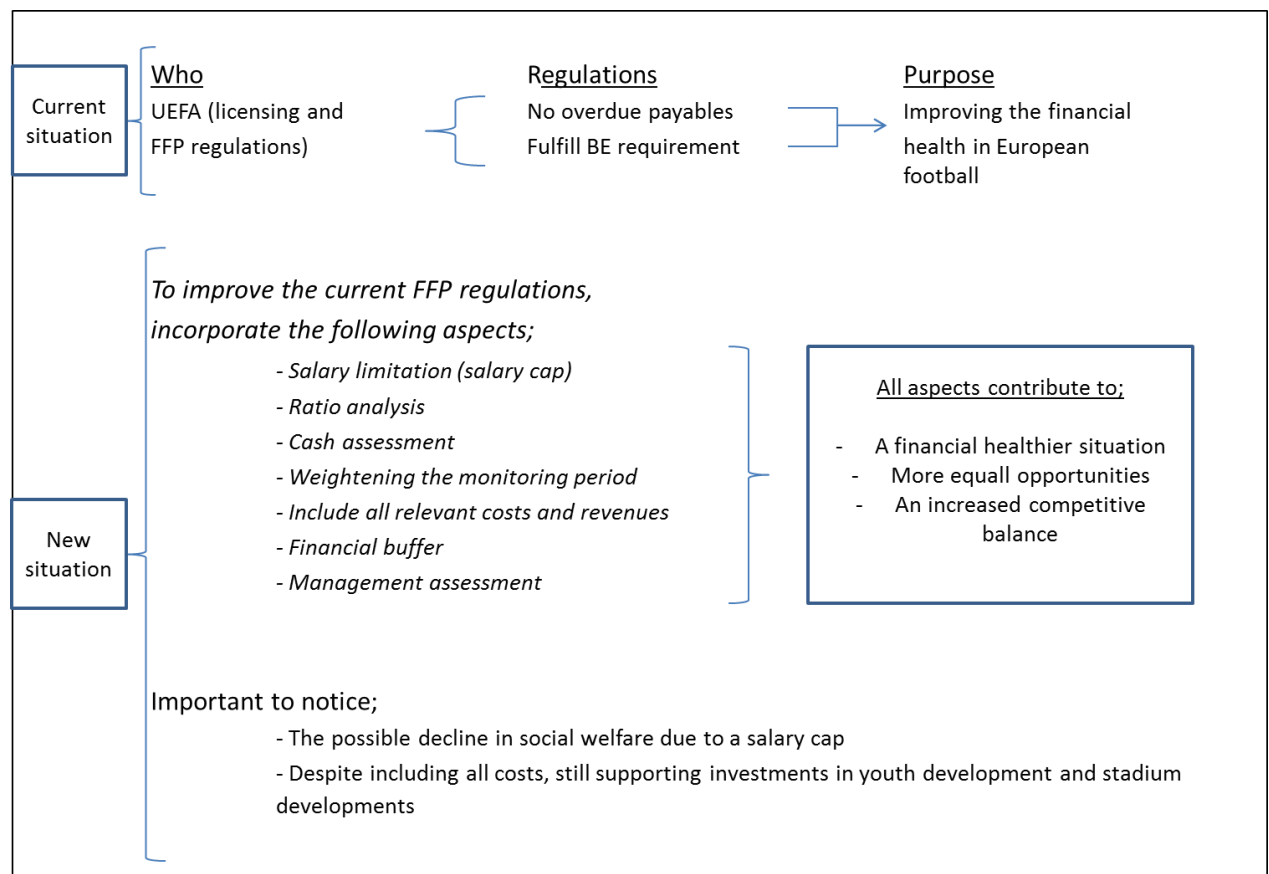


Figure 15, an initial combined model of both the current Licensing and FFP regulations initiated by the UEFA and sources addressed to improve those regulations

First a step back. Fair is primarily focussed on equal opportunities. Although certain football clubs seems to do whatever it takes financially to win, is does not correspond with the interpretation of equal opportunities. The UEFA have to act with the best interests for football, as defined via

their eleven key values. As part of their values they are supporting a financial healthy situation among football clubs, especially by implementing Licensing and FFP regulations. Clubs have to meet not having overdue payables at the moment a license can be granted and they need to fulfil the break-even requirement during the monitoring period, as part of the FFP regulations. These regulations should reduce the debt positions of football clubs, their salaries paid to players and to encourage them to operate on the basis of their own revenues. Is it reasonable to assume that these demands will improve the financial health in European football? If every club is able to comply with its financial obligation and to achieve a break-even result, these demands will have shown their strengths. However, other ways exists to assess the financial health of a football club and other opportunities exist to increase the likelihood on a financial healthier situation in European football.

An assessment of financial regulations applied in other sports has provided in the idea of introducing a salary cap or a derived form. Costs of football clubs consists of 65% out of salary expenditures. Literature illustrates that a salary cap contributes to the financial health of sport clubs and that in addition the competitive balance can be improved. Although improving the competitive balance between football clubs is not the primary purpose of the UEFA, it is illustrated that an increase in uncertainty of results contributes to an increase in total revenues. A salary cap consists preferably of a percentage of revenues earned by a specific team. In addition it does not include an individual cap, a salary floor and allows exceptions to certain extend (soft salary cap). The introduction of a salary cap or at least more attention with regards to salary expenditures is also supported by two of the interviewees.

Literature on financial health focuses to a large extend on ratio analysis. Although, the KNVB does not adhere to one specific definition of financial health, evaluating the financial situation of companies by using financial ratios is widely supported by all interviewees. Although a rigid proposal on which ratios to use, is at this moment of subordinate interest. It is demonstrated that assessing certain ratios can provide you with a significant understanding of the future financial health of a company. A financial assessment is not complete without the evaluation of the cash position (working capital). The ability to fulfil your financial obligations for the foreseeable future is of significant importance with regards to the financial stability. Subsequently building a financial buffer is recommended by both the accountant and banker. With regards to the length of the monitoring period, all interviewees supported the term of 3 years and the attachment of more attention to the most recent years. A final comment on calculating a football clubs result is including all costs and revenues. Difficulties are expected to arise and excluding certain costs might provide you with an improper view on the real financial

situation. Therefore including all costs and revenues, just as with the possible provision of a license, is recommended.

A final notice is the assessment of non-financial aspects in determining the financial health of a company. Significant attention is paid towards the background, experience and qualifications of entrepreneur and persons on key positions. Although assessing these aspects is less concrete, it is worth considering including certain non-financial aspects while determining the financial health of a company.

10.1 Further research

Based on the propositions, further research needs to be conducted with regards to several aspects. As outlined, the introduction of a salary cap may be rejected by the European Commission when it decreases to social welfare. Although a salary cap might increase the competitive balance and subsequently the total leagues revenues, an assessment needs to be made. As an alternative, one can consider the aggravation of salaries during the licensing assessment. In chapter 6, several ratios have been discussed. However, it needs to be determined which ratios can be used and what ratio levels are appropriate. A final aspect to reconsider is the incorporation of non-financial aspects in an assessment of a company's financial stability. What aspects to incorporate, the weighting of these aspects and how to operationalise and measure them is material for further research.

Appendix

The following appendixes include the full answers given in the interviews, based on the questions asked.

Appendix A.1

Calculations with regards to the profitability of AFC Ajax during the years 2012/2013 and 2011/2012

Ratio	2012/2013	2011/2012
Net profit margin	$18.150 / 105.629 = 17,18\%$	$9.666 / 104.488 = 9,25\%$
X Asset turnover	$105.629 / 118.248 = 0,89$	$104.488 / 105.547 = 0,99$
= Return on assets	$17,18\% \times 0,89 = 15,29\%$	$9,25\% \times 0,99 = 9,16\%$
X Equity multiplier	$118.248 / 71.840 = 1,65$	$105.547 / 54.746 = 1,93$
= Return on equity	$15,29\% \times 1,65 = 25,23\%$	$9,16\% \times 1,93 = 17,68\%$

Appendix A.2

Calculations with regards to the liquidity of AFC Ajax during the years 2012/2013 and 2011/2012

Ratio	2012/2013	2011/2012
Current ratio	$75.944/41.985 = 1,81$	$60.294/48.430 = 1,24$
Quick ratio	$(75.944-2.488)/41.985 = 1,75$	$(60.294-2.377)/48.430 = 1,20$
Cash ratio	$(75.944-2.488-30.017)/41.985 = 1,03$	$(60.294-2.377-40.900)/48.430 = 0,35$
Op. CF ratio	$21.287/41.985 = 0,51$	$6.208/48.430 = 0,13$

Appendix A.3

Calculations with regards to the solvency of AFC Ajax during the years 2012/2013 and 2011/2012

Ratio	2012/2013	2011/2012
Liab.-to-equity ratio	$(118.248-71.840)/71.840 = 0,65$	$(105.547-54.746)/54.746 = 0,93$
Debt-to-equity ratio	$(41.985+1.858)/71.480 = 0,61$	$(48.430+2.371)/54.746 = 0,93$
Debt-to-capital ratio	$(41.985+1.858)/(41.985+1.858+71.480) = 0,38$	$(48.430+2.371)/(48.430+2.371+54.746) = 0,48$

Appendix B

Interview with a license coordinator; Jan Peter Dogge from the KNVB, 17 July at 15.30.

Questions related to financial stability / financial health

1. How does the KNVB defines financial health / financial stability?

The KNVB does not have a definition for financial health. It is defined as any other one would define financial health. However, the equity position, debt position, negative results and certain liquidity and solvability ratios are of importance to determine the financial health of a company / football club.

With regards to financial health, the KNVB works with a category system. Dependent on the category, more attention will be paid towards a specific club.

2. Do and if yes which, financial and non-financial aspects influence financial health / financial stability?

A first important aspect is to make a comparison between clubs who can reasonably be compared. You cannot compare a small club in the Netherlands with a top club in Spain for example.

Playing European competition contributes significantly towards your revenues. So success will lead to higher earnings and subsequently these earnings can be used to increase the chance on playing European competition subsequently. Success and financial performance are strongly related.

3. How to improve financial health / financial stability of a football club?

First, it is not the responsibility of the UEFA to make clubs financial healthier. Its primary intention, of both the KNVB and the UEFA is to organise a competition.

As of its moment a license is granted (or not withdrawn) the licensor will assess two specific criteria; are there no overdue payables towards specific parties and is the statement going concern provided and did the equity position changed. After a license a granted (or not withdrawn) the UEFA will assess if clubs who are qualified to play European competition comply with the FFP regulations. The only thing the UEFA is doing is connecting specific requirements towards their licensing criteria.

Since the costs consist for a large part out of salaries, agreements can probably be made to put more attention towards salary expenditures in the licensing procedure.

Other aspects to improve the financial health is to focus on the overall costs and organisation structure, to decrease the dependency on certain revenue sources (since controlling certain sources is extremely difficult) and to build a financial buffer in situations you face financial setbacks.

However, firstly it is the accountant who is assessing the financial stability of a company / football club.

4. How can the FFP regulations be improved according to the KNVB?

Certain improvements on the operational side on FFP can be made. However, it is too early to determine how the currently stated FFP regulations can be improved. Therefore it is proper to wait three to four years and assess the regulations again.

5. Are other measures/regulations considered besides the break-even requirement to improve the financial health in European football?

No answer can be provided. The UEFA can be asked if other regulations are considered.

Questions related to the FFP regulations

1. What does a break-even requirement tells you about financial stability / financial health?

The break-even requirement does not have a significant predictive value. But since no definition of financial stability is provided, the value of obtaining a break-even result with regards to financial stability cannot be determined.

2. Why is a monitoring period of 3 years chosen?

The UEFA can be asked for a specific answer. Operationally it is necessary to determine the long term situation of a football club over a period of 3 years.

Attaching more weight to the most recent years is an option that could be considered.

3. Why do football clubs still have the possibility to undo their losses via related parties?

Reducing this possibility in one moment to zero is not realistic and undesirable. Clubs need time to adopt these regulations into their (financial) organisation. A parallel can be drawn towards

reducing the possibility to subtract the mortgage interests from your gross income. A final remark; what is principally wrong against having a 'sugar uncle'?

4. How determines the UEFA the fair value of (sponsor) contracts?

Business contracts (Adidas versus Manchester United) can be assessed as fair. If a relation exists between the owner and the sponsor a special report will be conducted and sufficient expertise is available, both internal and external, to assess the value of a contract.

5. Can a complete view on the financial situation be obtained when certain revenues and costs are left out?

In providing or not withdrawing a license all financial figures will be assessed. Only non-material or non-football related items will be excluded from the financial assessments.

The break-even requirement does contain certain exceptions in calculating the final result. Especially investments in assets (stadium) and costs made on youth development are excluded.

6. What is the expectation with regards to the competitive balance between football clubs by implementing the FFP regulations?

An absolute relationship exists between money and football club's success. However, improving the competitive balance does not belong to the concerns of the FFP regulations.

Appendix C

Interview with a certified accountant; Armando Veringmeier from Ten Kate Huizinga, 10 July at 16.00

Questions related to FFP regulations

1. What does a break-even requirement tells you about financial stability / financial health?

The break-even result is one of the items to consider in determining the financial stability. Generating cash, the ability to pay the expected obligations, is in the context of the break-even result of particular importance. However, cash needs to be put in a larger context of working capital. The ability to use a certain amount of cash is dependent on how efficient you are dealing with creditors, debtors and your inventory.

The break-even result is a figure based on previous activities and does not give any guarantee for the future. Besides, a company may not have obtained proper results, but can still be financially stable due to guarantees given by external parties. Break-even serves to equalise the playing field. To not favour one participant over another when one of them can benefit from having a sugar uncle on coincidence.

2. Does dismissing certain revenues and costs provide you with a fair/proper view on the financial stability / financial health?

Dismissing certain financials provides you with an improper view on the financial stability of a company. However, it is logically, due to the fact that a more equal comparison can be made between several companies. Not every club does spend money on youth development and invests in their tangible assets (stadium).

However, for a proper view you need to take into account all costs and revenues. There might be, for example risks included in the expenses made which are not included in calculating the break-even result. In addition you cannot have any income if you are not willing to invest. Therefore, it is questionable to dismiss investments made but to include revenues as a result of those investments.

Include all financial figures and focus on the entity. Otherwise you will get a skewed view on the financial situation.

3. How can the fair value of (sponsor) contracts with related parties be determined?

Determine the real value / the market price what everyone is willing to pay. Within a specific football club it is manageable to do this. The price of a skybox should be more or less equal within one stadium. However, comparisons between specific clubs are much more difficult to make.

As a starting point you can assume the value is always fair, at least when a transaction is executed between two separate business partners. However, a question mark can be put when a contract is closed if the sponsor is the same party as the owner of a club. In short: the larger the distance between the two parties, the more fair the value of a contract.

It is also proper to remember that a certain value depends on the preferences of a particular person.

4. Is it proper to assess a clubs financial situation based on 3 years?

Intuitively 3 years is a proper basis to assess the financial situation of a company. However, an improvement or worsening in the financials can have taken place in the last three years. The first year doesn't have to tell you anything about the current financial stability. Therefore it is reasonable to attach more weight to the most recent year. For example; year 1; 20%, year 2; 30% and year 3; 50%.

5. When are you able to provide a club with the statement 'going concern'?

Going concern means that a company can proceed the following twelve months. Important to notice is that this period starts as of the signature is set. This can differ per company and needs to be taken into account subsequently. Assess all obtained insights to provide a company with the statement going concern.

Questions related to financial stability / financial health

1. How do accountants define financial health / financial stability?

Not spending more than what you have earned and having the ability to absorb setbacks.

Guarantees of third / external parties can also improve the financial health. Possibilities available with regards to financiers or shareholders can in addition improve the financial stability.

2. Do and if yes which, financial aspects influence financial health / financial stability?

The final result (related to the items on the income statement), cash flows and trends in ratios are determinants of the financial stability of company. It is of additional importance to consider the assets who are capitalised on the balance sheet. Tangible versus intangible assets is a difference for example. Intangible assets can decline much faster than tangible assets like buildings and machines.

It is correct that internal educated players cannot be capitalised on the balance sheet. It is like a hidden reserve, so to a certain extend it can provide you with insights in how the company is doing. However, it is extremely difficult to quantify the value of internal educated players and therefore it is proper to exclude them from the balance sheet.

3. Do and if yes which, non-financial aspects influence financial health / financial stability?

Management is of significant importance with regards to the financial stability of a company. In particular key persons can make a big difference for a company. Employee's skills, experience and background are important non-financial aspects. For example; if a company is able to generate turnover, attractive figures can be presented in the financial statements. However, when a company is not able to collect those revenues you can face serious liquidity problems.

Besides the employees, primary attention needs to be paid towards the business model of a company. What kind of different revenue sources do exist, and can a disappointment in one source be adopted by another source.

4. How to improve financial health / financial stability?

Do not behave to opportunistic. Take into account realistic costs and revenues. Draft a business plan with a company's vision, mission, goals and strategies and do not deviate from this conducted business plan. Another tool to improve the financial stability of a company is to monitor your cash flows accurately.

As already mentioned before, employing the right people and focussing on the drafted business plan contributes to the financial stability. Also the ability to deal with a financial setback strengthens a company's position. Preventing opportunistic behaviour and accepting the fact that you are not able to compete with the best in your competition will contribute to the financial stability.

Other comments

Focus on the sporty side and take care of a proper financial situation. Therefore a salary cap (a percentage of the revenues earned during a specific period) might be a proper instrument, subsequently the transfer amounts might decline. Clubs are simply limited in presenting their interests towards top players because of their limitation in salaries there are allowed to spend and therefore the demand for top players might decline and also their transfer prices.

A positive aspect of FFP is their focus on not having overdue payables towards specific parties.

Appendix D

Interview with a credit specialist; Maureen Niehof from Rabobank Noord Twente, 21 July at 12.00

Questions related to FFP regulations

1. What does a break-even requirement tells you about financial stability / financial health?

A break-even result tells you something about the financial stability of a company. However, only achieving a break-even result is not sufficient to provide the statement financially stable. It is preferable to achieve a better result than just achieve a break-even result, in particular to build a buffer. Additionally, the final result of the income statement on its own is insufficient to determine the financial stability. It needs to be assessed in the context of the debt and equity positions. The trend of the break-even results of the assessed years is another important factor to consider. When a company did not achieved a break-even result but the trend compared to the last years is positive, it is less bad than when the results over the last years are declining.

2. What does having no overdue payables tells you about the financial stability / financial health?

Ultimately cash is king. Working capital needs to be in balance, it is not preferable to have a significant item trades payables on the balance sheet and it needs to be in proportion with trade receivables. However trade receivables and the inventory will not account for 100% and an adjustment in these items will result in a lower amount of trade payables that is preferable. Liquidity is extremely important and therefore the ability to pay your bills provides you with significant information on the financial stability of a company.

3. Is a decline in your debt position / increase in your equity always a positive development with regards to your financial stability / financial health?

A first thought says positive. However the composition of the equity position needs to be taken into account. A distinction can be made between tangible and intangible assets. Intangible assets, like goodwill and amounts receivable from affiliated firms will be withdrawn when constructing a loan. Buildings, machines and vehicles (tangible assets) are in contrast to intangible assets the foundation of providing a loan. In summary, an increase in equity is positive although the composition of equity needs to be taken into account.

4. Is it proper to assess a clubs financial situation based on 3 years?

Intuitively 3 years is a proper period, although less than 3 years is insufficient. In 3 years you are mostly able to obtain a view of the financial position and to identify an incident. When you have identified an incident in year 2 for example, it is preferable to assess the financial situation of 2 years prior to the 3 years period in addition. Since the most recent years provide you with more information with regards to the future financial stability, it is proper to attach more weight to the most recent period.

5. How can valuing players against fair value influence the financial stability / financial health?

Because valuing players according to fair value can potentially have a significant influence on the final result of a company, a buffer is strongly advised. A buffer consists preferably out of cash, financiers or guarantees from third parties. However, when a company can establish their own buffer, they will be less dependent from other parties.

Questions related to financial stability / financial health1. How do bankers define financial health / financial stability?

The company and entrepreneur are of particular importance in determining the financial stability of a company. The business model is a second important 'soft' factor in determining the financial stability. These two aspects are especially important when a relatively young company is applying for a loan, because not much financial information is available yet. Also the entrepreneurs' (financial) commitment is important during the first years.

Financial aspects in assessing the financial stability are the quality of the working capital (generated cash), solvability and the securities a bank can count on. An additional distinction can be made between companies in the service sector and the production industry. A lower solvability ratio will be accepted from companies within the production industry.

In summary, financial stability consists of an assessment of both soft (entrepreneur and business model) and hard (financial) information, in which financial information is the most objective one.

2. Do and if yes which, financial aspects influence financial health / financial stability?

Cash flow (working capital) and solvability are the most important financial aspects with regards to financial stability. The break-even requirement is less important in assessing the financial stability of a company. It can be used to determine how much a company can decline in their performance and when the financier needs to pay additional attention towards that specific company.

3. Do and if yes which, non-financial aspects influence financial health / financial stability?

As mentioned, the entrepreneur and its business plan are of significant importance. Non-financial aspects can also be special events like a change in accountant, the step down of a financial director or the failure to comply with certain administrative obligations. The usage of the account limit can also be an indicator in assessing the stability.

The industry in which a company is operating is of importance and if the strategy of the company fits within the specific industry developments. Is there a (financial) buffer when certain goals will not be achieved?

With 'entrepreneur' the whole management is meant. Are they able to fulfil the 'CEO's' role when he drops.

4. How to improve financial health / financial stability?

Create a buffer. Preferably is cash or assets that can be easily transferred into cash.

Introduce conditions to more or less control the financial stability of a company. The owner is allowed to extract a maximum amount for his own purposes for example.

Other improvements are already discussed in the previous questions.

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