Lombardi Associates

Hudson House
8 Albany Street
Edinburgh EH1 3QB
United Kingdom

T +44 (0)131 473 1592
F +44 (0)131 473 1593

This article was originally published by Football Legal on 9 October 2019.

The Impact of the Financial Fair Play on the Transfer Market

On the 5th and 6th of September, the delegates at the Edinburgh Sports Conference heard from a number of high-level speakers representing FIFA, UEFA, CAS, national football associations, Clubs, and other stakeholders on the development and impact of the most important regulations currently affecting the football industry. Andrea Traverso, UEFA's Managing Director of Financial Sustainability and Research presented on "The Impact of Financial Fair Play on the Transfer Market", the first time he has made a presentation with this topic. Andrea Traverso joined UEFA in 2001, and in his time there, has contributed to and overseen the development and implementation of the UEFA Club Licensing system, including the Financial Fair Play component, across all UEFA member associations.

This article will therefore discuss the impact of Financial Fair Play (FFP) on the transfer market, making refence to Andrea Traverso's presentation and expanding the discussion in areas with additional comment where pertinent.

Increase in spending by Clubs

Firstly, it should be noted that the 2019 summer transfer window once again broke spending records. UEFA reported that the European Club transfer spend for the summer 2019 (excluding intermediary costs) was €6.8billion[1]. This was a 19% increase on the record 2017 summer spend, and a 28% increase on summer 2018. Six of the top European Leagues – Belgium, Germany, Italy, Netherlands, Portugal and Spain – broke their transfer spending records[2].

The net transfer spend of a Club can of course be either positive – a profit in the transfer of player registration rights – or negative – a loss. And, depending on the component income streams of a club, this can have a significant impact on a club's finances. In addition to this income from the transfer of players' registration rights, other main income streams to a club comprise television and media revenues, revenues from sponsorship and advertising, ticket sales and sales of related products and licensing. Obviously for clubs playing in the big 5 leagues, the income from television and media rights make up a higher percentage of their total income. For clubs in lower leagues, gate receipts, for example, still play a more important part in overall income.

UEFA Financial Fair Play requirements – a brief recap

It is the (adjusted) financial statements which form the basis of a Club's FFP reporting. By way of reminder, the UEFA Club Licensing and Financial Fair Play Regulations (the "Regulations") set out the "minimum sporting, infrastructure, personnel and administrative, legal and **financial** criteria to be

---

[1] Presentation by Andrea Traverso, UEFA at the Edinburgh Sports Conference, 6th September 2019, "The impact of Financial Fair Play on the transfer market".

[2] Ibid

fulfilled by a club in order to be granted a licence by its licensor as part of the admission procedure to enter the UEFA club competitions”[3] (emphasis added).

The most important financial indicators held within the Regulations are the rules on overdue payables and the break-even requirements. The Regulations have as part of the licensing requirements three articles on overdue payables:

- Article 49 states that as at 31 March, there should be no overdue payables towards football clubs;
- Article 50 states that as at 31 March, there should be no overdue payables in respect of employees;
- Article 50bis states that as at 31 March, there should be no overdue payables towards social or tax authorities.

Additional, similar articles are held within the monitoring requirements.

The break-even requirement (Art 58 – Art 64) stipulates that, over a specified 3-year period, relevant income less relevant expenses per year (essentially an adjusted profit and loss account / income statement) must result in a surplus. A small deficit of EUR5mio will be tolerated, and a deficit of up to EUR 30mio will be tolerated if this is covered by shareholders/related parties but only as a contribution to equity or as a gift, rather than a loan.

The overdue payables requirements are of course in place to protect the main stakeholders within the football industry, those being other clubs and players. In 2011 overdue payables amounted to €57mio[4], but once the Regulations were introduced, the overdue payables fell significantly to €9mio in 2013 and have been stable with an average of €5.5mio over the last 4 years.[5]

The break-even rule is intuitively sensible and it encourages clubs to operate on the basis of their own revenues.

Of course, UEFA issues its UEFA Club Licensing and Financial Fair Play Regulations and they apply to Clubs that wish to participate in UEFA competitions. However, it must be noted that the effect of the introduction of the FFP rules and specifically the overdue payables rule has of course been strengthened by their adoption at national level, as well as by the introduction by FIFA in the FIFA Regulations on the Status and Transfer of Players (“RSTP”) of articles 12bis and 24bis[6].

Article 12bis was introduced into the 2015 edition of the FIFA RSTP. In essence this article gives protection relating to overdue payables and importantly it empowers the relevant bodies within FIFA to sanction offenders. Sanctions include a warning, reprimand, fine and most severely a registration ban, which demonstrates the importance FIFA places on this. Of course, as FIFA only has jurisdiction over members of the “Football Family”, it affords protection to Players and Clubs only (overdue payables to coaches are therefore excluded, as are unpaid solidarity contribution and training compensation), and does not

[3] UEFA Club Licensing and Financial Fair Play Regulations Edition 2018 Part 1. General Provisions, Article 1. Scope of Application, 2.c.

[4] Presentation by Andrea Traverso, UEFA at the Edinburgh Sports Conference, 6th September 2019, “The impact of Financial Fair Play on the transfer market”.

[5] Ibid

[6] FIFA Regulations on the Status and Transfer of Players.

include late payments to tax authorities as a sanctionable offence. Importantly, FIFA requires that national associations include Art 12bis in national association regulations without modification.

Article 24bis is a more recent addition, introduced in the 2018 edition of the RSTP and is entitled “Execution of monetary decisions”. This article does not regulate overdue payables directly, but it empowers the FIFA bodies to sanction Clubs, as well as any party to FIFA proceedings, where they fail to comply with FIFA decisions.

Impact of transfers on the FFP Indicators

To bring us back to the impact of FFP on the transfer market, it is important to understand how a transfer of a player impacts on a club’s financial statements and consequently on the FFP indicators.

The amount paid by a club for the acquisition of a player’s registration, is recorded on a club’s balance sheet as an asset and is written-off (“amortised”) to the profit and loss account over the length of the contract. The club has to pay for this player’s registration in accordance with the transfer contract, and must also be able to pay the ongoing wage costs. Failure to pay the instalments of the agreed transfer fee in a timely fashion, or indeed failure to pay wages or associated tax payments in time could result in a breach of the overdue payables indicator.

An overall net deficit as a result of trading player registration rights would reduce income and may contribute to an overall loss in the reporting period, contributing to a potential breach of the break-even rule.

Additionally, the amortised portion of the transfer fee is an expense in the profit and loss account, as is player wages. The acquisition of a player with a very high transfer fee and high wages could increase expenses significantly for a club and again could contribute to a breach in the indicator.

Impact on the Transfer Market

The transfer market has undoubtedly been impacted by FFP, though to what extent is unclear as the FFP indicators are obviously not the only consideration in decision making. However, given that there has been an overall slow-down in growth of television and media rights across many leagues, balancing income and expenses has never been so important. The adoption of more sustainable financial practices is prudent in any case, regardless of the FFP rules.

There have been several important trends appearing in the market, such as the changes in the use of temporary transfers, the increase in investment in younger or youth players, the increase in spending of the big 5 leagues, the impact of wage growth, and we will examine these in turn.

Temporary Transfers

There has been much discussion in the media of how some high-profile clubs have allegedly attempted to circumvent UEFA's FFP rules. Most prominently, Paris Saint Germain ("PSG") wished to register two very expensive players in the 2017 summer transfer period, Neymar and Kylian Mbappé. The nature of Neymar's buyout clause necessitated that it was paid in full at the time it was exercised.[7] It appears that, most likely, the registration of both players on a permanent basis would adversely affect the club's FFP indicators. The amortisation of Neymar's transfer fee of EUR222mio fee over the lengthy five-year contract alone results in a charge to the profit and loss account of EUR44.4mio per year. That does not include his wages which are reportedly around EUR40mio per year. Thus, PSG have an annual P&L charge of at least EUR84.4mio for Neymar alone. Mbappé was initially acquired on a temporary transfer from AS Monaco with an obligation to purchase the following year in a deal conservatively estimated to be worth EUR 180mio.[8] Having secured Mbappé on a temporary transfer initially, PSG would not have to pay or service the agreed transfer fee until one year later (although perhaps this would not be a problem for them after famously delivering the EUR222mio cheque for Neymar). They would only have to recognise the player's wages and loan fee.

In its FFP Regulations, UEFA does make provision for attempts to misuse temporary transfers to circumvent the Regulations. These provisions are contained in Annex VII[9] of the Regulations and they split temporary transfers into four categories:

1. with no obligation/option to buy the player
2. with an unconditional obligation to buy the player
3. with an option to buy
4. with a conditional obligation to buy

What is clear from the Regulations, is that as soon as the conditions are such that the transfer is permanent (interestingly, even if at that moment the registration of the player is still only temporary until the end of the relevant season in terms of the ITC/domestic transfer registration) the purchasing/borrowing club has an obligation to recognise the permanent acquisition of that player in its financial records. Thus, if the agreement is a loan with an unconditional obligation to buy permanently at the end of the season, the financial records should recognise the transfer as permanent from the outset. Again, the registration should be recognised as permanent in the financial records the moment an option is exercised, or indeed under point 4 when a stipulated condition is "virtually certain", the transfer should be recognised as permanent. Where most flexibility is available for creative clubs is where a loan contains a conditional obligation to buy. Clubs can make use of "conditions" which may theoretically be possible but in practice are essentially foregone conclusions.

Thus, it can be seen that FFP is impacting on the transfer market and the use of temporary transfers. The traditional use of temporary transfers was to assist in the development of players, but they now are being used for financial reasons such as FFP compliance. Of course, there is a benefit for the club which is

[7] As explained in Alexander Vantyghem's article, PSG breaking records: is financial fair play at risk? <https://www.football-legal.com/content/psg-breaking-records-is-financial-fair-play-at-risk-nbsp>
[8] Per transfermarkt.com <https://www.transfermarkt.co.uk/kylian-mbappe/profil/spieler/342229>
[9] UEFA Club Licensing and Financial Fair Play Regulations Edition 2018 Annex VII Basis for the preparation of financial statements D Accounting requirements for the temporary transfer of a player's registration

releasing the player on a temporary basis. A loan fee is very welcome income, but perhaps more important is the reduction in the total salaries to be paid.

Of course, the increase and changing use of temporary transfers has not gone unnoticed by FIFA, and FIFA's Football Stakeholders Committee has recently agreed key measures in this regard.[10] Specifically they wish to ensure loans have "…a valid sporting purpose for youth development as opposed to commercial purposes.." and as of 2020-21 wish to impose a limit of 8 international loans, reducing to 6 international loans by 2022/23. It will be interesting to see how clubs prepare for this measure.

Investment in Youth/women's football/structures, etc.

As noted above, the adjusted financial statements of a club form the basis of the FFP calculations. There are a number of items that UEFA have chosen to specifically exclude from the calculation with the obvious aim of encouraging investment, or at least ensuring expenditure in these areas is not limited for FFP reasons. The items specifically excluded include expenditure on youth development activities, community development activities, women's football activities, expenditure on construction or modification of substantial fixed assets (stadia) as well as some other items[11].

The incentivising of player development, and indeed the investment of clubs in younger players is clearly very important, particularly for clubs who have lesser financial capabilities. Clubs in lower leagues are more than twice as likely to report net transfer gains as spend[12], and the transfer policy therefore remains central to their overall finances.

Andrea Traverso reported that the 2019 summer transfer window, within Europe, had a record share of the transfer spend on both Under 20 players (9.3%) and 20-24 year-old players (53.7%). The total, 63%, is a significant increase on the historical average for these age groups[13], with the historical average being around 55% for years 2008-2018. Whilst these statistics imply that clubs are, in general, recognising the financial prudence of player investment and development, to capitalise on the sale of a developed player, it can also be understood that this behaviour of investment and development of younger players may be as a result of the financial inequality between clubs and the reliance of clubs, that do not have the benefit of strong shareholder support, on generating profits through player trading. In addition to the Regulations, associations, such as England, have instituted rules governing the number of Home-Grown Players to be included in squad lists.[14] Accordingly, there is a greater emphasis placed by clubs on the production of players through their academies.

[10] FIFA.com Media release dated 25 September 2019 "FIFA and football stakeholders recommend cap on agents' commissions and limit on loans"

[11] ANNEX X: Calculation of the break-even result, Part A par 2g-2m

[12] UEFA Club Licensing Benchmarking Report, Financial year 2017 published 18 January 2019

[13] Presentation by Andrea Traverso, UEFA at the Edinburgh Sports Conference, 6th September 2019, "The impact of Financial Fair Play on the transfer market".

[14] For the squad lists and more detailed explanation of the Home Grown criteria see - https://www.premierleague.com/news/1335777

Continuing on this theme, a recent report on football club finance directors in England[15] found that in the Football League Championship (essentially second division) "42% of clubs relied on player-trading to comply" with FFP rules. Thus, instead of promoting development in youth players, it appears that lower league clubs are potentially overspending on wages and then relying on selling developing, or indeed developed players, which is not the aim of FFP at all. Again, it is really the preserve of the bigger richer clubs who can afford to invest heavily in their academy and youth development. On 24 September 2019, Manchester United released their Fourth Quarter and Full Year Fiscal 2019 Results[16] and the management commentary provided by Executive Vice Chairman, Ed Woodward, outlined the club is focused on, "continuing to strengthen our youth system", and a further comment regarding, "the talent we have coming through our Academy". These two points were made in two of the three sentences of his commentary. Clearly, they are of great importance to the club. This despite Manchester United possessing the capability to break the world record purchase price for a defender, with their reported GBP 80 million acquisition of Harry Maguire.

One interesting potential outcome of the increase in interest of the registration of youth players is that it may lead to clubs improperly registering minors in direct contravention of the FIFA RSTP article 19. We have already seen large clubs such as FC Barcelona, Real Madrid, Atletico Madrid and, most recently, Chelsea being sanctioned by FIFA for this.

Increase in spend of Big 5 leagues

FIFA's recently published Big 5 Transfer Window Analysis Summer 2019[17] shows that of the big 5 leagues, only in France was there a net profit. EUR 876.3mio was received by French clubs against EUR 571.5mio spent.[18] It is striking that, in terms of numbers of international transfers, the two biggest spending associations (England and Spain) recorded more outgoing transfers than incoming transfers.[19]

In the most recently published UEFA Club Licensing Benchmarking report, published January 2019 but reporting on 2017 financial data, the general trends surrounding the value of transfers show an increase of the percentage of total spend on transfers made by the big 5 European leagues. Indeed, this was confirmed by Andrea Traverso as he reported that this summer, the Top 5 markets accounted for 87% of the European Club spend. In addition, the percentage share of transfer spending of non-big 5 European leagues has halved in recent years[20].

Therefore, it can be seen that clubs in the top leagues have an apparent ever-increasing ability to spend money on players, even if this results for some clubs in a transfer deficit. Indeed, it was noted by Andrea

[15] BDO Football Finance Directors Report

[16] Manchester United PLC Reports Fourth Quarter and Full Year Fiscal 2019 Results; Provides Fiscal 2020 Outlook <https://otp.tools.investis.com/clients/us/manchester_united/usn/usnews-story.aspx?newsid=63354&cid=972>

[17] Looking at the five highest spending associations: England; France; Germany; Italy and Spain.

[18] All figures are provided by FIFA TMS and accordingly, relate to international transfers only.

[19] England recorded 578 incoming transfers against 536 outgoing transfers, while Spain recorded 418 incoming transfers against 470 outgoing transfers.

[20] UEFA Club Licensing Benchmarking Report: Financial Year 2017, Chapter 8

Traverso that operating profits increasing again will impact on transfer prices[21], with clubs no longer under pressure to sell players in order to achieve a break-even position, and clubs having the ability to pay increasing transfer fees. This suggests that in order to remain compliant with FFP, these clubs must have an increase in other revenues or more carefully controlled costs.

Wage Growth

Prior to the introduction of FFP, wage growth consistently outpaced revenue growth each year.[22] The latest UEFA Club Licensing Benchmarking report confirms that the wage to turnover ratio is widely held to be one of the key financial indicators of the financial health of a football club.[23] Indeed, the Regulations highlight that UEFA considers the upper limit of what the wage to turnover ratio should be at a club is 70% and that if this is exceeded, UEFA reserves the right to request the licensee to prepare and submit the break-even information, and any additional information, for the reporting period.[24] Since the introduction of FFP, revenue growth has outpaced wage growth in four of the previous five years.[25] This reversal of the previous wage to turnover position has been noted to be the principal driver in the overall improvement in club finances[26]. This is a position which will, in turn, allow clubs to commit funds to transfer fees, and contribute to the growing amounts spent on the acquisition of players. And of course, an overall reduction in expenses means better financial control, encouraging clubs to compete on the basis of its own revenue.

Conclusion

While FFP has not stopped clubs spending large sums of money, it is probably safe to conclude that it has impacted the transfer market. It is clear that FFP has altered the way clubs operate in the transfer market, given the impact that large outlays, such as the record-breaking Neymar transfer, have on a club's FFP indicators. The increasing prominence of temporary transfers can be seen as a reaction to this, though UEFA's accounting requirements on temporary transfers seek to ensure that temporary transfers are not used to subvert the goals of FFP. It is obviously up to UEFA as to how possible breaches of these rules are monitored and investigated. A further indicator of FFP's impact is the increase in the transfer of players in younger age brackets. Clubs are seeking to purchase players earlier in their careers, when the cost will not be so high, and where the player may be seen as a wiser investment with a strong onwards transfer value. This may have the effect of inflating transfer fees for players in this bracket[27]. However,

[21] Presentation by Andrea Traverso, UEFA at the Edinburgh Sports Conference, 6th September 2019, "The impact of Financial Fair Play on the transfer market".
[22] Ibid.
[23] UEFA Club Licensing Benchmarking Report: Financial Year 2017, Chapter 6
[24] UEFA Club Licensing and Financial Fair Play Regulations Edition 2018, Art. 62
[25] Presentation by Andrea Traverso, UEFA at the Edinburgh Sports Conference, 6th September 2019, "The impact of Financial Fair Play on the transfer market".
[26] UEFA Club Licensing Benchmarking Report: Financial Year 2017, Chapter 6
[27] Note Atletico Madrid breaking their transfer record, and the €100m barrier, to sign 19 year old Joao Felix in the 2019 summer transfer window.

one point that seems clear is that it is still the clubs in the top 5 leagues that retain the spending power, and indeed that power seems only to be increasing. FFP states among its objectives that the Regulations aim, '*to protect the long-term viability and sustainability of European club football*'[28] and while it is difficult to argue that this aim is not being met, the gulf between rich and poor clubs is widening. Additionally, due to FFP, rich benefactors can no longer simply inject large sums of cash into a club to bridge this widening gulf.

Following Andrea Traverso's presentation at the Edinburgh Sports Conference, he joined a panel of club and league representatives discussing the same topic and on which FC Barcelona and Genoa CFC were represented. Alessandro Zarbano, CEO of Genoa, who were denied a UEFA Club License in 2015 and thus unable to compete in the 2015/16 UEFA Europa League, explained that his club views the transfer market as an opportunity to manage and mitigate risk when it comes to complying with the regulations. Wouter Lambrecht, Attorney-at-Law of Barcelona, agreed, confirming that even one of the sport's largest clubs cannot act beyond its means. There were transfer targets in the summer but they could not balance the books in order to sign them. Given that the clubs, the main protagonists in the transfer market, cannot act without consideration to FFP, it cannot be doubted that its implementation has impacted the transfer market.

[28] UEFA Club Licensing and Financial Fair Play Regulations Edition 2018 Article 2 – Objectives para 2 (f).