FINANCIAL FAIR PLAY IN FOOTBALL

A comprehensive overview of financial controls in UK and UEFA competitions

2014 Edition

Field Fisher Waterhouse

BDO

CONTENTS

FOREWORD

Over the last few years, complex financial football regulations have been drafted and implemented by various football governing bodies and leagues. This report focuses on the implementation of the UEFA, Premier League and Football League cost control rules.

The underlying aim of these rules is to ensure that over the long term clubs only spend what they earn. But as you can imagine, the devil is in the detail. The definitions of revenues, costs, Acceptable Deviations and Related Party Transactions make such regulations complex, controversial and, according to some commentators, incredibly difficult to operate in practice.

A common misconception is that the various rules aim to limit the impact of financial inequality, improve competition, and as a result level the playing field. This is not the case.

Rather, the primary reason leagues and associations have brought in cost control measures is in order to ensure clubs do not live beyond their means.

This report, the first of our annual Financial Fair Play publications, seeks to clarify the rules as they stand, outline the potential sanctions for non-compliance and raise some of the main areas of contention. In future publications, we will track key changes in Financial Fair Play regulations and monitor the success or otherwise of their application in practice.

We believe this is the first standalone report of its kind; designed to provide some practical, legal and accounting insights to the industry and its various stakeholders.

Ian Clayden, Trevor Birch and Daniel Geey

1. INTRODUCING FINANCIAL FAIR PLAY

What is Financial Fair Play? Used in a broader sense, the concept can refer to the family of regulations put in place to ensure that football clubs become self-sustainable. The overall aim of these regulations is to ensure that all clubs participating in a particular league or competition balance their books and do not spend more than they earn.

These regulations are not an attempt to remove inequality. There will always be a disparity in the size and wealth of clubs.

The aims of these regulations is to promote sustainable business models. Whether these rules succeed in this will depend as much on how their spirit is embraced as on how strictly they are enforced.

Different football associations use different terminology in this area, so it is useful to clarify these first.

Financial Fair Play (FFP) is the term specifically used to refer to the UEFA financial controls contained within the UEFA Club Licensing and Financial Fair Play Regulations. These were first approved in May 2010 and apply to Champions League and Europa League club participation. These rules aim to restrict clubs to what are considered “acceptable” annual losses – or more precisely, what are considered "Acceptable Deviations from break-even".

Similarly the Football League Championship apply break-even type controls (based on UEFA FFP regulations) which are referred to as Football League Financial Fair Play. These are applied to “acceptable permitted losses”.

The Premier League does not use the term FFP (preferring to emphasise sustainability over any connotations with a level playing field). Its financial controls refer instead to the more Short Term Cost Control and Sustainability Provisions (STCC & SP). The STCC provisions are in part an attempt to help clubs control the inevitable demands from players and their agents to take an uneven slice of the extra funds available from central league awards, including those arising from the lucrative TV rights deal for 2013-16.

The STCC imposes restrictions over “player service costs and image contract payments” for the current and following two seasons, while the Sustainability Provisions impose restrictions over "adjusted earnings before tax” over a three year rolling period.

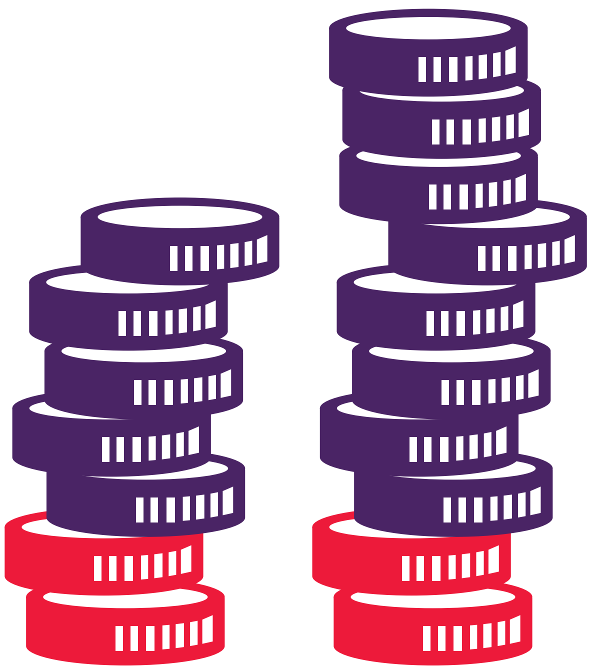
FFP and Control Cost timeline for UEFA, Premier League and Football League Competitions

May 2010	April 2012	February 2013	Spring 2014	January 2015	Spring 2016
FFP regulations approved and published by UEFA	FFP regulations approved for the Football League Championship	The Premier League voted in favour of regulations covering STCC & SP	The first period for which break even sanctions will be administered for UEFA competitions	The Football League will sanction clubs who are in breach of their FFP regulations	The Premier League will sanction clubs who are in breach of their STCC & SP provisions

Finally, Football Leagues 1 and 2 require clubs to adhere to the Salary Cost Management Protocol (SCMP). This broadly limits total player spending to a proportion of club revenue, with sanctions in the form of a transfer embargo.

Sections 2, 3 and Appendix 1 will explore the specific financial requirements of each set of regulations in more detail. Section 6 will look at the sanctions applicable under each set of regulations.

> *“These regulations are not an attempt to remove inequality...the aims of these regulations are to promote sustainable business models.”*



2. THE BASICS

Although these regulations are in place to stop clubs spending more than they earn, they do not state that no club can ever make a loss. Rather, they define what are permissible losses in the short term. There are also certain exempt costs that can be removed for compliance purposes.

The basic principles of each set of regulations are covered below.

UEFA

2.1. UEFA's FFP regulations are intended to ensure that clubs achieve break-even (or an Acceptable Deviation from it). They also cover a wide range of licensing conditions which are overseen in the first instance by national football associations. Requirements include ensuring that clubs pay their debts on time, and that their taxes are up to date.

2.2. FFP relates only to Champions League and Europa League club participation. All clubs wanting to play in UEFA competitions must submit the required licensing documentation to their relevant national football association, and for break-even purposes to UEFA. UEFA, through its constituted Club Financial Control Body (CFCB) has the power to conduct club audits and ask further questions to ensure FFP compliance. If the Panel believes that the FFP rules have not been correctly followed, it has the disciplinary power to sanction clubs in breach.

2.3. The UEFA licence requirements include adherence to the FFP break-even rules from the 2013/14 season onwards. However, the rules are relevant from the 2011/12 season onwards because the 2011/12 and 2012/13 season accounts are used to determine a club's licence in the 2013/14 season.

2.4. Acceptable Deviation allows clubs to pass the FFP break-even test without actually breaking even. The provisions therefore allow a club with some losses over a certain number of seasons to pass the FFP regulations. For the 2013/14 season when the FFP rules came into force, an owner can inject up to €45m over two seasons to cover the losses of the club. This figure remains at €45m for 2014/15 but is based on an average of €15m over the previous three years. That average figure is reduced to €10m per season (€30m over three seasons) for the 2015/16 season onwards.

2.5. The FFP rules promote investment in a club's stadium, training facilities, infrastructure and youth development schemes by excluding such costs from the break-even calculation.

2.6. The CFCB has the power to sanction clubs for breaches of the FFP rules. Such sanctions include a reprimand, a fine, withholding of prize monies, points deductions, refusal to register players for UEFA competitions, reducing a club's permitted squad size, disqualification from competitions in progress and/or exclusion from future competitions.

UEFA COMPETITIONS
ACCEPTABLE LOSSES
(2011/12-2012/13)

HEADLINES

UEFA

- 2013/14 permitted total losses of €45m over the previous two year period; reduced to €30m over a three year period by 2015/16.

PREMIER LEAGUE

- Only a £4m increase in the wage bill for Premier League clubs per season will be permitted (with a few exceptions)
- Permitted £35m loss per year over a rolling 3 year accounting period (the first being 2013/14, 2014/15 and 2015/16) i.e. a total loss of £105m, albeit with £90m equity funding requirements.

FOOTBALL LEAGUE

- Permitted losses start at £10m and decrease to £5m over time. There will be no sanction even if there has been a breach for the 2011/12 and 2012/13 seasons
- Luxury tax implemented from 2013/14 season for potential fine redistribution to Championship clubs (see Section 6), though it is currently unclear whether such redistribution will actually take place.

PREMIER LEAGUE

2.7. Short Term Cost Control: where 2013/14 aggregate player service costs exceed £52m, only a £4m per season increase in the wage bill will be automatically permitted. If a Premier League club spends more than the additional wage cost, unless it includes costs of contracts signed before 31 January 2013, it must be funded either by increased commercial revenues (excluding centrally distributed Premier League monies) or by profits from player transfers that the club has made during that same season.

2.8. Profitability and Sustainability: Premier League clubs can make an aggregate £15m loss (£5m average) over a rolling three year accounting period (the first being 2013/14, 2014/15 and 2015/16), that can be funded by owner/shareholder loans. Clubs can make up to a cumulative £35m loss per season over a rolling three year accounting period i.e. a total loss of £105m, with certain secured funding conditions attached.

2.9. By 1 March 2016, Premier League clubs will have to submit three years of accounts (the two previous years' actuals and forecasts for 2015/16). For losses up to £15m over the three year period, no owner guarantee will be required. If a club's losses exceed £15m but are less than £105m for the three year period, the club in the relevant season has to provide future financial information to the Premier League and evidence of sufficient Secure Funding (as defined in the rules - see Appendix 1) of up to £90m (i.e £35m per season less the "allowed" £5m) to be injected into the club by way of equity.

2.10. If a club breaches the £105m limit, the Premier League board currently has the power to compel the club to adhere to a defined budget and/or refuse to register any new or existing player contracts.

FOOTBALL LEAGUE

2.11. Football League FFP regulations apply only to clubs participating in the Football League Championship. Clubs in Football Leagues 1 and 2 have to adhere to separate regulations called SCMP which ties player cost to a percentage of turnover.

2.12. Football League Championship: The FFP regulations require clubs to stay within pre-defined limits on losses and shareholder equity investment that reduce going forward. In order to comply with FFP regulations each club is required to demonstrate a Fair Play Result that is either nil or greater, or otherwise a loss less than the permitted level of Acceptable Deviation and shareholder equity investment for the season in question (see Section 3).

2.13. Football League 1 and 2: The SCMP broadly limits spending on total player wages to a proportion of each club's turnover, with clubs providing budgetary information to the League at the beginning of the season, that is updated as the campaign progresses.

ENGLISH PREMIER LEAGUE ACCEPTABLE LOSSES (2011/12-2013/14)

FOOTBALL LEAGUE CHAMPIONSHIP ACCEPTABLE LOSSES (2013/14)

3. FINANCIAL REQUIREMENTS MATRIX

Here we present a matrix summary of the various forms of financial control across the various leagues and competitions involving English clubs. The left hand side of the matrix covers controls related to player service costs whereas the right hand side covers controls related to allowable losses (otherwise referred to as Acceptable Deviations from break-even).

To interpret this table effectively, please refer to the definitions and interpretations in Appendix 1.

The table shows the seasons in which compliance assessments are made. With regard to losses, these assessments refer to loss limits applicable in previous financial year(s). It is worth noting that given the timing of assessments, i.e. April/May, the real impact of any sanctions will be felt in the year subsequent to the assessment period.

		ASSESSMENT PERIOD	PLAYER SERVICE COSTS					
			IF AGGREGATE PLAYER SERVICE COSTS	AND	INCREASE COMPARED TO PRIOR YEAR	OR	INCREASE COMPARED TO 2012/13	THEN
PREMIER LEAGUE	UEFA Competitions	2013/14						
		2014/15						
		2015/16						
		2016/17						
		2017/18						
		2018/19						
	Domestic	2013/14	>£52m		>£4m		>£4m	EXCESS MUST BE • Contractual pre 31 January 2013, or • Funded by Club Own Revenue Uplift, or • Funded by Profit from Player Trading
		2014/15	>£56m		>£4m		>£8m	
		2015/16	>£60m		>£4m		>£12m	
		2016/17						
		2017/18						
		2018/19						
FOOTBALL LEAGUE	Championship	2013/14						
		2014/15						
		2015/16						
		2016/17						
		2017/18						
		2018/19						
	FL1 and FL2	2013/14	>60% (PL1)/55% (PL2) of Turnover					Breach: refusal of player registration(s) that would breach said limits. In Leagues 1 and 2 equity injections of funding by owners can be included in Turnover.
		2014/15	To be determined					
		2015/16						
		2016/17						
		2017/18						
		2018/19						

As a working example, a Premier League club with player wages in 2012/13 of £60m and in 2013/14 of £62m would in 2014/15 be subject to the following controls:

- Player service costs of a maximum of £66m (limited by the maximum £4m increase on the prior year condition)
- Maximum allowable losses over the previous three years of €45m that could be funded by a maximum of €5m loans and minimum of €40m equity in order to participate in UEFA competition
- No Premier League restriction until 2015/16.

		ASSESSMENT PERIOD	LOSSES: IF LOSSES	THEN FUNDING ALLOWED FROM	IF LOSSES	THEN FUNDING ALLOWED FROM
PREMIER LEAGUE	UEFA Competitions*	2013/14	Preceding 2 years cumulative loss <€5m	Non-equity or equity investment	Loss>€5m but <€45m	Equity investment (excess over allowable non-equity investment)
		2014/15	Preceding 3 years cumulative loss <€5m		Loss>€5m but <€45m	
		2015/16			Loss>€5m but <€30m	
		2016/17				
		2017/18			Loss>€5m but <€30m	
		2018/19				
	Domestic	2013/14	Not applicable until reporting period 2015/16			
		2014/15	Not applicable until reporting period 2015/16			
		2015/16	Rolling 3 years cumulative loss <£15m	Non-equity or equity investment	Loss>£15m but <£105m	Demonstrable Secure Funding, accompanied by future financial information (excess over allowable non-equity investment)
		2016/17				
		2017/18				
		2018/19				
FOOTBALL LEAGUE	Championship	2013/14	<£4m loss[1]	Non-equity or equity investment	Loss>£4m but <£10m[1]	Equity investment (excess over allowable non-equity investment)
		2014/15	<£3m loss[1]		Loss>£3m but <£8m[1]	
		2015/16	<£3m loss[1]		Loss>£3m but <£6m[1]	
		2016/17	<£2m loss[1]		Loss>£2m but <£5m[1]	
		2017/18	<£2m loss[1]		Loss>£2m but <£5m[1]	
		2018/19	<£2m loss[1]		Loss>£2m but <£5m[1]	
	FL1 and FL2	2013/14				
		2014/15				
		2015/16				
		2016/17				
		2017/18				
		2018/19				

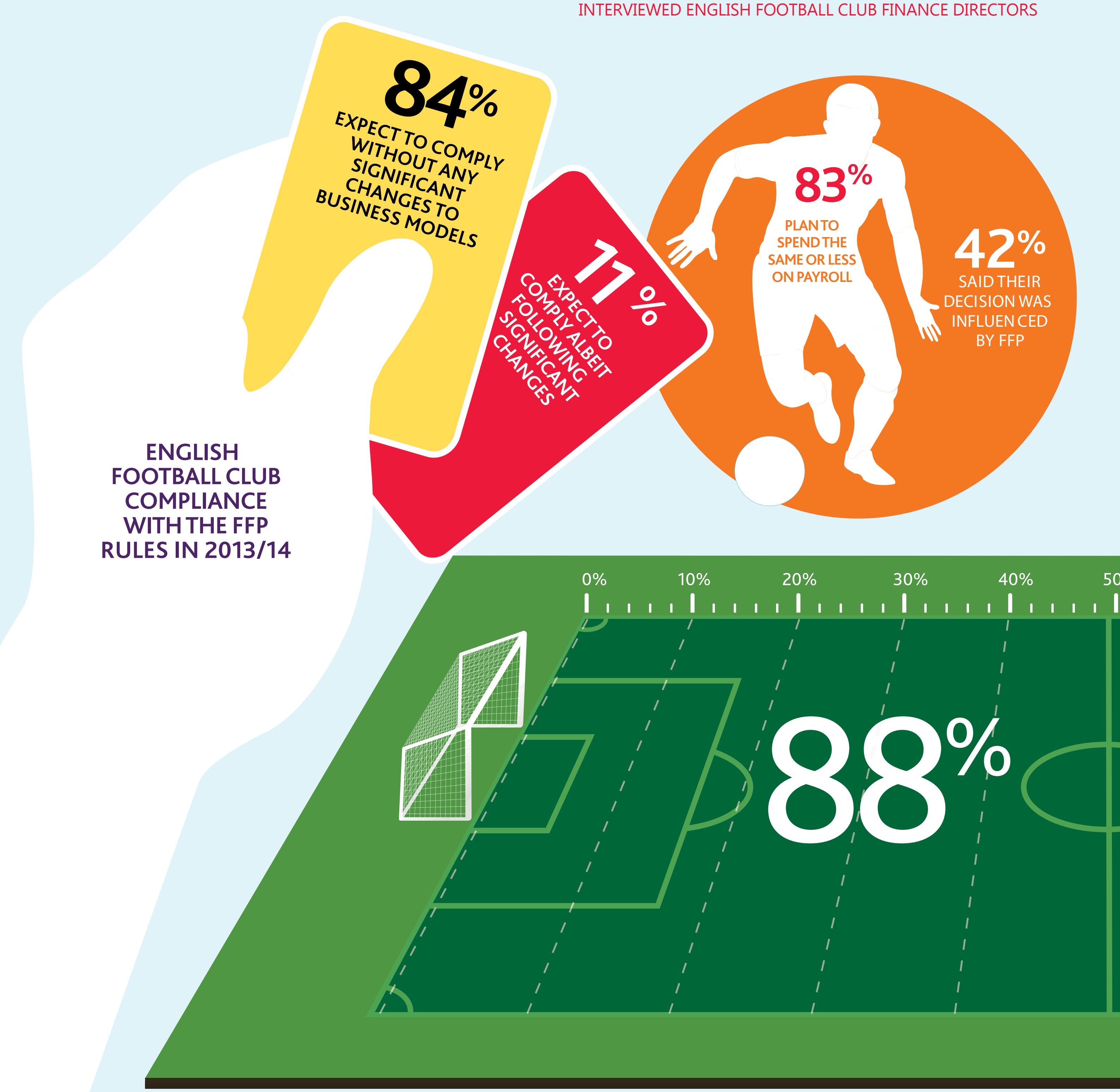
DEFINITION OF LOSS	
UEFA loss:	Acceptable Deviation from break-even - see Appendix 1
Premier League loss:	Adjusted Profit Before Tax - see Appendix 1
Football League Championship loss:	Acceptable Permitted Loss - see Appendix 1

1. Prior year

* Application period for following season's competition

4. SPOTLIGHT ON: FINANCIAL FAIR PLAY

THE STATISTICS BELOW HAVE BEEN TAKEN FROM **THE BDO ANNUAL SURVEY OF FOOTBALL CLUBS 2013**, WHICH INTERVIEWED ENGLISH FOOTBALL CLUB FINANCE DIRECTORS



88%

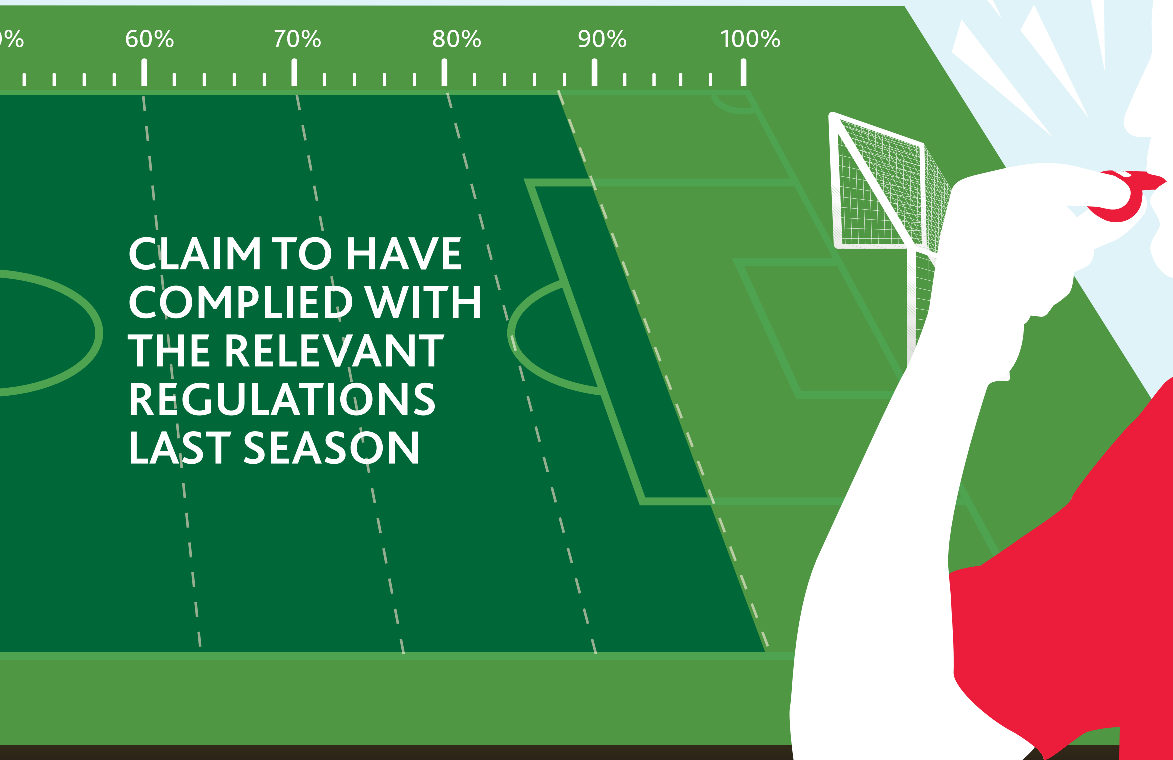
OF CLUBS EXPECT TO REDUCE THEIR TRANSFER BUDGETS OR KEEP THEM THE SAME.

Of the clubs planning to reduce or keep their transfer budget constant, 22% stated that FFP was a driver; however, this figures rises to 44% and 41% for EPL and FLC clubs

MOST PRESSING CONCERNS FOR EPL AND FLC CLUBS

"Though many would prefer the sport to find its own sustainable financial equilibrium, the pressure on clubs and their owners for success has not allowed this to happen. Our survey suggests that the football industry is taking the FFP requirements seriously and we are seeing changes in club behaviour. The impact appears manageable for many respondents, although significant operational changes will need to be applied at those clubs with unsustainable financial models - most likely as the football authorities intended."

IAN CLAYDEN



CLAIM TO HAVE COMPLIED WITH THE RELEVANT REGULATIONS LAST SEASON

84%

of English clubs have relegation clauses in their player contracts

5. COMPLIANCE CONSIDERATIONS

Many commentators and interested spectators have suggested that clubs would be able to employ 'creative accounting' or manipulate contracts with, for example, diverse related parties, in order to circumvent the spirit of the regulation. Some limited provisions exist that may prevent this, as outlined below.

5.1 Spirit clauses

None of the UEFA, Premier League or Football League cost control regulations explicity make reference to spirit clauses. However, the following provision is included within the Premier League Charter:

> "We will ensure that our clubs ... follow Premier League and FA Rules not only to the letter but also to their spirit, and will ensure that our Clubs and Officials are fully aware of such rules and that we have effective procedures to implement the same."

5.2 Alignment to pre-existing accounting standards

Aligning various definitions (such as Related Party Transactions) with those already embedded within relevant International Financial Reporting Standards (IFRSs) and UK Law and Accounting Standards (UK GAAP), has the effect of limiting the level of subjectivity in these definitions, and overlays an already tried and tested level of accepted and acceptable interpretations and applications. In addition, this creates a requirement to be consistent with amounts and disclosures that are subject to external independent audit.

In most cases, the definitions have been constructed, or extracted from pre-existing standards, in a way that limits subjectivity to an acceptable level.

In fact, the UEFA rules for example contain the following provisions:

"ASSESSMENT OF BREAK-EVEN INFORMATION

1. In respect of the break-even information the licensor must assess whether or not the financial information submitted by the licensee corresponds to the information in respect of the same reporting entity/entities submitted for club licensing purposes.
2. The assessment procedures, which may be carried out by an auditor, must include, as a minimum, the following:
    a. Check whether the break-even information is arithmetically accurate
    b. Check that the balances contained within the break-even information are consistent with the balances contained in the audited financial statements, supplementary information (as required where the necessary information is not disclosed within statutory financial statements) or underlying accounting records
    c. Check that the break-even information has been formally approved by the executive body of the licensee."

Furthermore, the Premier League Handbook contains the following:

"SHORT TERM COST CONTROL

The information set out in Section 3 (return of player service costs) shall be reported upon by the club's auditors, in accordance with procedures specified by the League from time to time."

Beyond the measures outlined above and contained within applicable accounting standards, it must be presumed that UEFA, the Premier League and the Football League have sufficient willingness and regulatory powers to enforce compliance with the spirit as well as the letter of relevant regulation.

5.3. Related parties and adjustment of Related Party Transactions to fair market value

One obvious area of weakness could be perceived to be the definition of the scoped in "close family members" (see Appendix 3) of an identified related party. This appears to exclude, for example, siblings/cousins/uncles of related parties. However, application of relevant standards under both IFRS and UK GAAP require potential Related Party Transactions to be considered on a case by case basis, rather than necessarily being restricted to those examples specifically identified in the standards (i.e. children, spouse or domestic partner and their children or dependents, or a "close member of a related party's family" - one who is influenced by or influences a direct related party) - see Appendix 3.

In practice, it will be a challenge for the club, regulator and auditor to conclude on who constitutes a "close family member" as defined by the standards and whether the related party can be expected to influence or be influenced by the primary related party. An issue to be addressed here is that the application of the related party definition is open to interpretation and inconsistencies may (and most likely will) result.

The application of the spirit of the standards may capture siblings or other family members if material transactions are entered into that significantly depart from fair market value, presumably as a result of family influence.

This issue is further considered in Section 7.

5.4. Historic vs real-time information

There is an ongoing debate within the wider financial reporting arena on the merits of accurate, complete, standardised, audited historic financial information versus real-time independently "reviewed" financial information.

There are obvious merits in basing FFP controls (and therefore sanctions) on actual real-time or forecast information (or a combination of the two), rather than on historical financial information. Most football clubs have the ability to forecast to a relatively high degree of certainty (with the exception of revenues based on league and cup performance). Therefore certain cost controls could be based on forecasts with relative reliability, with sanctions potentially being in the form of preventative measures rather than penalty measures.

5.5. Evolution of control limits

We understand that the financial control limits in each case were set based on in-depth financial analyses that took into account cross-European variances in financial structuring of football clubs, variances and sizes of domestic league awards, parachute payments...(the list goes on).

However, it is likely that in a relatively short time frame each of these relevant variables will move by a material degree (in fact, in a number of cases they already have). Good examples of this would be the recent increases in Premier League TV rights values, and the knock-on impact on parachute payments.

In order to maintain fair competition between domestic leagues and throughout Europe, these movements should be considered and financial controls in football should evolve accordingly.

6. SANCTIONS

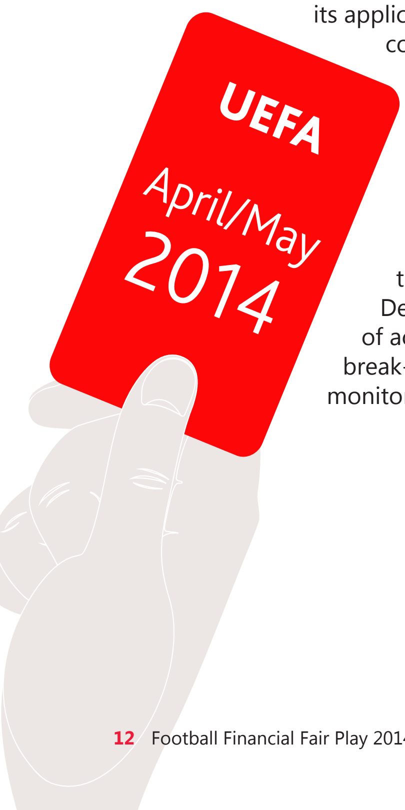
The spring of 2014 will bring the first UEFA CFCB break-even FFP infringement and settlement decisions. This section sets out how clubs can be sanctioned and the timing of such sanctions for breach of the break-even provisions under the various FFP rules.

6.1 UEFA sanctions

> The rules leave the possibility of allowing clubs in breach of the break-even criteria to participate in that season's UEFA club competition.

Sanctions will take many forms. It is far from certain that a club that breaches the FFP regulations will automatically be excluded from club competition. It appears likely that from the outset (the 2013/14 season) that a raft of sanctions will be imposed for breaching the rules, not just the harshest sanctions.

For the first monitoring period (2013/14), a club's 2011/12 (T-2) accounts had to be submitted by 15 July 2013. This was the first time that UEFA has collected such detailed financial information for actual compliance purposes from its applicant clubs. Significantly, the CFCB could not impose any sanctions on clubs for break-even purposes in the summer of 2013 because clubs were not required to provide their 2012/13 (T-1) accounts until October 2013 (if their accounting year ends in June) or March 2014 (if their accounting year ends in December). Only with both sets of accounts can the CFCB verify the break-even situation for the 2013/14 monitoring period.



This is important as it means in practice that initial UEFA CFCB decisions on break-even sanctions for non-compliant clubs will only occur at the very earliest from April/May 2014. For example, a club will be able to participate in the Champions League or Europa League in this season (2013/14), so long as it fulfils the other UEFA licensing requirements, even if they fall well outside of the break-even criteria, because UEFA will not have had the requisite information in time for the start of these competitions.

A club that has significantly overspent may only be sanctioned as late as April/May 2014, which could be only weeks before the final games of the tournaments. Obviously, the same problem will also present itself each year thereafter.

From this, we can envisage at least three sanctioning scenarios, as illustrated in the following fictional examples:

1. Club A is knocked out in the group stages of the 2013/14 Champions League competition. Based on their 2011/12 and 2012/13 accounts, it has fallen outside of the Acceptable Deviation provisions in the break-even test. The club will likely be sanctioned for the 2014/15 season.
2. Club B gets to the semi-final of the Europa League in May 2014. Before the semi-final, the CFCB announces that the club has not complied with the break-even requirement. Significant sporting issues as to whether Club B should be expelled from a competition in progress (which is a power the CFCB possess) becomes a difficult judgment call for the CFCB. Any subsequent appeal to the Court of Arbitration for Sport (CAS) leaves question marks as to whether UEFA or the CAS would allow the non-compliant team to continue to participate pending the appeal outcome. This also opens a further question with regard to how Club C, eliminated by Club B in the quarter finals, responds to the further participation of Club B, arguably at their expense.
3. A CFCB compliance decision could possibly occur after the final game of the competition. If a non-compliant club wins the Champions League in May 2014, they could be sanctioned by having their title removed; but would this actually happen?

Based on a number of previous sanctioning decisions in relation to over-due debts, the rationale for what are appropriate FFP sanctions may be becoming clearer, and relates much to the proportionality of the sanction (i.e. does the punishment match the breach?). The most important element of this proportionality test is set out in the Besiktas Decision. The CAS at paragraph 127 in the Besiktas Decision stated:

> *“On the question of proportionality, the panel accepts the position of UEFA, as established by the CAS jurisprudence it cited – just because another sanction could be issued, it does not make the one issued disproportionate. The appellant would have to demonstrate that the appealed decision was ‘grossly disproportionate'”*

There are a number of separate cases involving Besiktas and Hungarian club Gyori where even a small overdue debt can lead to exclusion from the competition. This suggests that the quantum of the overdue amount is not necessarily relevant, rather, what is relevant is that the club failed to comply with a fundamental obligation (no overdue debts) under the FFP regulations. By analogy, it may be suggested that a club €200,000 outside of the break-even Acceptable Deviation provisions could be excluded from competition.

Some may argue that such a sanction would be grossly disproportionate and that there are more appropriate sanctions that could be imposed instead. Nevertheless, it is instructive to note from the above CAS cases that a sanction is likely to be more severe if there are a number of offences tied in with a breach, such as concealment of information or failure to disclose information. Such behaviour would likely be deemed an aggravating feature for sanctioning purposes.

6.2 Premier League sanctions

For the profitability and sustainability provisions, if a club breaches the £105m acceptable loss limit, the Premier League board has the power to compel a club to adhere to a defined budget (Rule E.15.1 of the 2013-14 Premier League Handbook) and/or refuse to register any new or existing player contract (Rule E.15.3).

Rule E.58.2 appears to give a Regulatory Commission the power to further sanction a club for breaching these provisions. The outcomes of such reporting requirements may thus result in breaches which could lead to sanctions such as points deductions. However, a sanctioning tariff has not yet been published.

6. SANCTIONS (continued)

6.3 Football League sanctions

Football League FFP came into play for the 2012/13 Championship season. There were/are no sanctions for breaching the regulations in the 2012/13 and 2013/14 seasons. However, come the 2014/15 season, a club that breaches the regulations (a negative Fair Play Result) will face sanctions.

Sanctions will vary depending on whether the club is promoted to the Premier League, remains in the Championship or is relegated to Football League 1. A club can be fined (if the club is in the Premier League at the time of the sanction decision), be subject to a transfer ban (if the club remains in the Championship at the time of the sanction decision), or forfeit Fair Play fine redistribution, if any (if relegated to League 1).

Sanctions for clubs promoted to the Premier League

Clubs promoted to the Premier League must provide FFP information for their promotion season by 1 December. If they have breached the regulations for the season they were in the Championship they will be fined.

A calculation table of fines has been published to enable clubs to understand the potential size of the penalty. Clubs promoted to the Premier League will have to pay the Fair Play Tax ("Luxury Tax") on the excess by which they failed to fulfil the Fair Play requirement, ranging from 1% on the first £100,000 to 100% on anything over £10m. At the current time the issue of fines and their redistribution is being re-considered by the Football League.

Sanctions for clubs remaining in the Championship

Clubs that fail to comply with the FFP regulations and remain in the Championship will be subject to a transfer embargo. The first embargo can be enforced by the Football League from the beginning of January 2015. The embargo will remain in place until the club is able to lodge financial information that demonstrates it meets FFP regulations.

Sanctions for clubs relegated to League 1

Clubs relegated to League 1 will be required to comply with the FFP rules in operation in that division.

SUMMARY

UEFA	PREMIER LEAGUE	FOOTBALL LEAGUE
Sanctions may include a reprimand, a fine, withholding of prize monies, points deductions, refusal to register players for UEFA competitions, reducing a club's permitted squad size	If a club breaches the £105m limit, the Premier League board currently has the power to compel the club to adhere to a defined budget and/or refuse to register any new or existing player contracts	Clubs will be fined or a transfer embargo will be imposed depending on whether the club is in the Premier League, or remains in the Championship or is relegated to the championship

7. FOCUS ON SPONSORSHIP AND REVENUES

The following examples should give some clearer insights into the practical impact of the regulations.

See Appendix 3 for the definition of a Related Party Transaction (RPT).

7.1 Related Party Transactions

Suppose that the CFCB wishes to examine a particular sponsorship arrangement in more detail. From the regulators perspective, the issue is three-fold.

1. The Regulator will need to establish whether the sponsorship deal is an RPT. In order for the deal to be caught under the financial control provisions, it would need to be demonstrated that the sponsor may be expected to influence, or be influenced by, the club or a related party of the club. If the agreement is not a RPT, the regulator will not look at the value of the deal in any more detail. Note that because financial control rules use the same definitions of related parties as applicable accounting standards, it is expected that RPTs that meet the accounting definition would be identified by the club and their auditors, and opined on by both.
2. If the deal is deemed to be an RPT, the Regulator will be faced with the interesting issue of how to value the deal, and whether it covers a number of linked sponsorship aspects such as shirt sponsorship, stadium naming rights etc. A type of benchmarking exercise will need to be carried out to assess what the Regulator considers to be a fair value. If the Regulator considers the deal to be at a fair value, that will be the end of the matter.

   Therefore the Regulator will need to assess a counter-factual position if question marks are raised over a particular transaction. The details are what matter. Clearly, professional independent valuers may find a revenue stream coming their way, but issues over how revenue can be correctly valued may become a particularly thorny issue between clubs and the Regulators. Regulators will not only need to be brave in their application of the rules, but also be diligent in ensuring consistency of application. Certainly, there is an expectation that UEFA and the Premier League will "know one when they see one”. Of course, there is a further concern regarding the identification of such transactions. The regulators will be reliant on the completeness and consistency between clubs of the related party disclosures within the their financial statements: presumably the key source of information of this nature.

7.2 Relevant income

The majority of what constitutes relevant income (see Appendix 2) appears to be relatively straight forward and intuitive. However, as one might suspect, there are elements that could be seen as open to exploitation. For example:

1. Other operating income: this includes operating income not otherwise described specifically, including revenue derived from activities such as subsidies, rent, dividends and income from non-football operations. With clever group structuring, a club with means may have the ability to generate, or channel, "other revenues" into the club.
2. Finance income: with the right level of investment, could a club operate a position where it has significant loan interest income?

It appears that this has been considered and addressed by UEFA with the caveat that relevant income is decreased by income from non-football operations not related to the club. However, an imaginative Chairman may be able to find ‘other revenues’ that technically comply. Will UEFA apply a spirit of the rules interpretation in such circumstances?

A particularly positive point to note is that the definition of relevant expenditure excludes investment in youth development. There will therefore be an incentive to invest in the future of a club through its home grown youth (which is something that the Football Association are currently looking at as part of their long term strategic youth development objective).

APPENDIX

1. DEFINITIONS AND INTERPRETATIONS

TERM	DEFINITION	INTERPRETATION
1. UEFA		
Loss	Acceptable Deviation from break-even requirement	An allowable loss that allows clubs to pass the break-even test without actually breaking even The break-even result is calculated as the net of relevant income less relevant expenditure (see Appendix 2) Note that relevant income excludes income transaction(s) with related parties above fair value (see Appendix 3)
Preceding 2-3 years	The 2-3 years prior to (but not including) the review year	
Equity investment	Payments for shares through the share capital or share premium reserve accounts, investing in equity instruments in the capacity as a shareholder	Includes capital contributions from a related party that increases equity without obligations for consideration or repayment in return. For example, a waiver of related party debt constitutes a capital contribution The following are not considered to be equity contributions: a. Amounts arising from revaluations; b. Creation of or increase in reserves where there is no contribution; c. A transaction where the club has an obligation to act or perform in a certain way; or d. Contributions from owners in respect of instruments classified as liabilities
2. Premier League – short term cost control		
Aggregate player service cost:	a. Gross remuneration and benefits payable in respect of contracted players b. Employer's National Insurance Contributions on these c. Pension/benefit scheme contributions on behalf of players	
Profit from player trading	As disclosed in the club's Annual Accounts	Thereby as defined by relevant accounting standards
Club own revenue uplift	Any increase in a club's revenue in a contract year when compared to its revenue in contract year 2012/13 (excluding central funds revenue in both years)	The board may adjust the calculation of a Club Own Revenue Uplift to: a. Ensure that it is calculated on a like-for-like basis b. Restate to fair market value any consideration that arises from Related Party Transactions (see Appendix 3)
Revenue	Undefined but assumed to be revenue as stated in the company's statutory financial statements (consistent with other areas of accounting definitions within the rules)	Must be prepared on a like-for-like basis

TERM	DEFINITION	INTERPRETATION
3. Premier League – profitability and sustainability		
Loss	Adjusted profit before tax	
Adjusted profit before tax	As per the club's statutory accounts adjusted to exclude:	a. Depreciation and/or impairment of tangible fixed assets, amortisation or impairment of goodwill and other intangible assets (but excluding amortisation of players' registrations); b. Youth development expenditure (if included in audited annual accounts and supplementary information - subject to independent audit); and c. Community development expenditure (if included in audited annual accounts and supplementary information - subject to independent audit)
	If revenue arises from Related Party Transactions an adjustment to adjusted profit before tax should be made in order to record such transactions at fair market value	This appears to be the responsibility of the Premier League Board – albeit giving the club the opportunity to restate to fair market value first
Fair market value	The amount for which an asset could be sold, licensed or exchanged, a liability settled, or a service provided, between knowledgeable, willing parties in an arm's length transaction	In reality, such transactions are extremely difficult to value and highly subjective. In order to have confidence in a fair market value, professional valuation techniques (most likely sub-contracted to a professional valuer) are likely to be required
Rolling three years	Three years up to and including the review year	Different from the UEFA use of preceding years (e.g preceding three years) which does not include the current year
Secure funding	Funds which have been or will be made available to the club in an amount equal to or in excess of any cash losses (see below) which the club has made in respect of the rolling three years or is forecast to make up to the end of the forthcoming two years	Secure funding may not be a loan and shall consist of: a. Contributions that an equity participant has made by way of payments for shares through the club's share capital account or share premium reserve account; b. An irrevocable commitment by an equity participant to make future payments for shares through the club's share capital account or share premium reserve account; or c. Such other form of secure funding as the board considers necessary
Irrevocable commitment	This shall be evidenced by a legally binding agreement between the club and the equity participant	If the board requires, this may be secured by one of the following: a. A personal guarantee from the ultimate beneficial owner of the club (providing he/she is of sufficient standing and the terms of the guarantee are satisfactory) b. A guarantee from the club's parent undertaking or another company in the club's group (providing it is of sufficient standing and the terms of the guarantee are satisfactory); c. A letter of credit from a financial institution of sufficient standing and an undertaking from the club's directors to the Premier League to call on the letter in default of the payments from the equity participant being made d. Payments into an escrow account; or e. Other such form of security as the Board considers necessary
Cash losses	Aggregate adjusted earnings	These are defined as being: a. Before tax b. After write back of amortisation and impairment of player registrations c. After write back of profit or loss on the transfer of player registrations d. After inclusion of net cash flow in respect of transfer of player registrations
4. Football League Championship		
Loss	Acceptable permitted losses	Based on a clubs Fair Play Result for the season in operation
Fair Play Result	Profit or loss before tax excluding: a. Investment in youth development b. The profit affecting element of the purchase, sale and depreciation of fixed assets excluding players (e.g. a club's stadium) c. Investment in a club's community scheme d. Promotion related bonus payments.	Clubs can apply to the Fair Play Panel to have certain exceptional items excluded from Financial Fair Play Results, some of which include: a. Career ending injury costs; b. Bad debts from other clubs; or c. Losses sustained from a major sponsor defaulting
5. Football Leagues 1 and 2		
Turnover	In line with UEFA definition	
Player service cost	In line with Premier League definition	

APPENDIX

2. CALCULATION OF THE BREAK-EVEN RESULT

(Appendix extracted from UEFA Club Licensing and Fair Play Regulations Edition 2012, Annex X, section A)

The break-even result for a reporting period is calculated as relevant income less relevant expenses (see Article 58).

Relevant income is equivalent to the sum of the following elements (further detailed in the full version of the section):

a. Revenue – Gate receipts
b. Revenue – Sponsorship and advertising
c. Revenue – Broadcasting rights
d. Revenue – Commercial activities (merchandising, food & beverage sales, conferencing, lottery and other commercial activities not otherwise categorised)
e. Revenue – Other operating income (operating income not otherwise described above, including revenue derived from other activities such as subsidies, rent, dividends and income from non-football operations)
f. Profit on disposal of player registrations or income from disposal of player registrations (distinction being based on local accounting regulations i.e. 'capitalisation and amortisation' versus 'income and expenditure' methods respectively)
g. Excess proceeds on disposal of tangible fixed assets
h. Finance income (interest)

Relevant income is decreased if the elements a. to h. above include any items below:

i. Non-monetary credits, for example
   - Revaluations of tangible and intangible fixed assets
   - Revaluations of inventories
   - Write-backs of depreciation or amortisation charges in respect of fixed assets (including player registrations)
   - Foreign exchange gains/(losses) on non-monetary items
j. Income transaction(s) with a related party or parties above fair value
k. Income from non-football operations not related to the club

Relevant expenses are equivalent to the sum of the following elements:

a. Expenses – Cost of sales/materials
b. Expenses – Employee benefits expenses
c. Expenses – Other operating expenses
d. Amortisation/impairment of player registrations and loss on disposal of player registrations (or costs of acquiring player registrations)
e. Finance costs and dividends

Relevant expenses are increased if the elements a. to e. in paragraph 3 include the item below:

f. Expense transaction(s) with a related party or parties below fair value

Relevant expenses are decreased if the elements a. to e. above include any items below:

g. Expenditure on youth development activities
h. Expenditure on community development activities
i. Non-monetary debits/charges
j. Finance costs directly attributable to the construction of tangible fixed assets
k. Expenses of non-football operations not related to the club

APPENDIX

3. RELATED PARTIES

Related parties and Related Party Transaction follow the UK GAAP FRS8 and IFRS 24 definitions. Related Party Transactions are, in effect, transactions disclosed within a club's Annual Accounts as a related party transaction or which would have been disclosed as such except for an exemption under the accounting standards under which the Annual Accounts were prepared (for example, a wholly owned subsidiary exemption or a materiality exemption).

Related party: A related party is a person or entity that is related to the entity that is preparing its financial statements (the "reporting entity").

a. A person or a close member of that person's family is related to a reporting entity if that person:
    1. has control or joint control over the reporting entity, or
    2. has significant influence over the reporting entity, or
    3. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b. An entity is related to a reporting entity if any of the following conditions applies:
    1. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others)
    2. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member)
    3. Both entities are joint ventures of the same third party
    4. One entity is a joint venture of a third entity and the other entity is an associate of the third entity
    5. The entity is a retirement benefit scheme for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a scheme, the sponsoring employers are also related to the reporting entity
    6. The entity is controlled or jointly controlled by a person identified in a. above
    7. A person identified in a. 1 above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party transaction: The transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a price is charged.

DEFINITIONS:

Close members of the family of a related person: Those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

a. That person's children and spouse or domestic partner
b. Children of that person's spouse or domestic partner
c. Dependants of that person or that person's spouse or domestic partner.

Control: The ability to direct the financial and operating policies of an entity with a view to gaining economic benefits from its activities.

Key management personnel: Those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Materiality: Transactions are material when their disclosure might reasonably be expected to influence decisions made by the users of general purpose financial statements. The materiality of Related Party Transactions is to be judged, not only in terms of their significance to the reporting entity, but also in relation to the other related party when that party is:

a. A director, key manager or other individual in a position to influence, or accountable for stewardship of, the reporting entity, or
b. A member of the close family of any individual mentioned in a. above, or
c. An entity controlled by any individual mentioned in a. or b. above.

APPENDIX

4. ACRONYM TABLE

ACRONYM	
CAS	Court of Arbitration for Sport
CC & SP	Cost Control & Sustainability Provision
CFCB	Club Financial Control Body
FFP	Financial Fair Play
GAAP	Generally Accepted Accounting Principles
IFRS	International Financial Reporting Standards
RPT	Related Party Transactions
SCMP	Salary Cost & Management Protocol

APPENDIX

5. ABOUT US

FIELD FISHER WATERHOUSE

Field Fisher Waterhouse is a European law firm providing commercial solutions across a range of industry sectors. The firm has over 150 partners, 240 other lawyers and nearly 300 support staff across offices in Brussels, Hamburg, Paris, London, Munich, Manchester, Palo Alto and Shanghai.

The firm's sports group helps an impressive range of clients to navigate the regulatory and commercial challenges posed by modern sport. The group advises on issues including acquisition and funding, brand protection, betting and gaming, commercial agreements, competition, regulatory and disciplinary issues, endorsements, merchandising, project finance, sponsorship and sports marketing, ticketing, TV and media rights and stadia development.

The group's expertise extends across all major sports and it acts for:

- Sports bodies and regulators
- Marketing agencies
- Sponsors, sports brand owners
- Broadcasters
- Professional clubs.

The group combines legal expertise with a knowledge of and passion for sport, ensuring it can help you to stay ahead of the game.

BDO

As one of the world's largest accountancy organisations, we offer the full range of service offerings you would expect from a firm of our calibre.

Internationally, we operate as a single global accountancy organisation with a network of offices all bound by the same dedication to client service.

Our professional sports group client base extends across major professional sports including football, horse racing, rugby, golf, cricket, and motor racing, as well as other health and fitness businesses.

Our team of sector experts which includes partners with experience of managing and running top flight football clubs, can provide sports businesses with a complete range of business advisory services including:

- External and internal audit
- Corporate tax
- Corporate finance and financial modelling
- Business Restructuring
- Specialist VAT consultancy
- Employment tax
- Corporate governance
- Forensic and fraud investigations.

BDO UK

22 Offices
300 Partners
3,500 Staff

No.1 for exceptional client service[1]

90% of our clients would recommend us[1] | 76% already have[2]

BDO INTERNATIONAL

US$6.45 bn[3] 2013 revenue

144 Countries
1,250 Offices
56,000 Staff

1. Independent research (Mid Market Monitor 2012 and 2013) undertaken by Meridian West shows BDO has the highest client satisfaction rating among its peers
2. Client Listening Programme 2012/13
3. US$6.45bn (€4.92 bn) combined fee income 2013

For more details please contact:

DANIEL GEEY
SENIOR ASSOCIATE, SPORTS GROUP FOR FIELD FISHER WATERHOUSE LLP
t: +44 (0)20 7861 4335
e: daniel.geey@ffw.com

IAN CLAYDEN
PARTNER, PROFESSIONAL SPORTS, ASSURANCE FOR BDO LLP
t: +44 (0)20 7893 3612
e: ian.clayden@bdo.co.uk

TREVOR BIRCH
PARNER, PROFESSIONAL SPORTS, ADVISORY FOR BDO LLP
t: +44 (0)20 7893 3733
e: trevor.birch@bdo.co.uk

www.bdo.co.uk

14-0319

www.ffw.com/