FINANCIAL FAIR PLAY - IMPLICATIONS FOR FOOTBALL CLUB FINANCIAL REPORTING

Stephen Morrow

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by

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CONTENTS

FOREWORD

Football activities, both on and off the pitch, are often hitting our news. Despite remarkable revenue growth we have seen numerous well known clubs facing an escalation of player costs, unsustainable debt and clubs suffering financial difficulties, sometimes leading to insolvency proceedings. This has resulted in European football's governing body – UEFA – taking action and introducing Financial Fair Play (FFP) regulations. These regulations are designed to encourage clubs to adopt a more economically rational and sustainable approach to their activities. But will these regulations work and what is the impact on financial reporting for clubs – is the current framework fit for purpose?

This report seeks to address these issues through a series of interviews with finance directors at football clubs, football club auditors, football finance experts and representatives of governing bodies and leagues.

The new regulations, effective for 2013/14, essentially require clubs 'playing in Europe' to report a break-even position, over a rolling period but based on what is termed 'relevant' income and costs. There is also a monitoring of overdue payables.

Whilst this study is largely supportive of UEFA's objectives, a number of specific concerns were raised by the interviewees, leading to three recommendations for UEFA to consider: the need for more emphasis on cash control measures; that sanctions should not be financial in nature; and the need to reconsider the risk that sanctioned clubs might suffer some form of double jeopardy.

The current financial statements produced by clubs were seen as of little or no use, and there was little agreement amongst the interviewees as to whether this would change as a result of FFP. One specific recommendation is that clubs disclose their break-even calculations and also reconcile these to the reported profit or loss in the financial statements. Tied in with wider debates on improving financial reporting and the development of integrated reporting it is also suggested that a leading football club participates in an integrated reporting pilot study.

This project was funded by the Scottish Accountancy Trust for Education and Research (SATER – see page 71). The Research Committee of ICAS has also been pleased to support this project. The Committee recognises that the views expressed do not necessarily represent those of ICAS itself, but hopes that the results of this research will be of interest to those involved in the industry, ICAS members and the wider public and useful to UEFA in its appraisal of FFP.

Allister Wilson
Convener of ICAS Research Committee
May 2014

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EXECUTIVE SUMMARY

While economies, industries and companies throughout Europe have struggled in recent years, major European football leagues and clubs have continued to see remarkable revenue growth; fuelled by domestic and overseas media rights. Too often, however, that revenue growth has not led to profit, with many clubs reporting substantial losses and escalating debts and several high profile clubs suffering insolvency events. The seemingly paradoxical situation in European football finance - increasing revenues but declining financial performance and position - has now directly influenced football policy; most visibly in the introduction by The Union of European Football Associations (UEFA) of Financial Fair Play (FFP) regulations designed to encourage clubs to adopt a more economically rational and sustainable approach to their activities. An overview of these regulations is provided below:

- They apply to all clubs which meet a minimum threshold in terms of income and expenditure and which wish to be licensed to participate in UEFA's Europe-wide club competitions.
- The key requirement is that clubs should report a break-even position (subject to an acceptable level of deviation) over a rolling three year period.
- In determining break-even clubs need only include what are defined as 'relevant income' and 'relevant costs' - at its simplest clubs must match football-related expenditure with football-related income.
- They are effective from 2013/14 but based on clubs' financial results from season 2011/12 onwards.
- They include requirements on the monitoring of overdue payables (to other clubs, players and tax authorities).

Whilst the majority of British football clubs continue be to be structured as limited liability companies, these organisations operate within a financial and sporting structure which is governed and controlled by separate economic entities such as leagues. As a result clubs are obliged to co-operate with their competitors to jointly produce individual matches and competitions, which in turn results in a degree of dependency, sporting and financial, between those clubs. However, the very nature of sporting competition means that inevitably there will be many more losers than winners. Hence, in pursuit of sporting success, few clubs are uninfluenced by the behaviour and decision-making of their competitors; and the decision-making would often be considered irrational if viewed from a conventional economic or financial perspective. At the same time, there is widespread public and media interest and scrutiny of the business of football clubs, although paradoxically this arises more from their social importance than their financial significance. These are organisations which often have highly engaged stakeholders; individuals and groups which have unambiguous expectations in terms of the accountability (including financial accountability) expected from their club and its directors. Despite these significant organisational and governance differences, the financial statements that football clubs prepare, and through which clubs seek to demonstrate their accountability, are no different from those prepared by any other limited liability company.

Study approach

The study was based on interviews, in which the opinions of professional accountants and others with experience of working in and around the business side of football clubs were sought, on the following issues:

- The requirements set out in UEFA's FFP regulations.
- The usefulness of conventional financial reporting for professional football clubs.
- The implications of FFP for football club financial reporting and as to whether alternative forms of reporting may better communicate the value and role of contemporary football clubs.

Interviews were held with: finance directors at clubs in England and Scotland; representatives of clubs' auditors; football finance experts working in the profession; and representatives of governing bodies and leagues.

Key findings and policy implications

FFP requirements

The rationale and need for enhanced financial regulation of football clubs was widely accepted by interviewees. There was considerable support for the FFP approach adopted by UEFA and for the adoption of the rolling break-even performance measure. The determination of relevant income and costs was welcomed by many interviewees as a way of encouraging or incentivising long-term planning and decision-making by clubs.

The enhanced rules on the monitoring of overdue payables were universally welcomed. But notwithstanding the indirect relationship between such monitoring and cash, there was widespread concern that the regulations placed insufficient emphasis on cash, something seen as fundamental to the business of football clubs. This concern is highlighted by the number of clubs in respect of which auditors have regularly expressed concern about the validity of the going concern assumption.

The primary concern which emerged out of the interviews, however, centred on UEFA's willingness and capacity to enforce its regulations given the political and economic context of professional football and the implications of regulatory enforcement, sporting and financial.

Other concerns identified included:

- the logic of using financial fines as penalties in a regulatory system designed to improve the financial capability of clubs;
- the risks that a sanctioned club may in practice be punished more than once for its offence;
- the creation of multiple financial performance measures;
- UEFA's capacity and competence around technical issues, such as fair value and related parties, and related issues of enforcement;
- that the rules and detailed guidance will encourage clubs to seek loopholes in the rules so that they are complying with the letter but not the spirit of FFP;
- the risk of creative accounting around the definitions of relevant income, relevant costs and fair value; and
- the risk that the regulations may limit inward investment.

UEFA has indicated that it sees FFP as a work in progress and that it welcomes feedback and critical appraisal. While there is much in this report that is supportive of UEFA's high level objectives and of its detailed rules, three policy recommendations emerge for the organisation from this study.

As UEFA reviews the implementation and effectiveness of FFP, it is recommended that:

- Greater consideration be afforded in the regulations to cash control measures.

- FFP enforcement sanctions adopted are not financial in nature.
- Further consideration is given as to how UEFA might amend its regulations to avoid a sanctioned club suffering a form of double jeopardy.

Role and usefulness of financial statements

The introduction of FFP has not only illuminated weakness in the operating behaviour of some football clubs, but also inadequacies in the reporting and communication of their activities. The evidence from this study suggests that financial reporting in football clubs is largely compliance driven; a statutory necessity providing some limited assurance to some accounts users, such as suppliers, lenders and governing bodies/leagues, but offering little meaningful disclosure on key performance indicators like salary costs and little evident benefit in terms of decision-making and wider accountability. Given the financial performance and position reported in so many clubs' financial statements, the level of assurance provided is questionable - something recognised by UEFA in its decision to introduce FFP. The limitations of conventional historical financial statements, coupled with peculiarities in the financial and ownership structure of many football clubs, result in annual reports being of little or no use as decision-making tools.

It is recommended that:

- Research is undertaken into the merits and demerits of introducing bespoke financial reporting for football clubs, taking into consideration the distinct nature of football club organisations and their stakeholders.

Implications for financial reporting

By focusing attention on longer-term time horizons, on the inter-dependence of football clubs and on the social and political context within which professional football takes place, FFP has drawn attention to the limitations of relying solely on conventional financial performance measures. However, there was no consensus among interviewees as to whether the introduction of FFP was likely to have implications for football club financial reporting. Some interviewees saw FFP purely as a necessary regulatory process and as such unlikely to have any discernible impact on reporting. In the view of these interviewees, the very competitive environment within which clubs exist coupled with the high levels of scrutiny, would result in clubs being unwilling to disclose more than was absolutely necessary. Other interviewees, however, believed that the financial consequences of FFP coupled with media and stakeholder interest therein could result in it being a first step towards enhanced disclosure; in particular in terms of the FFP break-even calculation but also around other key performance measures such as player salaries. From a different perspective, concern was also expressed about inconsistency between FFP break-even and 'actual' financial viability. The possibility that in time FFP might encourage broader football club reporting, a greater emphasis on the multi-faceted nature of football clubs' contribution and value, and on providing improved accountability to stakeholders was not widely accepted by interviewees.

Nevertheless, the specificities of this sector mean that football clubs are well placed to contribute to a wider debate about the nature of financial reporting. Hence, two further policy recommendations are offered; the first specific to football clubs and FFP; the second of more generic interest:

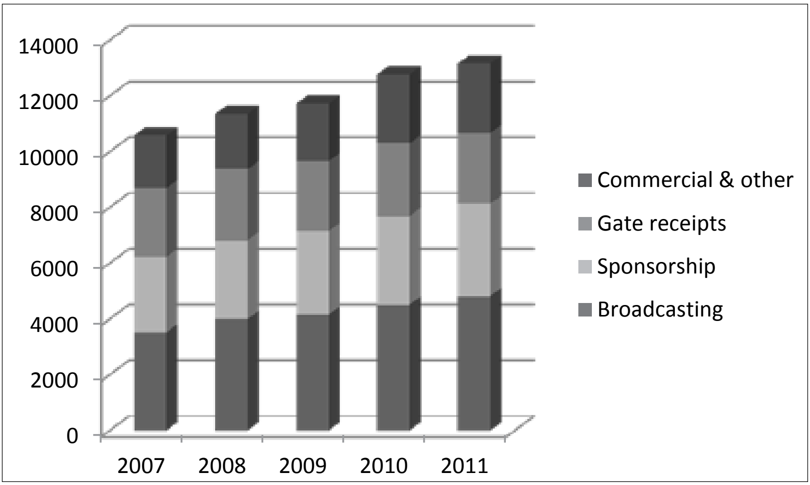
- As FFP break-even regulations begin to take effect, consideration is given by UEFA, leading European clubs and their advisers to the benefits of disclosing the FFP break-even measure and to requiring clubs to provide a reconciliation between it and reported profit/(loss). As well as providing enhanced disclosure, this would lessen the risk of stakeholders being misled by differences between FFP break-even and 'actual' financial viability.
- That the International Integrated Reporting Council (IIRC), ICAS and other interested parties seek to identify a leading football club willing to participate in an integrated reporting pilot/case study.

1. INTRODUCTION

In September 2009, the Executive Committee of UEFA (The Union of European Football Associations - European football's governing body) approved a financial fair play concept which seeks to ensure the future well-being and health of professional football. Effective from season 2013/14, Financial Fair Play (FFP) regulations apply to all clubs which seek to participate in UEFA's Europe-wide, transnational club competitions subject to a *de minimis* financial threshold. Designed to encourage clubs to adopt a more economically rational and sustainable approach to their activities, UEFA's aim is to improve clubs' financial management and financial performance in cognisance of the systemic environment of European club football in which clubs compete on and off the pitch.

To some lay observers the need for FFP regulations will be surprising. The commercial development of European club football over the last two decades or so has been wide-ranging and its revenue performance continues to be extremely impressive. The most recent UEFA Benchmarking Report, compiled as part of that body's club licensing scheme, reported a 3% increase in club incomes in 2011, reaching a record aggregate level of €13.2bn (see Figure 1.1). Over the five year period from 2007, club revenue grew at an aggregate rate of 5.6% pa, equivalent to 24% over the entire period; this at a time when the average growth rate in Europe's economies was 0.5% (UEFA, 2013).

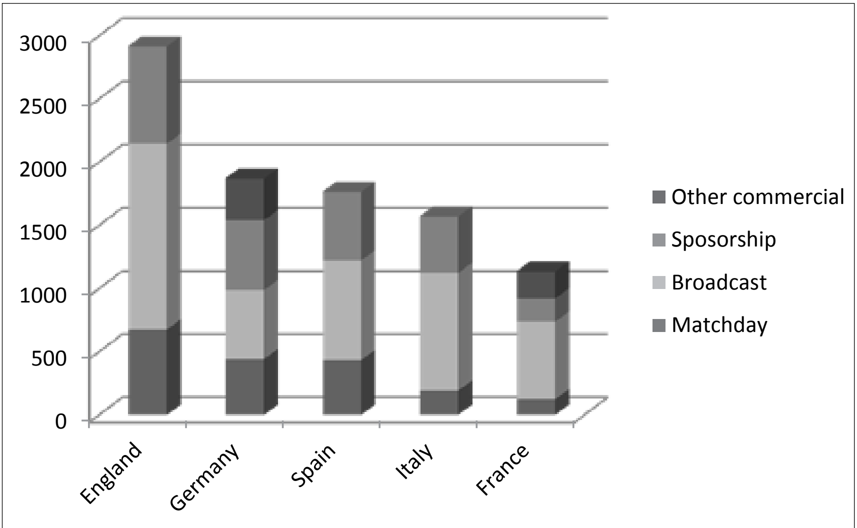
Figure 1.1 Top division revenues (€m)



Source: UEFA (2013)

The consultants Deloitte (2013) estimate the revenue of the European football market at €19.4bn for 2011/12, with close to half of this revenue, €9.3bn, being generated by the 'big five' leagues in England, France, Germany, Italy and Spain (see Figure 1.2).

Figure 1.2 Revenue breakdown for European leagues 2011/12 (€m)



Source: Deloitte (2013)

The primary driver of this growth has been broadcasting income. Here the English Premier League (EPL) has led the way: its current three-year domestic rights deal with BSkyB and BT which began in season 2013/14 is worth £3.018bn (€3.815bn), a 71% increase on the previous deal. Continued growth in broadcasting income is apparent in other countries too, most notably Germany where its domestic rights deal, also effective from 2013/14, is worth €2.5bn over four seasons; the annual rights of €628m representing a 52% increase on the previous deal of €412m (EPFL, 2012).

While one narrative which accompanies these figures is of a vibrant and successful industry, at the same time, conventional approaches to measuring the financial performance of clubs, in contrast to their revenue generation, present a less positive picture of escalating salary costs, unsustainable levels of debt, and clubs being placed in corporate rescue situations (Barajas and Rodríguez, 2010; Beech *et al.*, 2010; IJSF, 2010; JSE, 2006; Solberg and Haugen, 2010). Managing the cost base, and in particular player salaries, has long been football's primary challenge. While the UEFA benchmark report notes that the percentage of club revenues paid out in salaries and social charges has stabilised at 65%, it also notes that 88 clubs (out of a total of 679) had a ratio greater than 100% (UEFA, 2013). Moreover, five clubs which participated in the 2011/12 group stages of UEFA's Europe-wide club competitions, the Champions' League or Europa League, had a ratio greater than 100% (UEFA, 2012a). The share of total employee costs attributable to players was 81%, equivalent to €6.9bn in 2010/11 (UEFA, 2013). The consequences of this are evident in the overall financial performance of European football clubs: 63% of Europe's top division clubs reported operating losses; 38% of clubs were in negative equity positions; and auditors expressed concern as to the validity of the going concern assumption at 1 in 7 clubs (UEFA, 2013). This situation is exacerbated by the economic crisis throughout Europe, which has limited the funding opportunities open to clubs and emphasised the risk to clubs' sustainability unless there is a change in their behaviour.

It is this seemingly paradoxical situation - increasing revenues but declining financial performance and position – that has now directly influenced football policy in the introduction, by UEFA, of Financial Fair Play (FFP) regulations as part of its club licensing system. The starting point for UEFA's FFP regulations are European clubs' financial statements, the generally accepted means by which organisations communicate their financial performance and position in accordance with national and international financial reporting rules and guidance. Football club financial statements are in substance no different from those produced for organisations in other areas of business activity. As a result their focus is on providing useful information to rational economic decision-makers, that information concentrating on economic events and transactions and on their predicted financial impacts. However, the nature of football clubs and the behaviour of many stakeholders involved with those clubs, more often than not including their shareholders, calls into question the usefulness and role of traditional financial statements (Morrow, 2013). Moreover, while financial statements are the starting point for FFP, clubs are required to prepare or rearrange that information with a particular purpose in mind, that purpose being guided by the social and organisational context of professional football. For example, the key performance indicator in FFP is a 'break-even requirement', which involves comparing 'relevant costs' and 'relevant income' over a three year period, relevance being dependent on political and value judgements about what type of activities clubs engage in and about how these are funded. Hence, the approach to regulation adopted by UEFA while seeking to address weaknesses in clubs' financial behaviour and performance, also indirectly focuses attention on the nature and role of clubs' financial statements.

Drawing on interviews with accountants and others with experience of working in and around the business side of football clubs in the UK, the aim of this research is to assess the potential impact of UEFA's FFP regulations, focusing in particular on the relationship between FFP and football club financial reporting. The remainder of this report is structured as follows. Chapter two focuses on financial regulation in football, and provides a detailed insight into specific requirements of FFP. The research approach is set out in Chapter three, with the following three chapters devoted to research findings and discussion. Chapter four concentrates on attitudes towards conventional football club financial reporting; Chapter five provides a critical review of FFP; and Chapter six focuses on the implications of FFP for financial reporting. The conclusions and policy recommendations from the study are set out in Chapter seven.

2. FINANCIAL REGULATION IN PROFESSIONAL FOOTBALL

Despite the overall pattern of income growth in European club football set out in chapter one, it was the financial difficulties of so many of the clubs which participate in its Europe wide club competitions that lay behind UEFA's decision to introduce FFP regulations as part of its club licensing system.

Club licensing

Club licensing, applicable to all clubs participating in UEFA's Champions' League and Europa League competitions, was introduced from season 2004/05 (Olsson, 2011). It draws heavily on the German domestic club licensing system introduced in 2000 (Wilkesmann *et al*., 2011), in which minimum criteria that clubs must achieve are specified in five separate categories - sporting, infrastructure, personnel and administrative, legal and financial (Müller, 2004; Olsson, 2011). The aim of the German system is to ensure that league members are capable of satisfying their sporting and financial commitments during the season, thus protecting the integrity of sporting competition and the commercial value of the Bundesliga (Wilkesmann *et al*., 2011).

Club licensing in Germany is an interactive process. Clubs are required to submit to the Deutsche Fussball Liga (DFL) various items of documentation, including audited accounts and forecast profit and loss accounts, as well as legally binding documents providing assurance on things like whether the club's liabilities are up to date and permitting access to information held by the German Inland Revenue (Wilkesmann *et al*., 2011). The DFL has the opportunity to request clarification on information provided, and to seek further documentation as required to satisfy itself of the applicant's economic strength, particularly around projected cash flow or liquidity. Essentially the league's licensing officers have the right to adjust the club's forecasts if they consider them to be imprudent (Green, 2011). Where concerns are expressed about a club's liquidity forecasts, conditions will be imposed upon the club which must be fulfilled prior to a license being granted (Wilkesmann *et al*., 2011). Others, however, argue that the licensing body (the DFL) must base its licensing decisions only on the data provided by the clubs and that it is not entitled to question this data (Dietl and Frank, 2007). While to date no Bundesliga club has gone into administration (or equivalent) mid-season (Green, 2011), Dietl and Frank (2007) argue that this is simply because the DFL will not take radical action against any of its major clubs. Press coverage of German football finance also alludes to clubs being saved via local state aid, asset sales, player securitisations and even inter-club loans (Samuel, 2012).

One factor which may influence the extent to which sanctions are imposed under a licensing system is the independence of the licensing body or committee (Gouget & Primault, 2006). Another country with a long history of club licensing is the Netherlands. Its system was strengthened in 2003 with the inception of an independent licensing committee, set up to scrutinise the financial position and performance of clubs and with the authority to revoke club licences and to impose sanctions on clubs (Pieters and De Schryver, 2011). The independence of the licensing committee in the Netherlands is in marked contrast to the situation in Germany, where the licensing procedure is operated by the clubs' own association, the DFL, and where hence the DFL has only the power granted to it by its member clubs. Indeed the licensing statutes in Germany include provisions that exempt the entire licensing procedure from any form of external control (Dietl and Franck, 2007). Similar conflicts of interest exist in other countries: for example, the (English) Football League's Financial Fair Play panel, which will consider any challenges by clubs to its determination of the fair play result, is to be led by the Chairman of the Football League (Football League, 2012). The approach adopted by UEFA has been to set up a Club Financial Control Body (CFCB), tasked with overseeing the application and monitoring of the club licensing system and FFP regulations. The CFCB, has been established as a UEFA organ of justice, and has the power to impose disciplinary sanctions on clubs which do not meet the licensing or fair play requirements and decide on cases relating to eligibility for UEFA club competitions. CFCB members are independent (UEFA, 2012c).

Financial Fair Play

The focus of the FFP regulations is on improving clubs' financial management and financial performance. Effective from 2013/14 but based on clubs' financial results from season 2011/12 onwards, all clubs which meet a certain minimum threshold in terms of income and expenditure are required to satisfy various criteria in order to be licensed to participate in UEFA's Europe-wide club competitions (UEFA, 2012b, Article 57, 2(b)). The aims of the regulations are reproduced in Figure 2.1.

Figure 2.1 Aims of FFP regulations

To protect the integrity and smooth running of UEFA club competitions. (Article 2, Paragraph 1(d))

To achieve financial fair play in UEFA club competitions, and in particular:

(a) to improve the economic and financial capability of clubs, increasing their transparency and credibility;

(b) to place the necessary importance on the protection of creditors and to ensure that clubs settle their liabilities with players, social/taxation authorities and other clubs punctually;

(c) to introduce more discipline and rationality in club football finances;

(d) to encourage clubs to operate on the basis of their own revenues;

(e) to encourage responsible spending for the long-term benefit of football;

(f) to protect the long-term viability and sustainability of European club football.

(Article 2, Paragraph 2)

Source: UEFA, 2012b

Financial Fair Play – the basics

FFP is about encouraging clubs to improve the management of their cost base, achieving a sustainable balance between income, spending and investments. The key requirement is that clubs should report a break-even position, calculated by comparing relevant income and costs, over a rolling three year (initially two year) period. Break-even is not an absolute position, but rather one which is subject to 'an acceptable level of deviation'. Specifically, in any monitoring period a club can report an aggregate loss of €5m, while a further loss of initially €45m, but declining to €30m, is permitted as long as that excess is fully covered by equity injections from the club's owners and/or related parties (Annex X, D). Table 2.1 sets out the break-even determination.

Table 2.1 The break-even determination

Monitoring period	No. of years	Years included			Acceptable deviation (€m)	
		t - 2	t - 1	t	Covered	Not covered
2013/14	2	NA	2011/12	2012/13	45	5
2014/15	3	2011/12	2012/13	2013/14	45	5
2015/16	3	2012/13	2013/14	2014/15	30	5
2016/17	3	2013/14	2014/15	2015/16	30	5
2017/18	3	2014/15	2015/16	2016/17	30	5
2018/19	3	2015/16	2016/17	2017/18	<30	5

In determining break-even, clubs need only include what are defined as 'relevant' income and costs: at its simplest, clubs must match football expenditure with football income (see Figure 2.2).

Figure 2.2 Notion of relevant income and expenses

1 Relevant income is defined as revenue from gate receipts, broadcasting rights, sponsorship and advertising, commercial activities and other operating income, plus either profit on disposal of player registrations or income from disposal of player registrations, excess proceeds on disposal of tangible fixed assets and finance income. It does not include any non-monetary items or certain income from non-football operations.

2 Relevant expenses is defined as cost of sales, employee benefits expenses and other operating expenses, plus either amortisation or costs of acquiring player registrations, finance costs and dividends. It does not include development activities, expenditure on community development activities, any other non-monetary items, finance costs directly attributable to the construction of tangible fixed assets, tax expenses or certain expenses from non-football operations.

3 Relevant income and expenses must be calculated and reconciled by the licensee to the annual financial statements and/or underlying accounting records, i.e. historic, current or future financial information as appropriate.

4 Relevant income and expenses from related parties must be adjusted to reflect the fair value of any such transactions.

Source: UEFA, 2012b, Article 58

Whilst expenditure incurred on player salaries and amortisation of player acquisitions are considered as relevant costs, by contrast depreciation of tangible fixed assets, expenditure on youth development or community activities and finance costs incurred in the construction of tangible fixed assets may be excluded from the determination. Similar rules apply to the determination of income: in broad terms this is income derived from football activities. Income is not treated as relevant only where it is clearly and exclusively not related to the activities, location or brand of the football club. Hence a facility like a hotel proximate to a club's stadium could be classified as relevant income (Annex X, Para B.k).

Paragraph 4 of Article 58 introduces the concepts of related parties and fair value, concepts which are well established in accounting standards and taxation legislation. In terms of FFP a person or close member of a person's family is related to a reporting entity (club) if that person has control, joint control or influence over the club, or is a key member of the management team of the club or the club's parent entity, whether directly or through another entity. An entity is related to the reporting entity if the two entities are part of the same group or if they are in some defined way involved in a joint venture together (Annex 10, E). Fair value is the sum at which an asset could be exchanged or a liability settled on arms' length basis assuming knowledgeable and willing parties (Annex 10, E, 7). Fair value is thus distinct from market value: it is the sum at which one might reasonably expect an asset to be exchanged or a liability settled on the basis of prior evidence.

Examples provided, which require to be included at fair value include: the sale of sponsorship rights by a club to a related party; the sale of corporate hospitality tickets, and/or use of an executive box, by a club to a related party; and any transaction with a related party whereby goods or services are provided to a club. Under the provisions of Annex X, D, the difference between the income received from a related party and the fair value recognised in the break-even calculation can be treated as an equity contribution from a related party in terms of covering the acceptable deviation set out in Table 2.1.

Two other requirements add to the elasticity of the break-even concept. First, there is an opportunity to use break-even surpluses from the two years immediately preceding the monitoring period to compensate for any break-even deficit during the monitoring period (Article 63, para. 2b), and second, where the break-even requirement is not fulfilled, the CFCB can consider a number of mitigating factors as set out in Annex XI of the regulations. These include the quantum and trend of the break-even result, the projected break-even result for the year t+1, and the licensing applicant's budgeting accuracy.

While the break-even requirement has dominated coverage of FFP, other requirements in club licensing have also been reinforced, in particular those concerned with clubs having overdue payables to their employees, the taxation authorities or other clubs. Previously clubs had only to prove that they had no such overdue payables as at 31st March preceding the licensing season; the licensing decision being based on activities up until the cut off period of 31st December in the previous year. Consequently there was an opportunity for clubs to engage in cash flow management over a fifteen month period to the possible detriment of their employees, other clubs and/or the tax authorities, but without any risk of sanction in terms of the licence award. Under the new system, this information is also required at the 30th of June in the year that the UEFA club competitions commence. Should a club have overdue payables then it is deemed to be in breach of Indicator 4 (Article 62), meaning that it is required to demonstrate that it has no overdue payables as at 30th September (Articles 65, 66), in practice moving closer to quarterly monitoring.

Moreover, if a club's financial statements include an emphasis of matter or a qualified audit opinion in respect of the club as a going concern (Indicator 1, Article 62) or if they demonstrate a net liabilities position that has deteriorated relative to the prior year comparative figure (Indicator 2, Article 62), then the club is required to provide future financial information including a budgeted profit and loss account, budgeted cash flow statement and explanatory notes (Articles 52). In addition, where a club's financial statements show that its wages and social costs are greater than 70% of its turnover, or where its net debt exceeds 100% of its turnover, the CFCB may ask a club to submit additional financial information (Article 62).

The case for and against regulation

The desirability of regulatory intervention in European football and of FFP in particular, has been questioned by some sport economists. Vöpel (2011), for example, suggests that such regulation may in fact be dynamically inefficient, inadvertently serving to protect well established clubs from being challenged by other clubs, as a consequence of imposing a ceiling on deficits and restricting equity contributions by owners and others. In a study focusing on insolvency in English football, Szymanski (2012) noted that notwithstanding the number of football clubs which go into administration, few actually disappear. Moreover, he argued that the cause of administration was not 'irrational exuberance' where owners live beyond their means in order to achieve a better league position, but instead was caused by external negative shocks to either productivity (e.g. bad luck on the field) or demand (e.g. a substantial diminution in a media rights deal). Szymanski concluded that intervention initiatives such as FFP are misguided as they do not address the actual cause of insolvency, focusing instead on perceived management failures. However, others argue that regulatory interventions can be regarded as theoretically justifiable. The inter-dependent nature of sporting competition creates a risk that one club's behaviour may result in negative externalities for other clubs (as well as other stakeholders) with repercussions for the integrity of the competition (see, for example, Müller *et al.*, 2012; Storm, 2012; Storm and Nielsen, 2012).

Returning to Szymanski (2012), he argued that the paucity of clubs in administration which then become insolvent is a consequence of three factors:

- the enduring support of at least some of a club's supporters, this ensuring a club in administration continues to generate revenue;
- that a club can always adjust its wage structure to match its current status; and
- that because commonly community interest-type restrictions are placed upon the disposal of land on which a club's main asset, its stadium, sits, the only viable use of an insolvent football's company assets is continuation as a football club.

The first and third of these factors suggest that professional football is not a field guided only by financial logics, but rather one in which multiple stakeholders interact, steered also by broader social considerations and logics (Gammelsæter and Senaux, 2011; Morrow, 2014; Nash, 2000). Moreover, given football's social and institutional context, to many it is unacceptable to rely on the market to discipline behaviour, as rather than punishing failed owners, the losers will tend to be supporters and the communities within which clubs reside, as well as stakeholders like employees, creditors and tax payers who unwillingly contribute funds to loss-making football clubs (Morrow, 2012; Müller *et al.*, 2013; Storm, 2012; Storm and Nielsen, 2012). In addition, even in those clubs which have been most spectacularly mismanaged, resulting in the most negative economic and social consequences, society in the shape of a football club's communities often deem the organisation (as distinct from its owners and managers) as worthy of support at all costs. Storm (2012) and Storm and Nielsen (2012) argue that this can be explained by the fact that professional football clubs operate within soft budget constraints, drawing parallels with the way in which state enterprises in socialist economies are always able to renegotiate additional subsidies. If one accepts that football clubs are economic in basis but social in nature, then a specific type of public interest argument can be invoked to support FFP (Feintuck, 2010), protecting the interests of an individual club's public(s) - its supporters wherever located, communities, businesses and commercial partners - and the wider community of football encompassing other clubs, leagues and other competitions.

Having outlined the case for and against regulation and the specific requirements set out in UEFA's FFP regulations, the next chapter will explain the research approach adopted in this project to assess the potential impact of the regulations and their implications for financial reporting.

3. APPROACH TO THE PROJECT

This chapter gives details of the aim and objectives of the project and of the research approach and methodology adopted.

Aim and objectives of the project

The aim of the project was to assess the potential impact of UEFA's FFP Regulations, focusing in particular on the relationship between FFP and conventional financial reporting and on implications for football club financial reporting. More specifically, the project objectives were as follows:

- To consider the observations and insights of professional accountants and others with experience of working in and around the business side of football clubs in the UK on:
    - o the requirements set out in UEFA's FFP regulations;
    - o the usefulness of conventional financial reporting for professional football clubs; and
    - o the implications for football club financial reporting of the requirements set out in UEFA's FFP regulations and whether there are alternative forms of reporting about, and accounting for, the performance and position of football clubs which better communicate the value and significance of these institutions.

The study was focused on those clubs in the top divisions in England (the EPL) and Scotland (then the SPL) which were most likely to be affected by the FFP regulations. That is, those clubs which had a recent history of participation and/or a likelihood of qualifying on sporting grounds to participate in UEFA club competitions in the immediate future, and which met the UEFA FFP threshold (i.e. relevant income and relevant expenses of at least €5m) (UEFA, 2012b, Article 57, para. 2). This review of performance took place in the summer of 2012.

Research approach

While it was not anticipated that all interviewees would have direct involvement with FFP itself, it was expected that their knowledge of financial reporting and football would leave them well positioned to contribute to the debate. It is acknowledged that many interviewees were not independent of financial management and financial reporting in particular football clubs. However, as the purpose of the research was to understand professional accountants' and advisers' views on FFP, in this case the lack of independence was both inevitable and desirable. Interviewee selection was a function of their anticipated knowledge of and engagement with football club financial reporting and FFP.

Interview request letters were sent in December 2012 to twelve clubs in England and Scotland. The letters made it clear that while interviewees were being contacted due to their association with a particular club, the project was concerned with generic issues around FFP and financial reporting and hence no conflict of interest was considered to arise. Moreover, it was made clear that no club or audit firm would be identified in any published work. Ultimately five clubs and five auditors agreed to be interviewed. Two clubs declined to participate. Two auditors also declined to take part, on the grounds of client confidentiality. Another auditor agreed to participate if this was approved by the club which engaged him as auditor, but unfortunately it was not possible to elicit any response from that club. The remainder of clubs and audit firms failed to respond. Interviews were also requested with a number of individuals from accounting and consulting firms with a recognised expertise in some aspect of advising or reporting on professional football clubs, resulting in a further three interviews.

The interviews with club officials, auditors and industry experts (n=13) took place between January and September 2013. All interviews were taped and transcribed except one where the interviewee indicated that it was preferred that notes be taken. The interviews lasted between 30 and 51 minutes (M= 41, SD = 7.7).

While the majority of these interviews were conducted on a face-to-face basis (n= 11), it was necessary to conduct two interviews by telephone. Manual content analysis was used to ensure that the researcher was not distanced from the data (Davis & Meyer, 2009). The first stage of the analysis involved each interview being reviewed by the researcher and the extraction of raw-data quotes relevant to the project aims: specifically conventional football club financial reporting, FFP and implications for football club reporting. These quotes were then ordered around a number of sub-themes. There is much that can be revealed in the direct quotes of the participants and in cognisance of the research objectives, emphasis has been placed on direct interviewee quotes in the results section (Woodman & Hardy, 2001).

Three further interviews were held. The rationale for FFP was explored at transnational level, with UEFA's Benchmarking Manager, responsible for the monitoring of clubs' financial reporting and the preparation of the annual European Club Licensing Benchmarking Report (UEFA, 2013). Interviews were also held with representatives of one of the home-based national associations and with one of the home-based leagues which has taken a lead in implementing domestic FFP regulations. In total, therefore, 16 interviews took place.

While the project focused only on British clubs and hence on financial reporting in the limited liability corporate model prevalent among British football clubs, it has wider relevance given that FFP is operative throughout all of UEFA's 53 national member associations. Moreover, the nature of football and its clubs mean that there is a public interest in financial fair play, in UEFA's FFP regulations and in related issues like the structure of clubs and accountability, including financial accountability, which stakeholders expect of club owners and officials.

Results and analysis

The following three chapters are concerned with the three key themes arising from the interviews: the role and usefulness of existing football club financial statements; perspectives on FFP; and implications for football club reporting in the future. In these chapters interviewees are identified only by their category; for example, club 1, auditor 2, adviser 1 or GBL 1 (football governing body/league). The only exception to this is UEFA's Benchmarking Manager who is identified by his position.

4. FOOTBALL CLUB FINANCIAL STATEMENTS

Financial reporting is that part of accounting which focuses on communicating with users external to the organisation and is considered to have two basic objectives:

- accountability, i.e. that the accounts should provide information about how effectively and efficiently management has discharged their responsibilities to use and manage the entity's existing resources, sometimes referred to as the control or stewardship objective; and
- decision-making, i.e. that accounts should provide a basis for decision-making (Mellemvik *et al*., 1988).

Financial reporting involves the preparation of general purpose financial statements; these provide information about the position, performance, and cash flows of an entity, supplemented by accompanying narrative information. The primary users are present and potential investors, lenders and other creditors, who use that information to make decisions about buying, selling or holding equity or debt instruments and providing or settling loans or other forms of credit (IFRS, 2013). What has been constructed by standard setting bodies is hence a very specific and limited image of the financial statement user, a rational economic decision-maker.

The majority of interviewees articulated a conventional description of the purpose of a football club's financial statements, for example: 'a snapshot of the company's finances ...and a report of the profitability of the year just gone' (club 2); 'displaying a true and fair view' (auditor 2); and 'provide information for the users of those accounts' (auditor 4). Two auditors also drew attention to the fact that football club financial statements are no more or less useful than financial statements for companies operating in other sectors, drawing attention to wider debates about what role financial reporting should play and the need for forward-looking information (auditors 3 and 5).

What also emerged from the interviews, however, was a strong, but rather limited, emphasis on compliance:

> *We prepare financial statements because we are required to do so. There are obligations placed upon us by the Companies Acts,* [other] *authorities that we must comply with.* (club 3)

> …[from a] *limited company point of view, we're just doing the accounts because we have to do them …it's a box we have to tick.* (club 4)

> *So I would say that it is the ambition of the clubs to comply with the* [accounting] *rules* [and disclosure requirements] *but not one millimetre more than that and you can't blame them for that.* (auditor 3)

Several interviewees stressed the assurance function of financial statements, and the importance of disclosure, emphasising their importance to traditional financial statement users; primarily shareholders, but also suppliers, lenders and customers, as well as in this case regulatory authorities.

> *…from a financial perspective if you're looking at it …who funds the club …be it a bank or principal shareholder, then it provides them with an element of assurance on the results.* (auditor 1)

> *…the key thing we get out a football club's set of accounts* [are] *the debt figures. …not only how much debt …but how it's all structured …Wage costs is something that we obviously look at … because …everything in the P&L account of a football club seems to be driven by that wage cost.* (GBL 2)

In the context of assurance, however, it was also recognised that financial statements may not provide the full picture for some clubs:

> …[accounts] *do not provide full visibility. …They might show that on the face of it,* [the club] *has a real going concern issue …and that might be an issue for suppliers. But …often the financial support available to that entity* [from its owners] *goes above and beyond what's in the accounts.* (auditor 4)

UEFA's Benchmarking Report for 2011 reported that 106 of the 663 reviewed year-end club audit reports contained an adverse, emphasis of matter or qualified audit opinion regarding going concern (UEFA, 2013). Certainly some of these clubs will have had a concentrated ownership structure, that is to say a benefactor owner willing to provide support beyond that evident in the financial statements. Looking ahead, however, the introduction of the new and expanded audit report in the UK (FRC, 2013) and similar developments elsewhere should provide improved visibility and understanding for a company's stakeholders, providing far more insight than the binary pass/fail model of the previous audit report.

Football competitions are peculiar economic activities which rely on individual organisations co-operating under the auspices of another economic unit, a league or governing body, to provide a marketable product (Neale, 1964; Sloane, 1971). Inevitably in such a structure, the failure of one club has implications, sporting and financial, for other competitors therein and may even call into question the credibility and integrity of that competition (Morrow, 2014; Neale, 1964; Vöpel, 2011). Given this, it is unsurprising that the financial statements' role in providing comfort to football governing bodies and leagues in terms of the credibility and sustainability of their competitions was highlighted by a number of interviewees:

> *...the regulatory authorities ...they're interested in* [financial statements] *from a sustainability perspective* ...[they would be] *mortified at the prospect of a club going out of business during a competition.* (club 2)
>
> *...it's important for the credibility of clubs like us and* [for] *the league to show that ...clubs are properly run.* (club 1)
>
> ...[with limited resources] *you have got to hang your hat on the auditors' professional ability to give you the right information. ...the* [best] *thing to do is just to look at the accounts.* (GBL 1)

In contrast to assurance and comfort, limited emphasis was placed on the role that financial statements play in terms of decision-making (Mellemvik *et al*., 1988). For example:

> *...if I was going to buy a football club, I'm not sure I'd start with* [the financial statements]...(auditor 1)

This was attributed to a number of factors, including:

- The limited relevance the notion of a rational economic decision-maker has for many football club users (Morrow, 2013).
- The concentrated ownership structure at interviewees' clubs or clubs that they were familiar with and the lack of share trading (Carlin and Mayer, 2000; Morrow, 2013).

- The peculiar objectives of European football clubs, often encompassing utility and/or revenue maximisation rather than profit maximisation (Arnold and Beneviste, 1987; Cairns *et al*., 1986; Késenne, 2006; Millward, 2013).
- That the motivations of many football investors are ostensibly non-pecuniary (de Ruyter and Wetzels, 2000; Morrow, 1999, 2000; Webb and Broadbent, 1986):

  > *...sensible investors do not invest in football clubs to make money. It's not something that one does rationally, it is about the emotion and about being part of something that is successful on the football pitch.* (auditor 3)

  > ...[the accounts] *are not as important to a club as to a profit oriented business in the normal sense, because often the backers of football clubs have motives and finances beyond what appears in the accounts and are happy to back things above and beyond what might look reasonable based solely on the accounts and normal financial expectations.* (auditor 4)

- The dichotomy between historical statements and an industry with a particularly conspicuous short-term operating context:

  > *...they're already six months out of date.* [They give you an indication] *but you've got to understand the industry, because so much of it is driven by success on the field ...things change too quickly.* (club 1)

- Their lack of emphasis on the true or underlying nature of the business:

  > *...what's more important for a football club is the cash position, not so much the accounting position ...So what you'll see in terms of profit and loss account* [e.g. around players and transfer fees] *is a bit false. (adviser 1)*

  > *...due diligence ...exists because you get very little from statutory financial statements. I mean, somebody who's going to buy an entity, a football club or otherwise, needs to get underneath the operations, the trends, the prospects, a whole host of things which by any stretch of the imagination you're not going to get from statutory information.* (adviser 2)

There was no agreement on the role played by financial statements in terms of wider disclosure and accountability to stakeholders, in particular to clubs' supporter communities. Some interviewees highlighted 'best practice' clubs and the quality of information disclosed:

> *Our financial report is a decent read. …But few read it I suspect. They may read the Chairman's Statement, the Profit and Loss maybe; the remuneration details certainly. But there is* [also] *plenty there if you want to understand what the club is doing, including our social and community engagement.* (club 3)
>
> *…there is quite a lot of interest in them …particularly from the fans* [who] *want to understand as much as they can about the football club. And this is a source of information they can get hold of…* (auditor 3)

Some interviewees, however, questioned whether the type of information and the way in which it is presented - whether by design or default – satisfied the needs of clubs' specialist user groups.

> *…most of the questions that are being asked by the stakeholders and most of what UEFA's trying to achieve in terms of FFP – very little is addressed by the financial statements …* [Those are] *a legal requirement, different by country and it's not really addressing any of the questions I believe that your typical shareholder would have or that UEFA is trying to get greater transparency on. They're just two parallel things which are not joined up in any way.* (adviser 2)
>
> *I think clubs …could do a lot more to explain their financial position to their fans. …I think sometimes they just shy away from it because they don't want to admit …actually …we can't afford* [to do certain things]. *Actually I think they're better to go the other way; explaining, 'well here's exactly what we're doing and why we need to do it' and give some kind of analogy to* [supporters'] *own lives about budgeting.* (adviser 1)
>
> *You've got to be an accounting genius to try and understand what's behind the accounts. …you see assets and liabilities*, [but] *you only see an overview …not the whole picture necessarily. You may not see whether next year's season tickets have already been sold and discounted to a financier, things like that.* (adviser 3)

Tax authorities seem quite interested but again it's not really what's in the accounts that interests them, it's transactions involving players and agents. (auditor 5)

The emphasis on financial reporting as facilitating rational economic action limits the opportunity to explore the social and organisational context in which particular organisations exist and its implications for stakeholder accountability, something which may have particular relevance for football clubs (Morrow, 2013). One of the paradoxes of the increased revenue generation of football, coupled with on-going weaknesses in clubs' financial management has been an increased demand from clubs' supporters for information, control and accountability. While decision-makers in clubs and the popular press understand this desire and are in a position to profit from supporters' attachments to their clubs, the nature of the field within which clubs play means that genuine accountability is not easily achieved by supporters (Cooper and Johnston, 2012).

At one level financial statements are likely to be a useful source of information to some supporters in terms of accountability. However, their potential usefulness is limited by traditional criticisms, most notably their lack of timeliness which results in historical accountability, and the focus on the connection between accounting and the shareholder/lender as the economic decision-maker. This focus inevitably limits the scope of accountability to an economic account (Shearer, 2002; Young, 2006). Thus the financial statements present a narrative of financial performance - often a narrative of failing business in strict financial terms. Other types of information that might be construed as meaningful or useful under an alternative construction of the financial statement user and which may lie at the heart of supporters' relationship with their club are often ignored or peripheral to the disclosure. One example is clubs' social and community engagement, something which is also likely to be of interest to community groups and to facets of government.

However, an opposing view was offered by two interviewees who questioned whether demand from specialist users actually exists in the first place:

I don't think there is a fundamental interest in finance …I think the inevitability of the commercialisation of football is that perhaps fans feel more detached than they'd like to be from their clubs. (club 1)

> *I don't think* [supporters] *have the slightest interest in the accounts. I think they are interested in what 11 players do on the pitch ...in most of these businesses, the clue is probably in the name 'club'.* (auditor 5)

Perhaps more pertinently, those involved on the regulatory side of football, concentrated on a disconnect between substance and form in terms of disclosure. In particular, attention was drawn to the lack of quantity and quality of disclosure on player wages, despite its overriding importance to financial performance:

> *I think sometimes they're intentionally written in a way that is just really, really difficult to* [comprehend]. [We received one set of statements last week] *...and there was one crucial figure in it which was to do with the level of* [salary] *expenditure and it was the one and only area where there were no notes to go with it.* (GBL 1)

The level of disclosure was also highlighted by UEFA in its most recent benchmarking report. It drew attention to the fact that in most countries, financial reporting requirements do not require clubs to break down their employee costs, something which would be of great use in an industry in which total employee costs equate to 65% of revenue, and which it is estimated that 81% of total employee costs are in respect of player salaries (UEFA, 2013, 94).

Summary

Overall, the impression gained from interviewees is that the role of financial statements is limited to that of providing some assurance to some accounts users, both traditional users and football specific users. However, given the financial performance and position reported by so many clubs it is questionable what level of assurance is being provided to users assessing those clubs on a conventional financial basis. Indeed it is precisely those concerns about the lack of profitability and rising debt levels that have been the motivation for UEFA to put in place enhanced financial regulation of its clubs. Moreover, what is emphatically clear is that the limitations of conventional historical financial statements, coupled with peculiarities in the financial and ownership structure of many football clubs, result in annual reports being of little or no use as decision-making tools.

5. FINANCIAL FAIR PLAY

While the starting point for FFP is clubs' financial statements, the principles and detailed rules specified by UEFA suggest that the information is only useful if it prepared or re-arranged, with a particular purpose in mind and with due attention to social and organisational context. From one perspective this approach is not markedly different to that found in other areas of regulated activity, such as utilities. The variety of countries represented through UEFA means that it is necessary to introduce common rules of accounting and presentation to ensure that all clubs are treated fairly. Another interpretation, however, is that this approach is evidence of problematisation. According to Rose and Miller (1992), problematisation exists where existing practice in some area of public policy choice is seen in some way as deficient, leading to the identification of a 'problem' for which an appropriate solution is required. Miller (1991) suggests that for problematisation to take place, particular accounting practices and problems need to be restated or reinterpreted in specific ways – in his terms translated – to provoke support for the view that the problem exists and that it will be corrected by the solution proposed. Miller (1991) suggests translation takes place where particular accounting practices become tied to broader, widely desirable goals such as enhanced accountability and more efficient resource allocation.

Attitudes to FFP

It was universally accepted by interviewees that the evidence available on the financial performance and position of major European football clubs demonstrated the existence of a 'problem' (Miller, 1991; Rose and Miller, 1992). Interviewees talked in terms of: 'a need to get some financial sanity into European football' (club 1); 'saving clubs from themselves' (auditor 3); 'being correct to try and make [clubs] live within their means' (club 4) and 'trying to think about financial viability and stability going forward' (auditor 2). Among the interviewees there was widespread support for the principles underlying the introduction of enhanced (football) financial regulation and broad support for UEFA's 'solution'; the introduction of FFP. There was also broad support for the regulatory approach: its use of an objective starting point (clubs' audited annual financial statements) for regulation; the emphasis on both principles and detailed rules in the FFP framework; and on the restatement and reinterpretation of relevant income and expenditure.

Focusing on the detail of the regulations, there was particularly strong support for the enhanced rules around the monitoring of overdue payables, not least because of the clear relationship with cash, but also due to the importance of preserving sporting integrity within football competitions and perceptions of clubs gaining an unfair competitive advantage. For example:

> *...the overdue creditors rule ...I haven't met one person who would say a word against that.* (club 1)
>
> *Cash drives everything in football - it is essential in terms of the fairness of competition that clubs settle their obligations with the football fraternity.* (club 3)

While the interviews were conducted too early to permit observation on the effectiveness of FFP in practice, several interviewees commented favourably that at least clubs were beginning to 'talk the talk' (club 3) in terms of greater financial discipline. It was also noted by one interviewee that the impact of FFP was important in a more conventional financial investment sense:

> *What is of interest, certainly to the investment community, is the impact of FFP ...*[a lot of questions have been asked] *about the potential impact of FFP ...mainly from a positive perspective of seeing it as the first real mechanism in trying to curb player wage inflation which is the sort of scourge of every investment community when it comes to looking at football clubs.* (club 2)

UEFA has emphasised that its FFP regulations, which are guided by explicit socio-economic intentions specified in the high level principles (UEFA, 2012b, Articles 1 and 2) emerged from stakeholder dialogue within the 'football family' including: the ECA (European Club Association), the body representing football clubs at European level; the EPFL (European Professional Football Leagues); and FIFPro, the worldwide professional organisation for all professional football players (UEFA, 2009). Geey (2011) claims that this process of consultation resulted in a number of concessions being made including the provisions set out in Annex XI (mitigating factors which can be considered by UEFA in respect of the FFP monitoring requirements), and the removal of all infrastructure and youth development costs from the break-even calculation. Stakeholder engagement is offered by UEFA as a key defence that it will put forward should any challenge to its regulations emerge in due course from dissatisfied clubs. Key to this, however, is the commitment of all stakeholders involved in FFP to the attainment of those principles in practice, something which will only become evident as the regulations take effect, and if and when sanctions are applied.

Interestingly, attitudes among club interviewees to the precise nature of that engagement varied markedly (to ensure anonymity, the following quotes have been left unattributed):

> *It is difficult to be critical of the process as everyone – National Associations, the ECA, etc. - had an opportunity to comment and all these bodies employed their advisors to go through it.*
>
> *I think there was an element of engagement. Certainly x was involved through the ECA in …looking at the rules very seriously when they were being drawn up and certainly we had a chance to input before they were signed up by UEFA's executive committee. …So …I don't think we can complain about how much chance we got to give our input.*
>
> *It's great for UEFA to say, look the ECA bought into this and helped us develop the rules.* [But] *it wasn't as if they came to the ECA and said 'what do you think about Financial Fair Play and this break-even rule'? They came with a scheme, this is what we're going to do …*[all] *the ECA* [FFP working group] *managed to do was …put in sufficient* [qualifications] – *extend the timescales, give clubs more time to comply, perhaps water down the sanctions a little bit, certainly in the early years. So we managed to soften it round the edges. But that's very different to saying that ECA were completely compliant in introducing that. That isn't the case.*

In part, however, these responses are reflective of different ownership and governance structures and business models prevalent in Europe's largest football clubs (Gammelsæter and Senaux, 2011). Clubs with more established business models would be expected to be more relaxed about the introduction of FFP, as it presents little threat to the way in which they operate. At the same time these clubs may see FFP as dealing with the moral hazard that arises from clubs which can sustain huge losses gaining a competitive advantage (Storm and Nielsen, 2012). In contrast clubs seeking to challenge established clubs, whether supported by a benefactor owner or otherwise, may well interpret the rules as a barrier to entry and a mechanism to reinforce the status quo in terms of sporting success (Vöpel, 2011).

The break-even requirement

A central aspect of FFP is the break-even result, where financial information is restated in terms of relevant income and relevant costs. The use of the three year rolling average was welcomed by a number of interviewees as a way of militating against the inevitable vagaries of seasonal playing performance and resultant financial consequences (club 5; auditor 5). FFP's emphasis on using financial information to encourage clubs to take decisions which are in the long term interest of football and football clubs, and which reflect the specific social context in which these institutions operate (Laughlin and Puxty, 1983), was also broadly welcomed by club interviewees and by some other interviewees. One interviewee likened it to a system of offering tax relief to encourage certain activities (adviser 1).

> *…it's good that money gets invested into the game, as long as it's around development*, [or] *infrastructure. But not this short term, buy a player; pay a player – unless it's self-financing. …. It's not trying to stop money coming into the game from* [owners]*. If that's going to the right sort of area …that's a good thing.* (adviser 2)

> [Break-even is] *clearly a sound objective; that you shouldn't be penalised for investing in youth development or …local community. …. Similarly, …they wouldn't want clubs to be deterred from investing in their infrastructure. So I think those allowable items are absolutely fine.* (club 2)

One of the auditor interviewees, while in favour of the break-even approach, stressed the importance of ensuring that regulation does not drive negative behaviour or have unintended consequences such as leading to a reduction in investment in community projects (auditor 3). In his view there was a risk that some clubs may seek to reclassify certain cost items in order to meet the criteria, a point also raised by club 1. A more fundamental concern identified was inconsistency between FFP break-even and 'actual' financial viability; something which was considered surprising given that one of UEFA's stated objectives is to protect the long-term viability and sustainability of European club football (UEFA, 2012, Article 2, para. 2(f)). For example:

> *…as an independent auditor, what's inconsistent* [are] *some of the exclusions - to say they want their cake and eat it almost. Look, we'll take out youth development; we'll take out expenditure on*

the stadium and depreciation related to that, those sort of things. Surely that still impacts on the financial viability of an entity? So why would those get excluded? (auditor 2)

A further note of caution was introduced by one of the club interviewees who observed that a break-even type model does not in itself actually encourage clubs to make profit and/or to invest that profit; behaviour which would be considered rational in other industries experiencing such rapid revenue growth (club 2). Some disquiet also emerged about the inputs focus of the regulations, i.e. that all expenditure on 'approved activities' is assumed to be good expenditure, and the risk that, in extremis, this may lead to dysfunctional behaviour:

> [While] *I kind of get the youth bit, I'm not so sure about the stadium bit. ...if they'd maybe been more targeted about it - expenditure to upgrade* [or focusing on] *safety ...or something like that. Whereas if it's all about just, you know, gin palaces for stadiums ...then that's maybe the wrong way to be thinking.* (adviser 1)

> *...there's a risk that people will run football clubs by the FFP rules to the extent that they'll say that infrastructure spending is good, player spending bad and ...they'll perhaps undertake projects that, from a financial standpoint would be nonsensical, but because they're looking at it* [in terms of] *the FFP regulations it will be worthwhile. So they'll be spending a huge amount of capital to get a very small P&L return just because that's permissible, which as a CA is bizarre really.* (club 1)

One interviewee linked this to the risks of the benefactor owner model, where a club's stability and certainty of purpose are wholly reliant on that owner's continued support (Lang, 2013; Morrow, 2012).

> *...an obvious* [risk] *is in terms of allowed income and allowed expenditure. You could break-even but if Mr X* [who] *owns a club decides to invest a mammoth amount in training facilities and infrastructure and then for whatever reason that individual ...decide to stop putting money into the club* [then] *the club can very quickly run out of money.* (adviser 2)

The emphasis placed in the regulations on profit as opposed to cash was commented on frequently. One auditor argued that the lack of complexity in football club working capital meant that in practice sufficient emphasis was afforded to cash (auditor 5), while another observed that over the medium term, cash and profit should be related to each other (auditor 3). However, surprise was expressed by most interviewees that the break-even measure and hence measures of accounting profit had been prioritised over cash flow:

> *I don't think there is any emphasis on cash flow whatsoever. Some of us were lobbying for some cash control measure, rather than profit.* [But] *UEFA had its model very early on and were inflexible in terms of considering* [it]. (club 1)

> *One thing we found slightly surprising …was that* [FFP] *wasn't more cash flow based …Everybody knows a club goes out of business because it runs out of cash, not because it doesn't make profits.* [But] *maybe the trade-off was using the profit and loss account just keeps it very simple and straightforward and hopefully there are enough warning signs if there's going to be problems.* (club 2)

> *Cash is king in football. Other than the focus on overdue payables, which are clearly a function of cash, the answer as to whether there is sufficient emphasis on cash is clearly a 'No'.* (club 3)

Moreover, the lack of direct emphasis on cash may be viewed as surprising given the numbers of European clubs (1 in 7) in respect of which auditors have expressed concern about the validity of the going concern assumption (UEFA, 2013).

FFP challenges

Notwithstanding the broad support for FFP, a number of challenges were identified. The principal concern centred on UEFA's ability and/or willingness to enforce the regulations. This focused on a number of distinct though connected areas including: the politics and political economy of regulation (Hodgkinson, 2010; Moran, 2010) and of football (Olsson, 2011); and possible consequences of regulatory enforcement. For example:

> *The big high profile clubs? I can't believe they'll be excluded unless they want to make examples* [of them] *and it would be really disappointing if they did. And again, that impacts on the efficacy of the competition …if they start excluding the major clubs. …they've*

got to be careful …this sector has attracted a huge amount of investment, there's massive markets out there like …China, the Far East, where there's going to be massive monies coming in to the industry. UEFA will not want to exclude that. (auditor 2)

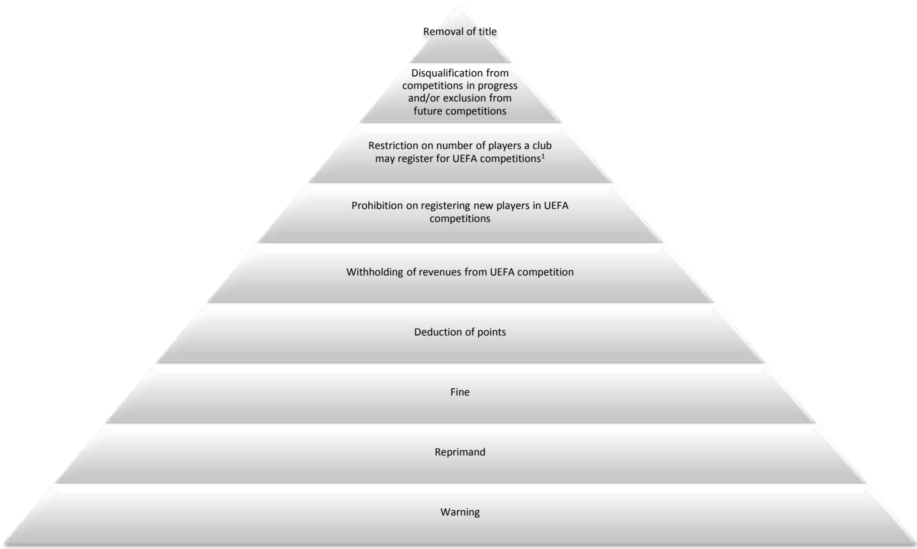
There are some clubs who – in my view – are so far away from being able to comply in the first year or so …, I worry that when UEFA draws up its list and says – you know, Big club x, Big club y etc. - you're all not playing in Europe next season. The danger [is] *that if there's too many on that list, they get together and say, right UEFA, that's fine, we can go and do our own thing and therefore the politics* [will intervene] *at that point in time. So my fear is - will it be implemented properly? And then ultimately obviously, if it's not implemented properly, it's not working and excesses continue.* (adviser 2)

What are they going to do if someone breaks it? Are they going to ban them from Europe for five years …? It would be stuck in the law courts for ever …have the regulators got the money to fight this, let alone the backbone? [And] *if they do fight it, certain fans will be up in arms; if they don't, others will be up in arms!* (adviser 3)

I think the big thing for UEFA will be how they police it and how then they punish clubs. There's a lot of scepticism at the moment when you come to a big club, will they do anything? We've seen what they have done to Malaga[1]*. Now, even when you mention the name Malaga, you always get the response from cynics of, yeah, but …*[what if] *it was Real Madrid or Barcelona?* (GBL 1)

FFP can perhaps best be described as an example of responsive regulation (Ayres and Braithwaite, 1992). Its development has been reliant on dialogue and engagement between the regulator and the clubs and hence the regulations assume a degree of goodwill on the parts of the regulatees (UEFA, 2013). More specifically the provisions in Annex XI and elsewhere give clubs every opportunity to comply with the rules. But at the same time UEFA has set out an enforcement pyramid, moving from advisory and persuasive measures at the bottom, mild administrative sanctions in the middle, through to punitive sanctions at the top (see Figure 5.1).

Figure 5.1 UEFA FFP Enforcement Pyramid (UEFA, 2012c)



Note:

1 Including a financial limit on the overall aggregate cost of the employee benefits expenses of players registered on the A list for the purposes of UEFA club competitions.

Under this type of regulation it is to be expected that UEFA would start at the bottom of the pyramid and assume virtue, that is assume clubs are willing to comply voluntarily (Gunningham, 2010). But where the assumption is misplaced, escalation up the enforcement pyramid will be necessary. Willingness to enforce the regulations is also important in terms of the message it sends to other regulatees and to avoiding accusations of unacceptable leniency by the regulator which could be interpreted as a form of regulatory capture, in turn undermining the regulatory system.

A particular concern around enforcement centred on the logic of using financial fines as penalties in a regulatory system designed to improve the financial capability of clubs. It was suggested by some interviewees that there was a risk that some clubs may see any fine as simply a fee worth paying (Sandel, 2012). For example:

> *What happens if a club stands back and looks at it and says, well it is actually worth just ignoring the fine, taking the penalty? (auditor 1)*

At the same time, a risk of double jeopardy arising from the application of the regulations was also commented upon, i.e. where a club may be punished twice for the same offence.

> [FFP] *is slightly different because this is stopping you playing in a competition which has huge financial implications. You've got a club that's struggling financially and you're suddenly going to take away £10, 15, 20 million of revenue* [from a club] *that would otherwise qualify for the competition and that seems to go against the principles of what they're trying to achieve. ...it's crazy that ...there's a* [financial] *sanction when it's all about financial fair play.* (auditor 2)

In fact the risks of double jeopardy are compounded in that if a club does miss out on revenue through its failure to meet FFP criteria, the nature of the three year rolling break-even calculation means that the reduction in income it suffers will further reduce its chance of meeting the criteria next time round. Hence, there is a risk that FFP could be interpreted as contributing to an outcome precisely opposite to that which UEFA is seeking to achieve.

While there was backing for a regulatory system based upon, but not restricted to, clubs' national financial statements, concerns were expressed around the challenges of regulating across international boundaries. For example:

> *...it's going to be massively difficult to enforce across ...federations. That there will be different reporting standards, different cultures in terms of compliance. UEFA will find it ...very difficult to audit in certain countries.* (club 1)

> *A key concern ...was to ensure that there is consistency across Europe. ...the Premier League has been campaigning a long time* [for], *to just make sure there is a level playing field in the way all these rules and regulations are interpreted across Europe and make sure that ...UEFA are doing a diligent job in auditing what's going on in some of these other countries.* (club 2)

> *You could see a situation where some countries* [regulators] *will go absolutely by the letter of the law and others might – just because of the way things have developed, take a more laissez-faire approach.* (auditor 4)

Some interviewees also sought to extend concerns about the operation of a transnational system of financial regulation, to encompass wider macro-economic, fiscal and environmental issues. For example:

> *How do you apply it to Italy where most of the stadiums are owned by the local authority and …*[clubs get] *a huge amount of support from the local authority? I think* [there is] *a similar situation in Spain where there are a number of clubs outside the top ones who owe huge amounts to the local authorities, huge amounts of taxes owed. Again, how do you* [deal with] *that?* (auditor 2)

UEFA's view on this is quite straightforward: these types of factors, and others such as differential tax rates among countries, are environmental factors that are not the focus of the FFP regulations which are concerned solely with financial performance and position. What was reiterated was that the regulations are not designed to level the financial or sporting playing field, but rather to ensure financial fairness and financial discipline (interview with UEFA Benchmarking Manager).

The issue of 'principles versus rules' has been debated often and at great length in the academic and professional literature and in practice over many years, with ICAS playing a prominent role (ICAS, 2006; Weetman, 2006). In its report into principles in financial reporting, the Global Accounting Alliance (GAA, 2008) suggested that a different terminology should be adopted for principles-based standards; one which emphasised the way financial reporting standards should work. Adoption of such terminology as 'outcome-based' or 'objectives-oriented' has particular resonance for FFP given the explicit socio-economic objectives identified by UEFA in Articles 1 and 2. But FFP regulations also contain a lot of detailed guidance; not least in terms of what constitutes relevant income and relevant expenses. Concern has already been expressed that clubs will adopt avoidance approaches to FFP, seeking to find loopholes in the rules, to comply with the letter of the FFP rules while violating their spirit (Drut and Raballand, 2011; Geey, 2011; Hamil and Walters, 2011; Müller *et al*., 2012). As is accepted in financial reporting as well as in taxation, rules and definitions for things like related parties and fair value, however well-intentioned, are productive sites for creative accounting (Jones, 2010). Examples of this already exist in football with evidence of creative accounting being used to facilitate positive licensing decisions in both German (Dietl and Frank, 2007) and Italian football (Morrow, 2006). Unsurprisingly the risks of creative accounting and the encouragement of an FFP avoidance industry were identified as potential problems.

> *The problem is that with any rulebook there are so many ways to a) interpret it, and b) find routes round it.* (auditor 1)

> *Any law that's passed, the clever solicitors and accountants will find a way to circumvent it (legally, I hasten to add). …I think big spending clubs will have invested some professional money to make sure they can use and abuse it as far as legally possible.* (adviser 3)

> *…because of their complexity,* [FFP] *will inevitably have loopholes which will be open to exploitation and I think there's a huge risk that …when the rules start to bite …that there will be endless expensive litigation either on the part of the clubs that are threatened with sanctions from UEFA or by clubs who feel that UEFA aren't strictly applying sanctions to their competitors.* (club 1)

> *Ultimately if you wanted to* [find] *a way round the numbers, the only obvious way of doing it would be around related party transactions. So you then come back to – well, the numbers are what the numbers are – what are UEFA going to do about it?* (auditor 5)

A number of interviewees broadened the discussion around creative accounting to encompass perceived concerns about UEFA's capacity and competence around technical issues including the determination of fair value and substance versus form in respect of related party transactions, as well as related issues of enforcement (UEFA, 2012b, Annex X, E).

> *This is a potential nightmare! What is fair value? The simplistic view is that it is what someone is prepared to pay? But value can change very quickly, certainly in football - the transfer market shows us that all the time.* (club 3)

> *I suppose they're trying to exclude things that they don't think are* [recorded at] *fair value, which is a very difficult measure because until the transaction* [has] *occurred, what becomes the fair value in the market place? And things like sponsorship are changing all the time. The deal two years ago for one of the major clubs may have seemed quite high at the time but …subsequent deals have shown, actually, that's not as unfair as perhaps first* [thought] *and it just makes good press at the time. So what is fairness?* (auditor 2)

> [That's] *the real concern …*[if] *UEFA are unable to …prove conclusively that elements of income are not truly third party transactions, then I think that would be a real shame. I wouldn't envy their task of trying to establish those facts.* (club 2)

> *I struggle to see without a mega army of auditors costing a huge amount of money they would get anywhere near being satisfied that the spirit of the rules, rather than the rules, are being adhered to.* (club 1)

> *Are the sanctions enforceable and will UEFA try to enforce them? There's then …a grey area in terms of interpretation – it's fairly clear in the rules about related party transactions – but how do you prove that some of these transactions are related and are not at market rates?* (auditor 5)

Despite these concerns, however, confidence was expressed in the technical quality of the individuals appointed to the Investigatory and Adjudicatory Chambers of the CFCB, (see Table 5.1), and in particular, on the independence of those bodies from UEFA itself (Dietl and Frank, 2007; Gouget, and Primault, 2006).

> *One thing that looks sensible is …the CFCB …I think they are recruiting the right quality of people on that. …in terms of communication with the clubs …a commercial understanding of what clubs are doing; it's not going to be just a black and white rules-based decision. It will actually be undertaken by …sensible, commercial, appropriate decision-makers who understand the commercial accounting, understand the financial reporting and therefore, that must over time create a very sensible financial fair play position.* (auditor 2)

Table 5.1 **Membership and background of UEFA CFCB, December 2013**

Investigatory Chamber	
Jean-Luc Dehaene Belgium Chief Investigator of CFCB	Former Prime Minister of Belgium
Jacobo Beltran Spain	Member of Madrid Assembly
Brian Quinn Scotland	Former Executive Director and Deputy Governor, The Bank of England
Egon Franck Germany	Professor and Chair of Business Management, University of Zurich
Umberto Lago Italy	Professor of Economics, University of Bologna
Petros Mavroidis Greece	Professor of Law, European University Institute, Florence
Konstantin Sonin Russia	Professor of Economics & Vice Rector, New Economic School, Moscow
Yves Wehrli France	Lawyer and Managing Partner, Clifford Chance
Adjudicatory Chamber	
Jose Narciso da Cunha Rodrigues Portugal Chairman CFCB	Former Judge at the European Court of Justice
Louis Peila Switzerland	Judge Cantonal, Court of Geneva
Christiaan Timmermans Netherlands	Former Judge at the European Court of Justice
Charles Flint England	Senior Barrister (Financial Regulation and Sports Law)
Adam Giersz Poland	Former Sports Minister of Poland

UEFA itself believes that the risk of creative accounting has been overstated (interview with UEFA Benchmarking Manager). It points out that a great deal of creative accounting is balance sheet focused (e.g. window dressing), while FFP is both profit and loss account-based and determined over a three-year rolling period. The example of impairment charges was used to illustrate this. Under the FFP regulations there was a window in 2011 in which it would have been possible for clubs to increase the impairment charge on the intangible asset of player registrations, thus ensuring lower amortisation charges would be included in the initial break-even calculations (UEFA, 2012b, Annex VII, C.4(d)). However, analysis by UEFA indicated an impairment charge in 2011 across all clubs in its benchmarking report of approximately €100m; a rise from the previous year's €67m, but not in the opinion of UEFA's Benchmarking Manager, a particularly marked increase .

Autonomy, investment and sporting competition

FFP is ostensibly a club-based approach to financial regulation, but one which in some instances reduces the freedom of clubs to take decisions that they may judge as being in their best organisational interests. For example, while FFP makes no judgement on the merits of particular ownership structures, the break-even requirement based upon a comparison of relevant income and expenses, does limit the opportunity for club owners to make ex-post contributions to cover losses or ex-ante contributions other than in respect of specified investment activities (Article 58(2); Annex X), as well as limiting their capacity to take on debt (Annex X; Müller *et al.*, 2012). The break even measure also acts as an implicit salary cap, thus diminishing individual clubs' operational control. FFP regulations also do not fully reflect the consequences of a league acting on occasion as the economic unit, and in particular the different approaches adopted by leagues to things like redistribution of league-wide income over which an individual club has little control. For example, the media rights redistribution model used in the EPL involves clubs making solidarity payments, most noticeably parachute payments to clubs which get relegated, but also league wide charitable contributions. Under FFP, individual clubs are not permitted to deduct any part of these payments in determining their break-even position.

FFP is designed to encourage clubs to focus on longer term investment, in contrast to a business model which has seen every last £ or € of revenue - and often much more beside - expended on player salaries and transfer fees. Equity investment is permitted in the regulations, both in terms of the notion of acceptable deviation (UEFA, 2012b, Article 61 and Annex X, Part C) and where the investment is in respect of items excluded from the definition of relevant expenses (UEFA, 2012b, Article 58 and Annex X, Part C). Nevertheless, concerns were expressed that the regulations would still restrict new investment, something seen as counter-intuitive by several club interviewees, and potentially unenforceable:

I find it quite strange that an industry would bring in a regulation that is essentially restricting investment coming into that industry. (club 1)

There is a risk that it may inhibit new investors coming along and putting money into football. (club 2)

If you've got a private company, then if you're the majority shareholder and you want to put money into the club in whatever way, then why should you be restricted from doing that just because it's football? (club 5)

But it may be that some of those wealthy benefactors say, well it's my business [and] *if I want to put...money in, where does it say in the Companies Act legislation that I can't do? Where does it say a company has to make a profit?* (auditor 5)

The FFP model could be seen as contributing to a loss of autonomy in that 'we are being told how to run our businesses in terms of expenditure and that is unusual to say the least' (club 2). More specifically, one club felt that FFP's apparent focus only on negative consequences of owner investment (e.g. the impact on player salaries), provided a very partial view of the contribution made by such owners in areas like infrastructure and local economic benefits; a contribution that would not have been realised were it not able to be led by investment on the field of play. Beyond narrow self-interest, one club interviewee expressed uneasiness that FFP could act to stifle competition, protecting well-established clubs from being challenged by less well-established clubs (Peeters and Szymanski, 2012; Vöpel, 2011):

...then that could impact on some clubs [which] *have ambitions of growing rapidly because ...to grow rapidly, most people within football believe you need to build up a very, very good team, a strong team and that ...everything sort of drives off that... But to do that needs ...heavy investment in the playing squad and it would just not be possible under break-even.* (club 2)

It will depend on where an individual club is in its ...life cycle... Clubs ...that have strong finances and are doing well...it's not going be a stretch for them to meet the break-even requirements. Whereas another club, for whatever reasons - ownership issues in the past, not a strong enough balance sheet ...they are well behind where they need to be on that – does that put them at a *disadvantage going forward in terms of the things they have to do to get it on the right footing? It puts them further behind. I can see some competitive issues here.* (auditor 4)

One interpretation of UEFA's FFP rules is that they are an attempt to minimise what may be perceived as a source of non-virtuous competitive balance, i.e. where an owner can apparently invest large sums of money in a club and buy success, in turn reducing wider acceptance of the integrity of the game (Lang, 2013). This discussion highlights the centrality of the nature of this economic activity and its participant organisations to FFP and regulation. Are football clubs organisations free to make independent, commercial and financing decisions as their directors, shareholders or members see fit, reaping the benefits or otherwise of those decisions? Or are these organisations that by their shared participation in leagues and other competitions have responsibilities to each other; that by their social nature have responsibilities to their stakeholders and to their communities?

…ultimately what UEFA is saying is …we're not telling you you've got to run your club this way, we're telling you if you want to play in our competitions, you've got to run your club that way. (auditor 3)

You [clubs] *have the autonomy to spend money …but be aware that if we believe that's unfair in a European context, you won't be allowed to play in Europe.* [But] *if getting reduced autonomy means reducing financial doping, bringing you back into a level playing field with the vast majority of other clubs,* [then] *I think that is a good thing …*[that] *we're taking away a bit of autonomy.* (adviser 2)

Summary

Overall, what emerges from this chapter is a widespread acceptance of the rationale for enhanced financial regulation of football clubs, support for many of the specific regulations introduced by UEFA as well as concern over the possible impact of other regulations and their enforceability. In the following chapter, the implications of these regulations for football club financial reporting will be addressed.

6. IMPLICATIONS FOR FOOTBALL CLUB FINANCIAL REPORTING

Transparency and useful information

FFP has focused attention not only on the financial performance and position of clubs, but also on their financial reporting. Clubs must either provide required FFP information within their audited financial statements, or separately under agreed upon procedures, including a requirement for that information to be audited (UEFA, 2012b, Article 47). Given the extra cost involved in this separate procedure, UEFA hopes that the majority of clubs will move towards transparent disclosure of the required information (interview with UEFA Benchmarking Manager). Indeed in its 2011 Benchmarking Report, UEFA commented that 'there is no doubt that club licensing has had a huge impact in improving overall transparency in football over the last ten years' (UEFA, 2013, p. 8).

Several issues emerge from this. Perhaps the most visible is that ostensibly a parallel performance measurement (the FFP result) will exist alongside conventional accounting performance measures. Given that increasing transparency is one of the FFP aims (UEFA, 2012b, Article 2, para. 2(a)), it is interesting that there are no plans to publish the FFP results for individual clubs, although presumably any club which fails the break-even test will be publicised in the same way as those which have failed the overdue payables measures (see, for example, UEFA 2012d).

The merits of enhanced FFP-related disclosure were discussed with interviewees, and again a variety of views were forthcoming. Several were of the opinion that there was little benefit to clubs or stakeholders from providing further information in the annual report. For example:

> *No, it's a separate situation; it's a distraction for most clubs ... I mean, it's another thing they have to comply with.* (auditor 2)

> *It's totally separate. ...clubs may wish to give that information themselves ...*[but] *...it would be very difficult to single out a particular business sector like football clubs and say your financial reporting has got to be different ...they're not a regulated business like banks or insurance companies and I don't see why they should be.* (auditor 5)

> *All you* [would] *find out about is the youth development expenditure which will be broadly similar across* [leagues] *…the infrastructure is in the P&L anyway.* (club 1)

In contrast, one interviewee expressed concern about the creation of a parallel performance measure, in particular, the lack of disclosure and transparent reconciliation to the results in a club's financial statements:

> *…the FFP result will be very difficult to correlate to anything that's in the financial statements. …*[It] *would be interesting …*[if] *the Fair Play calculation became available …But why not make it a public document …each club's calculation?* (adviser 2)

It is also something of a paradox that there will be no disclosure of the adjustments between the two measures (as exists, for example, between statutory and regulatory accounts for utility companies), when for many stakeholders it is precisely in areas like community engagement and longer term facility and youth investment that a particular interest might be anticipated. The feasibility of providing such reconciliation, as well as its potential for encouraging best practice in the field was noted by one of the interviewees:

> *…if the Fair Play returns were generally made public …I suspect that* [clubs] *will develop a communication-based* [tool] *…our income statement in our published accounts shows that we've lost £50 million and yet we're still competing in the Champions' League. So how do we get from one to the other? …I guess it would start by being done in a sort of narrative way. We comply with FFP as described by UEFA because the adjustments in respect of youth, community* [etc.] *are such that we adhere to the rules. And that might then develop into as noted above, we spent £7 million …on youth activities last year* [and here] *is how we spent it. …*[Clubs] *would take this on cautiously,* [there would be a] *temptation to do the bare minimum, but one or two clubs may be bolder and say actually here are the adjustments, you can see from the adjustments that it's because we're doing these good things.* (auditor 3)

The idea of encouraging best practice in this way has similarities with informational regulation, where information on the operation and behaviour of regulated entities is provided to stakeholders, in anticipation of stakeholders applying pressure, where necessary, to comply with regulations which serve the interests of stakeholders (Gunningham, 2002). Most commonly this type of regulation has focused on environmental activities and is targeted at large enterprises, in particular public companies which are vulnerable to investor reaction. However, the very public nature of football and media scrutiny thereof, taken together with the dynamism of some football communities, may make this a powerful form of regulation. Enhanced disclosure may act to energise groups like supporters certainly, but also perhaps stakeholders like media organisations through raising public awareness, to pressurise clubs into acting to take the necessary steps to comply with FFP, in cognisance of their responsibilities to other clubs and to their own stakeholders.

Broader forms of reporting

Weaknesses identified in conventional financial reporting, coupled with the requirements to submit bespoke FFP information, provided the context for a more expansive discussion of reporting on and about the distinct organisations that are professional football clubs.

Over the last couple of decades there has been increased interest in accountants seeking to broaden the scope of accounts beyond something that is exclusively economic in content, searching for ways in which organisations can be held accountable for a broader range of activities and to a broader range of actors (see, for example, Arrington and Francis, 1993; Gray, 2001).There now exists a substantial body of literature around what is termed social accounting, externally prepared accounts of institutional activity or intentions which seek to discharge an organisation's accountability to its stakeholders.

In the wider economy there is considerable interest in the evolution of corporate reporting, and in opportunities to provide broader and more inclusive communication about how organisations operate and are governed and about how this leads to value creation (ICAS, 2012; IIRC, 2013, 2011). Central to concepts like Integrated Reporting <IR> is an appreciation of the various capitals – financial, manufactured, intellectual, social and relationship – that an organisation uses and develops in its value creation activities (IIRC, 2013). Value in this context manifests itself not simply in financial returns, but also in positive and negative effects on other capital and other stakeholders (IIRC, 2013). The very nature of professional football means that there are unambiguous and necessary relationships between participant clubs within competitions, these encompassing financial, sporting and at times, social dimensions. Football clubs can be viewed as cooperative activities:

activities that rely on the coming together of financial, human and social capitals (Morrow, 2003). While the IIRC's focus is on investors, nevertheless there is a great deal in its ambitions for reporting that may have relevance for football in the context of its regulatory developments. The emphasis attached to the context within which organisations operate is an important feature of FFP and is an essential factor in understanding the behaviour of clubs and their stakeholders. The desire to harmonise reporting frameworks, both regulatory and market, is certainly of interest given the divergence between FFP and conventional financial reporting and the apparent weaknesses of the existing model of financial reporting in terms of satisfying user needs. The importance of human and social capital and relationships in football clubs, most notably in the form of clubs' playing staff and supporter relationships, are fundamental to the value of a football club. Interdependencies, albeit between distinct organisational units, are also central to the success of individual units and to leagues, and to ensuring the integrity of competitions. Some interviewees acknowledged an opportunity for improved promotion and accountability given the multi-faceted contributions made by clubs in so many different areas. For example:

> [Broader information on the social role of the club] *is something that should be out there for fans and everybody to see what we are doing. That should impact on the club in the longer term, as well as let people see that we're investing for the future and that we don't have a short-term philosophy.* (club 4)

> *...one of the things we do is encourage firms to think about their total tax contribution ...maybe there's something there about disclosing ...*[a club's] *total football contribution? Yes, you've got a team out on the park in that particular league and that's very relevant in terms of where you come in the table ...*[But] *let's just talk about what more you have done for the wider football community in terms of youth development, supporting kids ...*[all that] *other stuff. What is the financial measure of a football club's contribution to society?* (adviser 1)

One of the club interviewees recognised the potential for a distinct report, separate from but complementing the annual financial report (club 3). As well as providing a mechanism to promote the club's broader activities and role, more instrumentally it was suggested that the report could also contribute to developing the club's relationship with social and political agencies, facilitating a move to enhanced partnership working. Another introduced the possibility and desirability of a SORP for football reporting akin to that for charity reporting:

> *I can see an argument that says …these businesses are not simply about the shareholders, suppliers etc. There's a much wider public interest because you've got this huge fan base and it's a big part of the social fabric of a neighbourhood and …that dictates that there should be a requirement for additional disclosures.* (auditor 4)

The International <IR> Framework consultation draft provides guidance on the preparation and presentation of integrated reports (IIRC, 2013). However, it is clear that the reports are expected to be flexible and organisation specific. Given the diversity of football clubs' ownership and governance structures, as well as the activities they engage in beyond the pitch, this bespoke approach would seem to be appropriate for clubs. The one interviewee (adviser 2) who commented specifically on this, however, offered a different view, suggesting that any move towards broader reporting in football would benefit from being coordinated or lead by UEFA or by national associations, and hence building on the success of initiatives like the UEFA Benchmarking Report (UEFA, 2013). Some interviewees, however, raised concerns about commercial confidentiality in terms of broader disclosure, encompassing both generic and football-specific concerns, the latter reflecting the peculiar nature of competition and co-operation inherent in football leagues:

> *…to a certain extent, there might be nervousness …why some of the clubs wouldn't want to sign up to this. I'm just thinking of an example of a club* [which] *is in a bit of difficulty but managing to trade away. If they were to give a whole lot of information that potential suppliers could see,* [which might show that] *actually they're in more financial difficulty than we appreciated from the financial statements, it could lead to problems with suppliers not wanting to trade with that entity.* (adviser 2)

> *…traditionally many* [clubs] *have been quite secretive and they do like to try and keep as many things from other clubs as they can possibly get away with.* (club 2)

> [But] *there's all sorts of trade-offs there …between the owners and what the owners might feel they want to disclose, how open they want to be; and what their fans would want.* (auditor 4)

The latter two quotes reinforce concerns articulated about the usefulness of existing financial statements, and specifically the risk of a disconnect between the type of information disclosed and that which stakeholders might actually wish to see. The first point reminds us that so much of the narrative surrounding the business of football in recent years had tended to focus on its negative aspects. Central to <IR> is the desire to provide broader communication about what organisations do and how they operate. Hence, an approach like <IR> would require an entirely different mind-set to be adopted, not just by clubs and directors, but also by key stakeholders like supporters and those who mediate between clubs and their supporters, notably the media, about what makes a football club valuable and about the importance of improved accountability. One interviewee was entirely unconvinced that the broader social and community activities and role of clubs was of interest to more than a very small number of dedicated fans (adviser 3). In the opinion of one of the club interviewees, irrespective of what clubs did, innovative moves towards broader forms of reporting would be reliant on changed behaviour within the football media:

> *The Premier League* [is] *a massive revenue generator for the Exchequer …in terms of PAYE, VAT, National Insurance …business rates. And yet it's not given the credit its due for that. …I think* [the] *CSR projects that football does are absolutely fantastic. … We do massive amounts of good and* [if] *you multiply that across the* [leagues] *there's a huge amount of good done. But …you look at the papers and wonder! … The problem is the press are much more interested in the bad news stories.* (club 1)

Summary

Overall, interviewee opinions as to whether the introduction of FFP was likely to have implications for football club financial reporting were something of a dichotomy. Some interviewees saw FFP as simply a necessary regulatory process and as such unlikely to have any discernible impact on clubs' financial reporting; others, believed that financial consequences of FFP coupled with broader interest therein could result in it being a first step towards enhanced disclosure. However, the possibility that FFP might act as a catalyst for broader football club reporting, with greater emphasis on the multi-faceted nature of football clubs' contribution and value and on providing improved accountability to stakeholders, was not widely supported by the interviewees.

7. CONCLUSIONS

UEFA's FFP regulations, a combination of high level principles and detailed rules in which ensuring the sustainability of the European football sector is central, become effective from season 2013/14. Driven by the apparent absurdity of increasingly prevalent losses and escalating debts among major clubs at a time when revenues within the industry continue to show rapid growth, through its FFP regulations UEFA is seeking to provide a framework within which clubs are encouraged to:

- reflect on their financial management;
- adopt a longer-term perspective in decision-making; and
- recognise the implications of their financial behaviour on other clubs and on their various publics.

Since the concept of FFP was first advocated, UEFA's commitment thereto has become ever more apparent in the resources it has devoted to the project in-house, its prominence in external promotion and communication, and in the quality of individuals it has invited to oversee the independent investigation and adjudication procedures associated with the regulations.

Drawing on professional opinion this research project had two broad objectives: firstly, to critically review the requirements set out in UEFA's FFP regulations; and secondly, to consider the implications arising out of FFP for football club financial reporting now and in the future. The distinct nature of the football industry and its clubs mean that there is disproportionate interest in the finances of professional football clubs. The opportunity to draw on the opinions of professional accountants and others with experience of working in and around the business side of football clubs in this research has provided a critical appraisal of FFP and of its possible implications. It has also contributed to debates about the role and effectiveness of conventional financial reporting and of alternative and broader reporting and accountability frameworks. A number of key findings, discussed in detail below, emerge from this research and lead to several policy recommendations.

The requirements set out in UEFA's FFP regulations

Among those interviewed there was widespread acceptance of: the specificities of the business of football; the existence of a financial problem in professional football; and the need for some form of financial regulation therein. In addition there was broad acceptance of the approach adopted by UEFA, including the rolling average break-even model which was seen to militate against the uncertainties of seasonal playing performance and its financial consequences. The determination of relevant income and relevant costs was welcomed by many interviewees as a way of encouraging or incentivising long-term planning and decision-making by clubs.

While indirect measures such as enhanced monitoring of overdue payables were universally welcomed, a major concern expressed by many interviewees was the lack of direct emphasis on cash and on its use and generation. This was seen as surprising, given the fundamental importance of cash in this industry and the number of clubs in respect of which auditors have regularly expressed concern about the validity of the going concern assumption. Widespread concerns were also expressed about the risks of creative accounting and the encouragement of an FFP avoidance industry, due to the use of rules in the regulations, these focusing in particular on the determination of fair value and substance versus form in respect of related party transactions. UEFA's capacity and competence around technical matters and the related enforcement was also raised as a potential issue. Concern was also expressed that the regulations may limit new investment coming into clubs.

The dual nature of professional football clubs - part business, part social institution - means that FFP is perhaps best described as a form of public interest or social regulation. For social regulation to be successful, effective enforcement is necessary (Gunningham, 2010). FFP is an example of responsive regulation, where a great deal of emphasis is placed on dialogue and engagement between the regulator, the clubs and other key stakeholders (UEFA, 2013, 3; 9). This approach allows the regulator to begin by assuming willing compliance on the part of the regulatees and to respond with co-operative measures, only escalating to more punitive or coercive strategies where expectations are not met (Ayres & Braithwaite, 1992; Gunningham, 2010). The challenge for UEFA, and one commented on by all interviewees, is to find the correct balance between cooperation, persuasion and enforcement. As UEFA itself has noted, notwithstanding the involvement of the UEFA family in approving the FFP concept, the real challenge now is for all football's stakeholders to prove that they are willing to act together to achieve its objectives (UEFA, 2013, 9). But in practice it is unlikely that the entire family can or will act together: the economic structure of professional football coupled with the objectives of some clubs and some owners lead one to conclude that not all clubs are rational actors capable of responding to incentives. Hence, enforcement of the regulations becomes ever more crucial.

On this, concern was raised about the logic of using financial penalties in a regulatory system designed to improve the financial capability of clubs. Moreover, if a club was to be denied the opportunity to participate in one of UEFA's club competitions, concerns were expressed about the iterative or cumulative consequences of that decision. That is, fears were expressed that the resultant diminution in a club's income would further reduce the likelihood of it achieving the FFP criteria in subsequent years. Hence, inadvertently FFP could actually contribute to making some clubs less financially sustainable.

As UEFA reviews the implementation and effectiveness of FFP, it is recommended that:

- Greater consideration be afforded in the regulations to cash control measures.
- FFP enforcement sanctions adopted are not financial in nature.
- Further consideration is given as to how UEFA might amend its regulations to avoid a sanctioned club suffering a form of double jeopardy.

Current and future football club financial reporting: The implications of FFP

The characteristics of the football industry - the inter-dependence of clubs, their social significance and community imbeddedness - mean that its nature cannot be fully captured by conventional accounting or finance (Morrow, 2003; Storm and Nielsen, 2012). For example, experiences of clubs in financial distress demonstrate emphatically that these organisations are not treated by society as mere businesses, judged by conventional measures of return, and allowed to flourish or fail simply on the basis of these accepted measures of business success. These are organisations where non-financial issues are as, if not more, important than financial ones – they are too big to fail not in financial terms, but in social terms (Storm and Nielsen, 2012).

In business terms, the majority of football clubs are relatively simple and relatively small business organisations and for the most part accounting for and reporting on their activities is uncomplicated. But FFP has shone a light not only on weaknesses of the business behaviour of some clubs, but also on inadequacies in their financial reporting. Evidence from this study suggests that financial reporting in football clubs is compliance driven; a statutory necessity providing some limited assurance to users like suppliers, lenders and governing bodies/leagues, but offering little meaningful disclosure on key performance indicators like salary costs and little evident benefit in terms of decision-making and wider accountability. Interestingly some interviewees did not see this as problematic, suggesting that football club financial reporting is no more or less useful than financial reporting in other sectors of the economy. However, an alternative interpretation is that presently financial reporting and by extension the accounting profession is complicit in failing to enhance meaningful understanding of the behaviour, performance and value of these unusual organisations.

The FFP break-even result is a key determinant in whether a particular club is licenced to participate in lucrative UEFA club competitions. Although improved transparency is one of UEFA's aims, to date it has not proposed club-level disclosure of FFP information or of the FFP break-even result. Hence, there is no evident intention on the governing body's part that FFP be seen as a movement towards purpose-oriented reporting at the level of individual clubs. There was no consensus among interviewees as to whether FFP has implications for clubs' financial reporting, but given its financial consequences, the licensing decision itself will be of significance to all of a football club's stakeholders. Thus, the financial consequences of any breach of the FFP break-even test, coupled with the attention already afforded to the regulatory initiative by the media and by supporters, may in time result in pressure for enhanced disclosure and accountability.

By focusing attention on longer-term time horizons, the inter-dependence of clubs and the social and political context within which professional football takes place, FFP has drawn attention to the limitations of relying solely on conventional financial performance indicators in respect of football clubs. Moreover, having extended the notion of what constitutes football club performance through the definitions of relevant income and cost, FFP may also in time act as a catalyst for broader and more inclusive reporting, in which the contribution made by clubs and the demands for accountability beyond mere financial accountability are more visibly considered. While the primary focus of integrated reporting <IR> is on investors, nevertheless there is much in the aims and ambitions of the IIRC initiative for reporting that has relevance for distinct organisations like football clubs. In particular, the importance of human and social capital and relationships in clubs and the contribution these make to their value, offer a fascinating site in which to experiment with the preparation of an integrated report. However, while that may be seen as desirable by many football stakeholders, given the reluctance of several clubs to engage in this project and in a generic discussion around reporting now and in future, it is questionable how enthusiastically it would be received by many clubs.

It is recommended that:

- Research is undertaken into the merits and demerits of introducing bespoke financial reporting for football clubs, taking into consideration the distinct nature of football club organisations and their stakeholders.
- As FFP break-even regulations begin to take effect, consideration is given by UEFA, leading European clubs and their advisers to the benefits of disclosing the FFP break-even measure and to requiring clubs to provide a reconciliation between it and reported profit/(loss). As well as providing enhanced disclosure, this would lessen the risk of stakeholders being misled by differences between FFP break-even and 'actual' financial viability.
- That IIRC, ICAS and other interested parties seek to identify a leading football club willing to participate in an integrated reporting pilot/case study.

ENDNOTES

1 The Spanish club, Malaga, was banned by UEFA for two years in December 2012 because of overdue payments to rival clubs and to the Spanish tax authorities. That was subsequently reduced to a year after the club regularised its overdue payables. The club unsuccessfully appealed to the Court of Arbitration for Sport to have the decision annulled or replaced with less severe sanctions (BBC, 2013).

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ABOUT SATER

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Further details about SATER and the ICAS research programme can be found from the SATER and ICAS websites: scottishaccountancytrust.org.uk/research.html and icas.org.uk/research.

David Spence
Chairman of SATER
May 2014

Football activities, both on and off the pitch, are often hitting our news. Despite remarkable revenue growth we have seen numerous well known clubs facing an escalation of player costs, unsustainable debt and clubs suffering financial difficulties, sometimes leading to insolvency proceedings. This has resulted in European football's governing body – UEFA – taking action and introducing Financial Fair Play (FFP) regulations. These regulations are designed to encourage clubs to adopt a more economically rational and sustainable approach to their activities. But will these regulations work and what is the impact on financial reporting for clubs – is the current framework fit for purpose?

This report seeks to address these issues through a series of interviews with finance directors at football clubs, football club auditors, football finance experts and representatives of governing bodies and leagues.

The new regulations, effective for 2013/14, essentially require clubs 'playing in Europe' to report a break-even position, over a rolling period but based on what is termed 'relevant' income and costs. Whilst the findings of this study are largely supportive of UEFA's objectives, a number of specific concerns are raised and recommendations made to UEFA. In addition, the current financial statements produced by clubs were seen as of little or no use, and there was little agreement amongst the interviewees as to whether this would change as a result of FFP.

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