Abstract

As we all know, soccer is one of the most popular games on earth. More than 240 million people around the world play soccer regularly according to the Federation Internationale de Football Association (FIFA). The game has evolved from the sport of kicking a rudimentary animal-hide ball around into the World Cup sport it is today. Records trace the history of soccer back more than 2,000 years ago to ancient China. Greece, Rome, and parts of Central America also claim to have started the sport; but it was England that transitioned soccer, or what the British and many other people around the world call “football,” into the game we know today. The English are credited with recording the first uniform rules for the sport, including forbidding tripping opponents and touching the ball with hands. The idea behind this article, is not to explain the rules of the game, which are well known by people all around the globe, but rather to try and expose a less visible area, the financials behind a football club.

Keywords: FIFA, UEFA, Financial principles, Club

JEL classification: I10, I12, I19

Football clubs are created as non profit organizations, the real idea, in theory being that of promoting the game. Football all around the world, is governed by an entity, called FIFA, which is headquartered in Zurich. FIFA in turn, is the governing body for 6 other dimensions: CONMEBOL, CONCAF, CAF, AFC and finally UEFA, which will be one of our priorities when analyzing football from a financial point of view.

Among the Uefa regulations, set in place with the objectives detailed below, European football clubs are obliged to respect some financial criteria introduced by UEFA under the name of Financial Fair-Play.

Uefa regulations objectives aim:

a) To further promote and continuously improve the standard of all aspects of football in Europe and to give continued priority to the training and care of young players in every club;

b) To ensure that clubs have an adequate level of management and organization;

c) To adapt clubs’ sporting infrastructure to provide players, spectators and

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mediarepresentatives with suitable, well-equipped and safe facilities;
d) To protect the integrity and smooth running of the UEFA club competitions;
e) To allow the development of benchmarking for clubs in financial, sporting, legal, Personnel, administrative and infrastructure-related criteria throughout Europe.

The financial fair play objectives
a) To improve the economic and financial capability of the 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 employees, social/tax 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.

In order for a club to be able to participate in competitions, the clubs must submit a set of financial information to the governing body, in Romania’s case being the FRF and also straightly to UEFA through a platform administered by UEFA personnel.

One article of the requested information is that of the reporting perimeter, which must include the following:
a) the license applicant and, if different, the registered member of the UEFA member association;
b) any subsidiary of the license applicant and, if different, the registered member of the UEFA member association;
c) any other entity included in the legal group structure which generates revenues and/or performs services and/or incurs costs in respect of the football activities
d) any entity, irrespective of whether it is included in the legal group structure, which generates revenues and/or performs services and/or incurs costs in respect of football activities

Side from the reporting perimeter, the club must also include annual audited financial statements.

Also, the club must prove that as of March 31, they have no overdue payables towards other football clubs, towards employees and finally towards the state budget with respect to the previous year and also submit to UEFA a transfer table, irrelevant if they were or not any transfers during the reporting period.
Also, if the club is in breach of two indicators, going concern financial statements disclosure and/or negative equity, negative equity meaning that the net liabilities have deteriorated relative to the comparative figure contained in the previous year’s annual financial statements, or the interim financial statements submitted, license applicant must prepare and submit future financial information in order to demonstrate to the licensor its ability to continue as a going concern until the end of the license season. The future financial information that the club must prepare consists of a budgeted balance sheet, a budgeted P&L, a budgeted cash flow and explanatory notes.

Another concept worth mentioning is the breakeven reporting, which is different from the normal account gap. The breakeven may be defined as the difference between relevant income and relevant expense, UEFA allowing the clubs to recognize only certain revenues and to deduct only certain expenses for the purpose of this reporting. If a licensee’s relevant expenses are less than relevant income for a reporting period, then the club has a break-even surplus. If a club’s relevant expenses are greater than relevant income for a reporting period, then the club has a breakeven deficit.

Deviations from these deficits, are permitted as follows:

The acceptable deviation is EUR 5 million. However, it can exceed this level up to EUR 30 million if such excess is entirely covered by contributions from equity participants and/or related parties. The clubs, are allowed, if they wish so, to also take into account the surpluses from two previous years when calculating the breakeven deficit. For example, if a club is on a surplus of 4 Mil EUR in year T-2, a deficit of 1 Mil EUR in T-1 and a deficit of 2 Mil EUR in T, than the breakeven condition is meet, the aggregate breakeven result being accounted in amount of 1 Mil EUR surplus.

Running a football club

As stated earlier, football clubs are non-profit organizations, but even so, one of the ideas behind building a good team, is not only playing football for the sake of the sport, but also the club’s ability to self-finance itself. In other words, for an investor to be interested in a football club, that club needs to have potential to generate revenues to be able to continue it’s activity without the permanent involvement of the owner.

Usually, the greatest revenues obtained by football clubs are derived from TV rights, which are higher or lower, depending on the country’s economic wealth (for example Italian teams generate more revenue from TV rights than Bulgarian teams), advertising, transfers, sponsorships, gate tickets and last but not least,
winning games. Teams generate revenue if they are performing well and winning games, both in the local championships, and of course, in the international competitions. Another source of revenue for the football teams may be from the youth teams. If a team raises a player up to the first team, and afterwards sells the respective player, the selling team is entitled to a certain percentage of the transactions. Also, if the second club sells the same player, the team that initially coached the player is once more, entitled a certain percentage of the transaction value, this being the principle by which football academies run.

As you can probably tell, the highest expenses incurred by the teams are the salaries paid to football players, money paid to security companies, transportation fees taxes and other expenses. If a football club is able to maintain control on the expenses while having a relatively stable flow of revenues, higher than the expenses incurred, usually it is said that the respective club has a strong financial position. Knowing this, it makes even more sense for the teams to be obliged to respect the financial fair play imposed by UEFA, in order to make sure that the sport continues, in a healthy manner from a financial point of view.

Conclusions

Football is a wonderful sport, with millions of supporters all around the world. By imposing these criteria that are continuously improved, UEFA is ensuring that the football sport in general will have a healthy base in order for it to be able to grow.

REFERENCES

www.historyofsoccer.info
UEFA regulations