

UEFA's Financial Fair Play Regulations: the devil is in the detail

by Tom Serby¹

Introduction

*"The devil is in the detail, and we're trying to get to grips with this devil..."*², the words of Michel Platini, President of the Union of European Football Associations ("UEFA"), in August 2013, commenting on UEFA's Financial Fair Play Regulations ("the Regulations"). The intention of the Regulations is simple: an attempt to restore financial prudence in the operation of the biggest European football clubs. The details of how the Regulations can achieve this are complex. This article will explain the "devilish detail" through an analysis of how UEFA, for the first time in 2014, begins the process of enforcement of the Regulations. The article will consider why the Regulations were introduced, the likely impact they will have on top flight European football clubs and the likelihood of a legal challenge to them.

Background to FFP Regulations

Financial overspending by sports' clubs is not limited to football clubs, but the most egregious examples of financial recklessness over the years have occurred within the ranks of top flight European football clubs. The collapse of one of Europe's pre-eminent football clubs Glasgow Rangers FC in 2012 illustrates that no football club is too big to suffer financial disaster. Commenting on this case a select committee of the House of Commons, the lower House of the UK Parliament, commented that it was "a powerful example of the excesses of professional clubs in competing with one another, and the consequences for their community when mismanagement leads to financial collapse".³

For decades, top flight European football has experienced the curious phenomenon of rising income based on the sport's growing popularity, coupled with increasing financial losses. According to the UEFA Benchmarking Report for the financial year 2011⁴, the income of the clubs play-

ing in the top divisions of the European countries had grown over the previous five years by an average annual amount of 5.6% (more than ten times the average rate of growth of the economies of these countries), to a total of € 13.2 billion. The total revenues (excluding transfer fees) of the "big five" leagues doubled from € 4.2 billion to € 8.4 billion (reflecting partly the increased value of the broadcasting deals secured for television rights).

Meanwhile, Deloitte's published figures for the first decade of the twenty-first century⁵ show that, while there has been steady growth in income terms of the top flight clubs in Europe, aggregate net losses of these clubs has tripled since 2007 to reach € 1.7 billion, with 63% of the clubs operating at a loss in 2011. The major contributing factor to the losses has been the increased spending by clubs bidding against one another to attract a small global pool of the most talented players, in an attempt to engineer success on the pitch. Muller, Lammett and Hovemann⁶ provide an excellent analysis of the "rat race" engaged in by the top clubs all aspiring to partake in the most lucrative competitions by buying success in the shape of exponentially growing transfer fees. Gambling on success in this way inevitably produces losers as well as winners in a financial sense.

Although sporting fiscal irresponsibility is not unique to European football, it has become in recent years a growing problem in the sport. In April 2014, it was revealed in the *Global Sports Salaries Survey 2014*, compiled by the *Sportingintelligence* website and *ESPN The Magazine*, that the English Premiership club Manchester City FC now tops the global wages league for athletes, with the average first team player at the club now paid £ 5.3 million a year (£ 102,653 a week). Second on the list are the New York Yankees, and also appearing on the list of the top twelve highest paying wage earners are the major European football clubs Real Madrid FC, Barcelona FC,

Bayern München FC, Manchester United FC, Chelsea FC and Arsenal FC.⁷

The reason for the presence of many English football clubs in this list is that entrance into the English Premiership League ("EPL") is considered the most lucrative move in world sport, with the latest television rights for the period 2013-2016 concluded by the Premiership on behalf of these elite 20 clubs at £ 3.018 billion, a rise of 70% over the previous deal. Wealthy individuals, "sugar-daddy ownership" in Lang's phrase⁸, tempted by the prestige the EPL offers, buy up clubs, and spend extraordinary amounts of money to buy success. It has been reported that Sheikh Mansour bin Zayed Al Nahyan of Abu Dhabi has invested over five years £ 1 billion in Manchester City FC, just slightly more than Roman Abramovich, the Russian oligarch, has invested in Chelsea FC since 2003. Wealthy owners of clubs in the league below the Premiership, the Football League Championship, go to similarly extraordinary lengths to buy a place in the wealthiest league in world football; a good example being Cardiff City FC. Cardiff obtained promotion into the EPL at the end of the 2012-2013 season at a huge cost. Accounts filed at Companies House for the year ending 31 May 2013 reported an operating loss of £ 30.9 million up from £ 13 million in the previous season. Wages and salaries accounted for £ 27 million compared to £ 18.5 million in the previous year. The BBC reported Cardiff's Chairman Mehmet Dalman admitting that Malaysian businessman Vincent Tan had invested £ 150 million in the club since 2010.⁹

The Regulations' objective is to bring financial order back into European football.

Theoretical justifications for the FFP Regulations

Muller, Lammett and Hovemann¹⁰ summarise that "*la crème de la crème*" of

European football includes a string of clubs with significantly loss-making business models that in “normal” industries, where profitability is the criterion for survival, would fall into bankruptcy”. They refer to the practice of wealthy businessmen bankrolling topflight football clubs as “financial doping”. They argue that there is a theoretical justification for a sporting regulatory body (in this case UEFA) to step in and control the extent of financial aid being used to buy sporting success. They argue that allowing sporting success to be controlled by off the pitch competition to attract the richest “sugar daddy” is a violation of sporting ethical standards and the spirit of the competition.

Dietl, Franck and Lang¹¹ cite some of the characteristics specific to the football industry that tend to increase expenditure by wealthy owners above and beyond what would be the case assuming rational behaviour and a profit-maximising clubs (what Franck calls the phenomenon of overinvestment through revenue dissipation): a strong connection between investment in players and on field success; an “additional exogenous prize” (e.g., UEFA Champions League qualification); and a system of promotion and relegation with a large financial impact attached.

Franck says that the term “arms race” is not really strong enough to describe the extreme amounts invested and hence huge losses incurred in top flight European football; he refers instead to a “zombie race”¹², and refers to the literature on the “too big to fail” phenomenon¹³. Van Rompuy¹⁴ has calculated that, as of September 2012, Spanish football clubs owed the State a combined € 1.3 billion in taxes and social security. There is an expectation that the State will not pull the plug as too much cultural, communal and emotional investment is invested by the Spanish people in football.

It is not just commentators who have called for new regulations to restore greater solvency in top flight football clubs. The clubs themselves cooperated with UEFA in drafting the Regulations, and legislators too have expressed disquiet with the financial culture in football. For example, the UK Parliament (more specifically the House of Commons Department for Culture, Media and Sport select committee) has undertaken two recent enquiries into football governance in the UK, including a review of the so-called Football Creditors rule¹⁵. Under this rule, EPL and Football

League clubs have to pay football creditors before other creditors or face expulsion from the League (which would normally lead to the club’s dissolution). In its latest report, the committee recommended bringing forward legislation to outlaw the rule which it branded “immoral”, but has recommended delaying any new law until the Financial Fair Play rules, which have been introduced into English football (based on, but a variation of, the Regulations), have been allowed to work and are tested.

Football’s regulators were keen, therefore, to bring in rules to attempt to curb the increasing overspending by clubs; but critics have been quick to assert that the Regulations infringe European competition law. Further to the well-known ground breaking decision of the Court of Justice of the European Union (as it is now known) in *Bosman*¹⁶, rules and regulations of sports governing bodies must comply, where the rules have an economic impact which obviously the Regulations do, with European Union law, for example competition law, contained in art. 101 and 102 of the Treaty on the Functioning of the European Union.

In an attempt to analyse the probable effect of the Regulations on competition, the Regulations have been the subject of several academic economic studies. An economic modelling based on the impact of the Regulations by Madden¹⁷ concludes that “*the imposition of FFP makes all parties (fans, owners and players) worse off, primarily because of the adverse impact it has on all team and league qualities*”. Madden argues that the Regulations will deny clubs the benefits accruing from substantial injections of external money.

Peeters and Szymanski¹⁸ conclude that the net result of the Regulations over time will be a fall in the wage to turnover ratio of clubs. They go so far as to characterise the Regulations as a form of horizontal restriction on competition. Vopel and Sass¹⁹ argue that under the Regulations it will be more difficult to build up a new team, thereby consolidating the position of the current top teams, in effect thereby creating a “barrier to entry” to the top table of clubs by aspiring newcomers who will be restricted from taking the route of clubs such as Manchester City FC and Chelsea FC and buying success.

Franck²⁰ posits the contrary view, concluding that when clubs can no longer rely

on large scale cash injections to buy new (and better) players “*restoring efficient managerial incentives*” will result in a better brand of management. “*The time for repeated managerial moral hazard and rent-seeking games in European football is over if FFP comes into action. Football managers will have to concentrate on productive efforts to develop the football business as a whole and in a sustainable way instead of focusing on “payroll-gambling” in a sort of “football casino”*”.²¹

The Regulations: in brief

The Regulations were introduced in 2011 as an extension to UEFA’s existing club licensing system. The principal objectives of the Regulations are defined in art. 2.2 as follows:

- “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 players, 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.”*

Michel Platini has stated that the introduction of the “financial fair play concept”:

“...should not be seen as a call for austerity and a return to the budgets of old. Football moves impressive amounts of money and that is a good thing. Nor is it a question of seeking a utopian distribution of wealth. There have always been clubs that are richer than others and there doubtless always will be. All we want is for clubs – richer and poorer alike – to spend no more than they earn and to balance their books, this being the only sure way for them to survive.”

There is a requirement under the Regulations, in the words of the explanatory document on UEFA’s website²², for clubs to prove that they:

“do not have overdue payables towards other clubs, their players and social/

tax authorities throughout the season. In other words, they have to prove they have paid their bills.”

The other rule introduced by the Regulations is the “break-even” rule, which is the focus of this article. Sanctions for this rule have effect from the 2013-2014 season, and it is a requirement for clubs to balance their books over the two preceding years (increasing to three years from 2014-2015) between income from football related activities and expenditure (for example players’ wages and transfer fees). Art. 58.1 of the Regulations states:

“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.”

The break-even rule is subject to a number of exceptions:

- exemptions for expenditure on stadia/training grounds and development of youth sections/academies;
- contracts with players signed before 2010 are not included (for the first two seasons under consideration);
- an “acceptable deviation” is possible, currently € 5 million over the previous two years, or up to € 45 million if the shortfall is covered by equity investment (i.e. subsidy by a wealthy owner), reducing from 2015-2016 to € 5 million or € 30 million (equity) over the previous three seasons.

One potentially complex area of the Regulations, which is discussed further below in the context of specific clubs such as Manchester City FC and Paris St Germain FC, is how the break-even rule is affected by sponsorship of a club by a party related to the club’s owner(s). In essence only to the extent that the sponsorship represents good value based on a hypothetical “arm’s-length” transaction can it count towards income. UEFA’s description of the rule is as follows:

“If a club’s owner injects money into the club through a sponsorship deal with a company to which he is related, then UEFA’s competent bodies will investi-

gate and, if necessary, adapt the calculations of the break-even result for the sponsorship revenues to the level which is appropriate (“fair value”) according to market prices.”²³

The overall intention of the break-even rule is to limit the amount of financial assistance a wealthy individual can extend to a club, in other words to restrict “financial doping” and the role of the “sugar daddy”. Competition on the field, rather than competition off it to secure a wealthy backer should determine clubs’ success under the Regulations.

The Regulations bind all clubs eligible for competition in UEFA’s European competitions, the Champions League (in which the previous season’s higher placed clubs in the highest domestic divisions in each European country compete) and the Europa League, for the second tier of best performing clubs.

A club taking part in a European competition must submit the required licensing documentation to their national football association. Investigation into compliance with the Regulations can be requested by UEFA’s Club Financial Control Panel (“CFCP”), who have the power to conduct audits of the clubs in order to verify whether the correct licensing decision was reached by the domestic association, and if necessary impose sanctions. These sanctions are various and at the discretion of UEFA, the most serious sanction being a ban on a club from taking part in the Champions League, which if applied would naturally have very significant financial consequences for a club (under the latest broadcasting deal for UK TV rights for Champions League and Europa League matches BT Sport has agreed an exclusive deal with UEFA worth £ 897 million over three years from 2015-2016 season; and currently each of the 32 clubs participating in the Champions League group stages receives £ 7 million plus £ 396,000 each match played).²⁴ Other, lesser, sanctions that UEFA may impose for a breach of the Regulations include fines and points deductions, and prevention of registration of new players for UEFA competitions or a reduction in the squad size permitted for a European competition. UEFA’s general secretary, Gianni Infantino, has stated:

“We would bar clubs in breach of the rules from playing in the Champions League or the Europa League. Otherwise, we lose all credibility.”²⁵

UEFA has already shown its resolve, through imposition of tough sanctions (fines and exclusion from UEFA competitions) against Turkish clubs Besiktas and Bursaspor, and Hungarian club Gyori for breach of the other aspect of the Regulations, failing to pay creditors as debts fall due (decisions upheld by CAS). However, these clubs are not the top flight clubs that fall under the scrutiny of the break-even element of the Regulations.

As stated above, the Regulations have led to individual member country associations, for example the Football Association, football’s governing body in England, agreeing their own version of Financial Fair Play Regulations for the EPL and separately for the Football League.

Spotlight on the Manchester City FC and Etihad Airways relationship and the case of Paris St Germain FC

Following UEFA’s announcement by its General Secretary, Gianni Infantino, earlier in 2014, that 76 clubs, almost a third of the total 237 involved in European competitions, were being investigated by UEFA on suspicion of contravention of the Regulations, Alasdair Bell, UEFA’s legal affairs director, commented that UEFA was expecting legal challenges to be made by clubs but articulated UEFA’s stomach for the fight: “We are not afraid of [UEFA decisions] being contested,” Bell said. “We fully anticipate there will be challenges – it would be strange if there weren’t. July and August could be a busy time.”²⁶ Mr Bell added that any clubs exceeding the break-even requirements by more than 20% faced the strictest sanctions of withdrawal of up to five players from their 25 strong UEFA competition squads with repeat offenders facing outright disqualification the following season.²⁷

Two clubs in particular, Manchester City FC and Paris St Germain FC, were highlighted in media reports in early 2014 as significantly non-compliant with the Regulations. In the case of both clubs the spotlight has been on sponsorship deals by parties related to the owners, which under the Regulations, as discussed above, must be assessed in terms of their “fair value” in order for the income to count towards balancing the clubs’ books. In 2011, a multi million pound sponsorship and naming deal was agreed between Manchester City FC and Etihad Airways, owned by the Abu Dhabi government, whose ruler

Sheikh Khalifa is the brother of Manchester City's owner, Sheik Mansour. At a conservative estimate, the deal is reputed to be worth £ 350 million over 10 years. In the case of Paris St Germain FC, a £ 167 million a year contract with the Qatar Tourism Authority attracted the scrutiny of UEFA's Club Financial Control Panel.

Manchester City FC's 2010-2011 accounts announced a loss of £ 99 million and the players' wages bill stood at the unfeasibly high level of 114% of its turnover; while around the same time Paris St Germain spent £ 127 million on recruiting some of the sport's global superstars, Ibrahimovic, Silva and Lavezzi. Manchester City FC's 2012-2013 accounts showed a loss of £ 52 million and represented a slight improvement, but this was largely down to a deal selling the players' image rights for £ 47 million, which many have criticised as creative accounting designed to work around the Regulations.²⁸ Manchester City FC's 2012-2013 accounts were published in January 2014, four months before the CFCP's anticipated announcement, due in May 2014, regarding breaches of the Regulations. Khaldoon Al-Mubarak, chairman of Manchester City, was quoted as saying,

*"I am very comfortable, very confident with our financial operation and our understanding of the UEFA rules."*²⁹

As has been stated, the Regulations provide at art. 58 to 63 that, under the break-even requirement, the only income that counts is pure footballing or "operating income", in effect, gate receipts, revenue from broadcasting deals and sponsorship. It is commonly accepted that sponsorship is footballing or operating income as it relates to payment for the goodwill arising from the footballing activities of the club. As Nixon³⁰ points out, such sponsorship income is quite different to income from a side-line business, such as hotel or property purchases, which could not be included in a club's operating income. And yet, the Etihad sponsorship, which included naming rights for Manchester City FC's stadium, was perceived by many as a strategy for circumventing the break-even rule. When compared, however, to sponsorship and naming rights secured by other large clubs, Manchester City FC argued that the sponsorship was "fair value".

To determine this question, the issues to be decided by UEFA's Club Financial Control Panel are as follows:

- 1 Is the sponsorship a related party transaction ("RPT")?
- 2 If so, is the deal concluded on a "fair value"? To answer this the Panel would need to break down the deal into its constituent parts, as the sponsorship covered three separate elements and did not specify their respective proportions:

- a (re)naming rights for the Etihad stadium;
- b shirt sponsorship; and
- c development of the Etihad campus.

A benchmarking exercise would be required to apportion the three strands of the deal, and comparators would then need to be sought, in relation to e.g. shirt sponsorship deals. This exercise is, of course, fraught with difficulty. So many imponderables are present. The benchmarking exercise would need to posit the chances of the club competing in the highest competitions (e.g. the Champions League) in future years, since this would affect the club's goodwill on which the value of the sponsorship deal is predicated; and in the case of a long fixed term deal, such as Manchester City FC's, an estimate would need to be taken of the commercial value of the deal in ten years time; clubs would no doubt point to the exponentially growing TV deals etc., to justify long term deals which may appear in the short term as excessive. The imponderables make the sport's core commercial currency, and hence the "fair value" of sponsorship deals very difficult to value.

RPTs are dealt with at Annex X, section E of the Regulations at pages 83ff.³¹ The relevant part is at Annex X (E.2), which states:

"2 A person or a close member of that person's family is related to a reporting entity if that person:

- a has control or joint control over the reporting entity;*
- b has significant influence over the reporting entity; or*
- c is a member of the key management personnel of the reporting entity or of a parent of the reporting entity."*

It can be seen that terms such as "significant influence" and to a lesser extent "key management personnel" are terms of art

rather than science. Given the enormous amounts of money involved, it is highly foreseeable that clubs will have spent considerable amounts on legal fees already negotiating with UEFA's CFCP the effect of these words.

Obviously, only if the sponsorship is a Related Party Transaction ("RPT") need the issue of "fair value" be addressed. In relation to this question Annex X (E.7) of the Regulations state:

"A related party transaction may, or may not, have taken place at fair value [...] An arrangement or a transaction is deemed to be "not transacted on an arm's length basis" if it has been entered into on terms more favourable to either party to the arrangement than would have been obtained if there had been no related party relationship."

In reality, UEFA's CFCP might well invert the questions and first assess whether a sponsorship deal represents fair value before addressing the first question, i.e. is it a RPT? Of course the two are linked because, if "fair value" is not present, then surely this is evidence of a RPT?

In May 2014, it was widely reported that nine clubs had agreed to accept sanctions for breach of the break-even requirement of the Regulations. Both Manchester City FC and Paris St Germain FC were reportedly facing fines (€ 60 million over three years) and a reduction in squad size (25 to 21) for European competitions, coupled with a cap on their wage bill. Failure to agree the sanction by either club would mean the matter being passed to the Club Financial Control Body's Adjudicatory Chamber, chaired by the Portuguese judge José Narciso da Cunha Rodrigues, leading potentially to an even harsher punishment, such as exclusion from the Champions League. The Court of Arbitration for Sport would hear any appeal from that body over the summer so as to minimise disruption to the 2014-2015 season.

The Regulations provide for a challenge within ten days of a formal sanction being imposed by any other club on the grounds that the sanction is unfair (i.e. not harsh enough). However, any argument by a rival club that a Champions League ban should be the consequence of a breach is counter-productive as it would diminish the brand if the biggest clubs are ineligible, and it ignores how complex the Regulations are. Arsène Wenger's³² call

for clubs to be banned where they breach the Regulations: “You would think that you accept the rules and you’re in the competition, or you don’t accept the rules and you’re not in the competition” might be ascribed to gamesmanship.³³

Can the Regulations have an impact and will they withstand any legal challenge?

The Guardian newspaper’s review of all EPL club accounts for the 2012-2013 season, published on 1 May 2014³⁴, concludes that clubs paid their players and other staff a record £ 1.8 billion in 2012-2013, up 11% on the previous year; and that, despite a combined income of £ 2.7 billion, the clubs as a whole made an aggregate loss of £ 291 million. With five clubs losing £ 50 million or more (Aston Villa, Chelsea, Liverpool, Manchester City and Queens Park Rangers) twelve of the twenty clubs made a loss in 2012-2013. The report concluded that the EPL clubs’ net debt increased to £ 2.4 billion in 2012-2013, from £ 2.2 billion in 2011-2012. This analysis obviously calls into question the impact that the Regulations have made to date, at least in the EPL. Not surprisingly, UEFA’s take on its own “Club Benchmarking Report: 2013/14 season”³⁵ was more upbeat in regard to the signs that the Regulations were beginning to make a positive impact on club solvency. It remains to be seen whether actual sanctions for breach of the Regulations will engender any change in the overspending culture.

The European Commission supports the Regulations; however, this is no guarantee that the Regulations’ legality would be upheld in court. Jean-Louis Dupont (the lawyer who successfully represented Bosman) is instructed by player’s agent Daniel Striani in a claim before the European Court, commenced in 2013, seeking a declaration under art. 101 of the Treaty on the Functioning of the European Union that the Regulations infringe EU competition law as they create “a barrier to entry”, and consolidate the position at the top of the table of the existing top clubs, as well as depressing the wages of footballers (and of course their agents). It was also reported in February 2014 that Shaun Harvey, the Chief Executive of the Football League (representing the three highest divisions in English football behind the EPL), had written to all Football League clubs promising to maintain the Football League’s own FFP rules:

*“The League has received a letter from Brabners solicitors on behalf of several unnamed Championship (and one League One) clubs which raises a number of issues including the potential of a legal challenge.”*³⁶

Paragraph 4.7 of the Commission’s 2007 White Paper on Sport,³⁷ acknowledges robust licensing systems as a “*tool for promoting good governance in sport*”; and UEFA, of course, argue that the Regulations, in seeking to curb excessive debt, represent good governance. The question for the Court would be whether the Regulations represent a proportionate way of

achieving the outcome of greater fiscal prudence. Other measures that might have been followed to introduce better financial control would include salary caps, as is the case in cricket in both the Indian Premier League and English professional cricket, and, indeed, in the EPL’s own Financial Fair Play Regulations ratified in April 2013. Critics of the Regulations have argued that the focus on “*over generous*” backers is wrong and that the Regulations completely ignore the more serious issue of owners of clubs, such as Portsmouth FC, Birmingham City FC and Manchester United FC, unscrupulously using clubs for their own financial ends.³⁸

Conclusions

UEFA have worked closely with the clubs, both in introducing the rules, and in implementing them for the first time in May 2014. In 2010, Michel Platini, President of UEFA, worked with the European Club Association in drafting the Regulations and accepted changes to them at their instigation.

The Regulations contain a “settlement” option allowing individual clubs ten days to negotiate the finding of the CFCP. The choice of a fine (€ 60 million over three years) and reduction in squad size (25 to 21) for European competitions coupled with a cap on the wage bill as a penalty for Manchester City FC and Paris St Germain FC is an indication that the Regulations are to be implemented gradually.

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- ³⁴ D. Conn, *Premier League clubs paid record £1.8bn in wages in 2012-13 season* (2014), available at www.theguardian.com/football/2014/may/01/premier-league-clubs-record-wages.
- ³⁵ www.uefa.org/protecting-the-game/financial-fair-play/index.html.
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