

The break-even requirement

The financial fair play requirements will apply to clubs entering UEFA competitions. The cornerstone is the break-even requirement, the basic premise being that a club should not spend more than the income it generates.



Paul Rawnsley,
Director

The break-even requirement will first apply for the financial statements for the reporting period ending in 2012. For a club with a reporting period ending 30 June this means its financial results for the year from 1 July 2011 will be the first to be assessed, for the 2013/14 UEFA competition season. Smaller clubs, being those with income and expenses below €5m, will be exempt from the break-even requirement.

Calculating the break-even result

A club's break-even result for a reporting period is calculated as the difference between relevant income and relevant expenses, as defined in the UEFA Club Licensing and financial fair play Regulations. A club's management must prepare the calculation based on, and reconciled to, their annual financial statements and underlying accounting records. For the vast majority of clubs, this should be a relatively straightforward exercise.

Illustrative example of assessment of the aggregate break-even result for Any City FC for the UEFA competition season 2017/18

	Reporting period			Aggregate €m
	T-2: 30.6.15	T-1: 30.6.16	T: 30.6.17	
Break-even surplus/(deficit)	(15)	5	(10)	(20)
Amount of surplus for T-3 and T-4 (if any)				5
Adjusted aggregate break-even result				(15)

Other information: The aggregate break-even deficit exceeds €5m, but the excess is entirely covered by unconditional contributions from equity participants and/or related parties that have occurred and been recognised. **Conclusion: Fulfilled**

In summary, relevant income includes all revenue streams, player transfer disposals and finance income. Relevant expenses include the cost of player transfer acquisitions, finance costs and all types of expenditure by a football club except depreciation of tangible fixed assets (e.g. the cost of stadium and training facilities), expenditure on youth and community development activities, and tax on profits.

The regulations also define other necessary adjustments, albeit such transactions are expected to be unusual. For example, transactions with related parties must be adjusted to reflect their fair value, non-football operations obviously not related to the club must be excluded, as must non-monetary credits and debits.

A multi-year approach

Fulfilment or non-fulfilment of the break-even requirement is assessed using a multi-year approach. The aggregate break-even result is the sum of the results of three reporting periods, being the reporting period ending in the calendar year that the UEFA competitions commence (referred to as reporting period T), the reporting period ending in the calendar year before commencement of the UEFA competitions (T-1), and the preceding reporting period (T-2). If the aggregate break-even result is negative, then the club may demonstrate that the aggregate deficit is reduced by a surplus (if any) resulting from the sum of the preceding two reporting periods (i.e. reporting periods T-3 and T-4).

If the aggregate break-even result is positive then the club has fulfilled the requirement. If the aggregate break-even result is negative (below zero) then the club has an aggregate deficit. The regulations define a tolerable level of deficit for a club, with the acceptable deviation being an aggregate deficit of no more than €5m. The regulations do allow the club to have an aggregate deficit greater than €5m, but only if such excess is entirely covered by unconditional contributions from equity participants and/or related parties. For the seasons 2013/14 and 2014/15 an aggregate break-even deficit of up to €45m, if covered, is allowed. For the seasons 2015/16, 2016/17 and 2017/18, an aggregate break-even deficit of up to €30m, if covered, is allowed. For season 2018/19 and onwards, a lower level will be set by UEFA.

If a club has not fulfilled the break-even requirement, and having considered some "other factors" as defined in the regulations, a club may be sanctioned (such as a warning, fine or exclusion from future UEFA competitions). It remains to be seen how UEFA's disciplinary organs will apply sanctions to cases of non-compliance.

The Sports Business Group at Deloitte provided assistance to UEFA for the development of the financial fair play requirements.