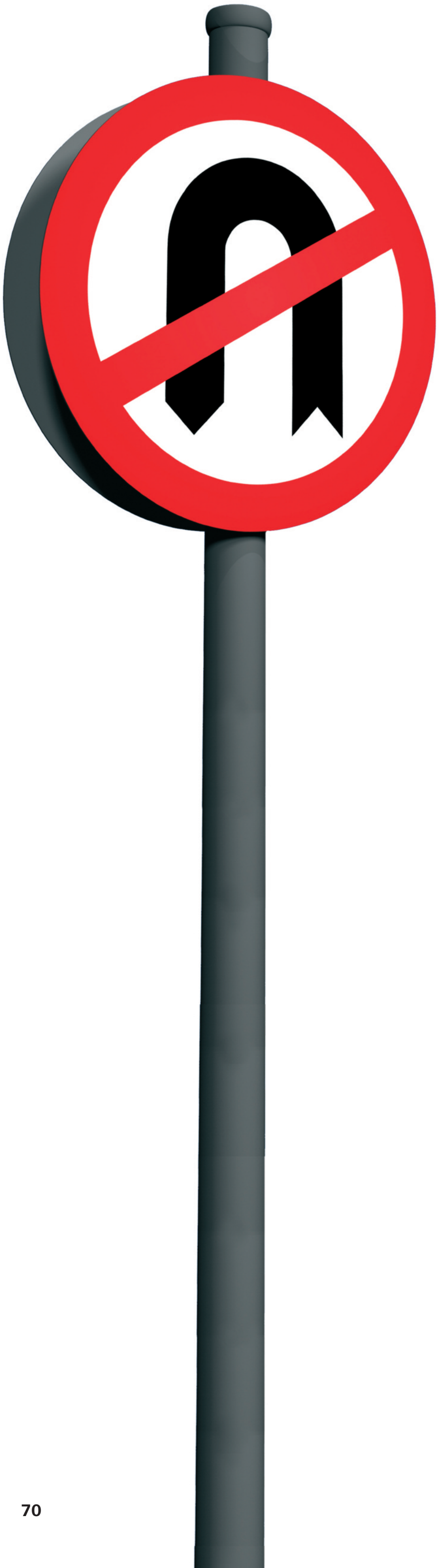
The road to compliance



The break-even requirement, the cornerstone of UEFA's financial fair play regulations, aims to help clubs across Europe to achieve a more sustainable balance between their costs and revenues and encourages investment for the longer-term benefit of football.

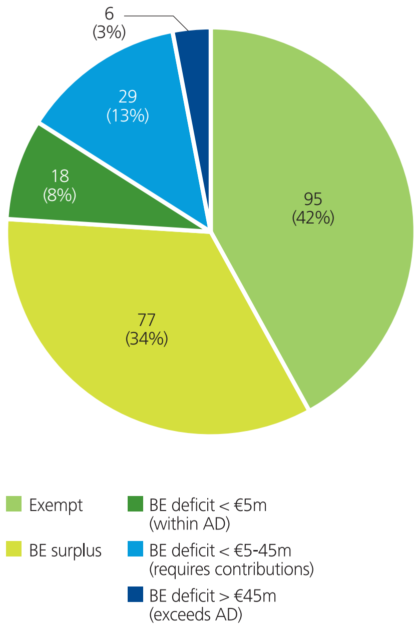
Paul Rawnsley,
Director

The break-even requirement will first apply to the 236 clubs in UEFA competitions for the 2013/14 season, including assessment of each club's financial results for their reporting period ending in 2012. Clubs with small levels of income and expenses are exempt.

A club's break-even result for a reporting period is the difference between income and 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 audited annual financial statements and underlying accounting records, having first determined the relevant reporting perimeter. The Regulations define necessary adjustments, such as transactions with related parties to be adjusted to reflect their fair value, treatment of the disposal of a stadium or other asset, and items to be excluded such as non-football operations obviously not related to the club and non-monetary credits and debits. For the vast majority of clubs this should be a relatively straightforward exercise, aided by using the IT solution provided by UEFA.

Following transitional implementation, the aggregate break-even result will be the sum of three reporting periods (T, T-1 and T-2), plus the surplus (if any) of the preceding two periods (T-3 and T-4). If a club has an aggregate break-even surplus, or a deficit which is within the acceptable deviation, then the break-even requirement is fulfilled. Initially, the acceptable deviation (AD) is €5m, or up to €45m if the excess over €5m is covered by unconditional contributions from equity participants and/or related parties. This upper threshold will reduce to €30m from 2015/16, and a lower amount (to be defined) from 2018/19.

Aggregate break-even (BE) result for 2008-10, for clubs in UEFA competitions in 2011/12



Note: The calculation of break-even results for this simulation exercise are subject to various assumptions and limitations as set out in UEFA's report. The simulation exercise relates to 225 of the 236 clubs qualified for the 2011/12 UEFA competitions.

Source: UEFA Benchmarking Report Financial Year 2010; www.uefa.com

To be clear, and in accordance with the principles agreed by the European football family, the Regulations do not impose a limit on owner investment, but do seek to limit a club's losses over time whilst encouraging owner funding to be directed more towards spending on facilities and activities for the longer term benefit of football.

The results of a simulation exercise set out in UEFA's latest Benchmarking Report, using clubs' financial results for reporting periods ending in 2008-10 (i.e. before the implementation of the break-even requirement), illustrate that 35 (16%) of the clubs in UEFA club competitions for the 2011/12 season had an aggregate break-even deficit greater than €5m. Of these, 12 clubs had an aggregate deficit within the €45m upper threshold which was also covered by contributions, leaving 23 clubs from across Europe that appear not to satisfy the break-even requirement if the Regulations had already been in place. In future, such clubs will be subject to further scrutiny by the Club Financial Control Body (now the relevant decision-making disciplinary body within UEFA's governance structures) which may result in sanctions that may include financial sanctions and, ultimately, exclusion from UEFA's competitions. The well-established club licensing system has already pointed the way.

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Whilst subject to some limitations, the simulation exercise does indicate that a significant number of clubs around Europe have some distance to travel on the road towards compliance. For many clubs there is a renewed focus on increasing revenues and the cost-side of the business model of some clubs also needs adapting. The Regulations can help clubs in their negotiations to better rationalise their player costs (both wages and transfer fees), limiting inflationary increases and, we hope, implementing pay structures that are more strongly based on a club's on-pitch results and the consequent financial implications.

UEFA has laid strong foundations and will continue to provide more guidance and education for those involved in the detail and for wider public interest in the most significant regulatory development in the recent history of European football.

The Sports Business Group at Deloitte is providing assistance to UEFA for the development and implementation of financial fair play.