FINANCIAL FAIR PLAY EUROPE AND ITALY

Bocconi University, 12 January 2016

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Chief Executive Officer - Italian FA
What we will cover today

1. The specialness of the football industry

2. The FAs role as “regulators” to ensure sustainability
   a. UEFA regulations
   b. Italian National Licensing

3. The way Football Associations can drive growth among professional football clubs
FOOTBALL’S SPECIALNESS is driven by “complementarity”

**Competition**: the main feature of any commercial market.

**Complementarity**: the main feature of the sport industry.

**In normal industries**

Each competitor reduces market penetration

**In football**

Competitors need each others to create the product and increase its value

**Complementarity** is the unique feature of football that makes it different from any other industry. *The higher is the balance among competitors and the higher is the value of the product.*
The main ROLE OF FAs is to guarantee sustainability

Complementarity means sustainability

National Associations must guarantee the economic, financial, social, and, most of all, sporting balance of league clubs, enhancing their value in terms of:

- Football show
- Management
- Development
- Legacy
- Business
- CSR

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ITALIAN FOOTBALL PYRAMID

National Teams

Leagues
Professional and amateur clubs

Youth and School Sector

Matches played
184

Official matches played every year
600,000

FIGC direct competence

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FOOTBALL is experiencing a UNIQUE economic improvement compared to the real world

In the last 19 years, European top division football clubs have grown of 559% reaching revenues for 15.9 billion euros.

The football clubs of the 54 European top divisions experienced a 9.5% average per year increase in revenues, the European Union Gross Domestic Product increased by 3.2% only

Serie A football clubs experienced a 6.1% average per year increase in revenues, while the Italian Gross Domestic Product increased by 1.9% only
...However there is a crisis of the system structure, due to debts, personnel costs and economic losses.

**Increase of the personnel costs**

664% increase in 19 years  
Average 10.5% per year

**Increasing losses**

Since 2008, the 54 European top division football clubs have produced €7.5b bottom-line losses, while Serie A produced €1.5b bottom-line losses.

**Main causes:**

- Poor managerial vision
- Financial instability
- Poor attention to long-term investments
- Unbalanced competitive opportunities

**On a yearly average, revenues increased by 9.5% (6.1%) while personnel costs increased by 10.5% (7.2%)**
UEFA has been a pioneer in this field. The rules introduced through Club Licensing (since 2003) and Financial Fair Play (since 2010) have achieved excellent results in 5 areas:

- Sport
- Infrastructure
- Personnel and administration
- Legal
- Economics and finance

Underpinning sustainability is a clear set of RULES

Europe and Italy have introduced dispositions to regulate and control the system.

**Keyword: Rules**

UEFA Club Licensing (since 2003)
UEFA Financial Fair Play (since 2010)
Focus on UEFA REGULATIONS

UEFA Club Licensing
UEFA defines minimum quality standards in 5 categories, and the grading scale of each criteria:

⭐ Sport
⭐ Infrastructure
⭐ Personnel and administration
⭐ Legal
⭐ Economics and finance

Financial Fair Play

- Clubs must not repeatedly spend more than the revenue they generate, which means they must break-even over a three-year period
- Enhancement of no overdue payables rule towards football clubs, employees and/or social/tax authorities
- Enhancement of long-term investments in youth sectors, infrastructures and social activities
- Enhancement of future financial information and plan for compliance

Issue
Mandatory for clubs participating in UEFA European competitions only (about 240 clubs out of the 716 that take part in the 54 European top divisions)

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Deep dive: FINANCIAL FAIR PLAY RESULTS

Impact

Recent evolution of European top division football clubs’ revenues and wages (percentage growth per year)

<table>
<thead>
<tr>
<th>Year</th>
<th>Wages</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>+3.2%</td>
<td>+6.0%</td>
</tr>
<tr>
<td>2010</td>
<td>+3.2%</td>
<td>+5.2%</td>
</tr>
<tr>
<td>2011</td>
<td>+9.1%</td>
<td>+6.9%</td>
</tr>
<tr>
<td>2012</td>
<td>+6.7%</td>
<td>+4.3%</td>
</tr>
<tr>
<td>2013</td>
<td>+6.7%</td>
<td>+3.0%</td>
</tr>
<tr>
<td>2014</td>
<td>+5.8%</td>
<td></td>
</tr>
</tbody>
</table>

Results since 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating profit</th>
<th>Net result</th>
<th>Equity</th>
<th>Overdue payables</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>-€ 0.4b</td>
<td>-€ 1.7b</td>
<td>€ 3.3b</td>
<td>€ 57m</td>
</tr>
<tr>
<td>2014</td>
<td>€ 0.8b</td>
<td>-€ 0.5b</td>
<td>€ 4.9b</td>
<td>€ 8m</td>
</tr>
</tbody>
</table>

From 2011 to 2014

- Spent in youth and community development: €2,000m
- Spent in infrastructures: €1,750m

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Europe and Italy have introduced dispositions to regulate and control the system.

UEFA actions are limited to clubs participating in European competitions. Therefore, in a national league, the application of rules across clubs was heterogeneous. The solutions was to introduce a National Licensing System.
The Italian NA had to introduce a new set of economic and financial requirements

In the past, many clubs failed as old criteria were inadequate. Among them:

- Napoli
- Fiorentina
- Torino
- Parma
- Siena
- Perugia
- Ancona
- Messina
- Venezia

The number of professional clubs that have failed since 1986-87: 1 in Serie A, 9 in Serie B and 159 in Lega Pro.

About 5 million

The number of Italian people remained without football due to insolvency of their clubs.
Italy introduced its Control System in 2009-2010

The Italian Licensing System is a set of parameters and requirements set by the Executive Committee.

Clubs must comply in order to take part in the professional leagues. The criteria are divided in the following categories:

- Legal and economic
- Infrastructural
- Sporting and organizational
To meet the criteria, clubs had to take action to improve their economics, organization and development plans.
The FIGC introduced new rules aimed at club economics

National Licensing was introduced by the new Italian FA governance.

It will be implemented gradually over 4 years (see details below) requiring compliance to new economic and financial indicators. The system will also be extended to Serie B and Lega Pro clubs.

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<tr>
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<tbody>
<tr>
<td><strong>Implementation with</strong></td>
<td><strong>Implementation with</strong></td>
<td><strong>Implementation with</strong></td>
<td><strong>Implementation with</strong></td>
</tr>
<tr>
<td>Team roster up to 25 players max, with at least 8 players grown in Italy</td>
<td>Team roster up to 25 players max, with at least 4 players grown in Italy and 4 players grown in the club</td>
<td>Compliance with the <strong>system of three indicators</strong> not to be refused the Domestic License</td>
<td>Break-even rule: balance between costs and revenues (in case of breach of the aforementioned limits, clubs have to deposit a detailed financial plan)</td>
</tr>
<tr>
<td><strong>Payment of overdue payables towards international football clubs</strong> (excepted for training compensation and solidarity contribution)</td>
<td><strong>Payment of training compensation and solidarity contribution</strong> towards international football clubs</td>
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</tr>
<tr>
<td>Payment of overdue payables towards <strong>registered members</strong> as at 30th April (including social taxes and withholding taxes)</td>
<td>Payment of overdue payables towards <strong>registered members</strong> as at 31st May (including social taxes and withholding taxes)</td>
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<tr>
<td>Payment of overdue payables towards <strong>personnel</strong> as at 30th April (including social taxes and withholding taxes)</td>
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<td><strong>Main indicator</strong></td>
<td><strong>Main indicator</strong></td>
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<td><strong>Current Asset Indicator</strong> (current assets over current liabilities); Limit: <strong>0.4</strong></td>
<td><strong>Current Asset Indicator</strong>; Limit: <strong>0.5</strong></td>
<td><strong>Current Asset Indicator</strong>; Limit: <strong>0.6</strong></td>
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<tr>
<td><strong>Correction indicators</strong></td>
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</tr>
<tr>
<td><strong>Debt indicator</strong> (debts over revenues); Limit: <strong>2</strong></td>
<td><strong>Debt Indicator</strong>; Limit: <strong>1.75</strong></td>
<td><strong>Debt Indicator</strong>; Limit: <strong>1.5</strong></td>
<td><strong>Debt Indicator</strong>; Limit: <strong>1.5</strong></td>
</tr>
<tr>
<td><strong>Wage/Turnover Indicator</strong> (wages+amortization of players registration over revenues); Limit: <strong>0.9</strong></td>
<td><strong>Wage/Turnover Indicator</strong>; Limit: <strong>0.85</strong></td>
<td><strong>Wage/Turnover Indicator</strong>; Limit: <strong>0.8</strong></td>
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</tr>
</tbody>
</table>

**Notes**

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The FIGC introduced new rules aimed at club economics

**Break-even rule**

Serie A clubs must comply with the break-even rule in order to acquire the National License and be **admitted to the league**. The system will be in place **starting from 2018-2019**.

The National regulation follows the UEFA FFP guidelines and defines an **acceptable deviation (first limit)** which is not calculated on absolute basis, but in terms of a **fixed percentage of the previous three years average Value of Production**. However, clubs can exceed this level only if such excess is entirely covered by contributions from equity participants and/or related parties.

A second and higher limit is implemented. Clubs **breaching the break-even rule** with a total deficit higher than the second threshold will be punished with **further sanctions** (i.e. transfer market blockade).
The FIGC defined a set of mandatory positions

Through its National Licensing system, the Italian FA has defined the following professional figures as mandatory within a clubs’ Organizational Chart.

These figures are required to attend specific training and educational courses organized and monitored by the Italian FA’s Sport Directors’ Committee.

- CEO - Managing Director
- GS - General Secretary
- CFO - Administration, Finance and Control Officer
- Sports Director
- CMO - Media Officer
- CCO - Marketing / Commercial Manager
- SLO - Supporter Liaison Officer
- CSO - Security Officer / Deputy Security Officer
- Stewards
- Head Coach of the First Team
- Assistant Coach
- Team Assistant
- Head of the Youth Sector
- Youth Coaches
- Head of the Medical Staff
- First Team Masseur / Physiotherapist
- First Team Physical Trainer

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The ultimate objective is to encourage investment

In order for the sport to grow and flourish, it is imperative to have strong fundamentals. The FICG encourages and requires clubs to invest in:

- Stadia
- Training facilities
- Youth sectors
- CSR
- Women’s Football
- CRM
Football Associations play a vital role in enabling long term growth of clubs and the wider football system.

- Setting *the rules*
- Promoting *sustainability*
- Protecting *investment*
- Requiring *professional training*
- Ensuring *legacy*

Combining the five points above allows us to protect what is most valuable, the *passion* of millions of fans. And glorifies the most beautiful sport in the world, *Football*. 
Thank you for your attention

The presentation is at your disposal at biblioteca.figc.it