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Applying UEFA Financial Fair Play Rules and Improving the Financial Stability of Football Clubs Illustrated by the Example of Manchester City FC

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ABSTRACT

This article **considers** the financial monitoring of football clubs under UEFA Financial Fair Play (FFP) regulations. The **aim** of the paper is to study the current system for assessing the financial stability of football clubs and propose measures for its practical application. The work is **relevant** due to a wide range of financial challenges in modern football and supported by a detailed analysis of a recent case of Manchester City football club accused of breaching FFP. Studying the main allegations against the club, the author analyzed the basic concepts of FFP, breaches of other clubs and sanctions imposed on them, with emphasis on the experience of Russian clubs. The analysis illustrated the role of UEFA and football clubs with regards to FFP implementation, considering a specific case. The author estimated the potential losses of Manchester City due to the Champions League ban, and, in addition, the total losses due to the English Premier League suspension amid coronavirus threat. Using FFP criteria, the author analyzed the financial stability of Manchester City and Russian football club CSKA Moscow and identified similar problems for the clubs. The author outlined recommendations for UEFA rules compliance and presented a system of indicators that help to regularly monitor and manage the long-term financial stability of football clubs. The findings of the paper may find application in the field of other team sports.

Keywords: sport economics; sport finance; football economics; football finance; assessment of potential losses; the impact of coronavirus on the economy (sport); financial strategy of a football club

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INTRODUCTION

UEFA's Club Financial Control Body (CFCB) imposed a two-year ban from European competition (2020/2021 and 2021/2022) and a € 30 million fine on Manchester City in February 2020 for breaches of Financial Fair Play (FFP). This is the most severe punishment UEFA has ever handed out since it created its FFP regulations.

One of the most important aims of FFP is to improve financial and economic capability of the club. To achieve this aim, the clubs must demonstrate that their revenue exceeds or equals expenditure, while shareholders are prohibited from covering losses beyond certain limits. The volume of external and internal debt is also tightly controlled and a number of requirements established in terms of youth development, infrastructure, administrative and legal support.

There are a lot of studies devoted to the FFP regulations considering them from both positive and negative sides in the scientific literature. The most significant works are by Vöpel [1, 2]; Szymanski [3–6]; Müller, Lammert, and Hovemann [7]; Preuss, Haugen, and Schubert [8]; Morrow [9], Budzinski [10]; Schubert and Könecke [11]; Bachmaier, Lammert, Plumley, Wilson, Hovemann [12]; Dietl and Franck [13]; Franck [14], Olsson [15].

There are positive effects of FFP regulations such as creating equal opportunities for all clubs and improving their financial stability. Among negative effects are:

- limited investment;
- inequity in applying rules for teams from different championships;
- applying inappropriate sanctions of bans and fines for clubs in a difficult financial situation;
- subjective approaches to estimate the fair value of sponsorship agreements;
- high costs for monitoring and controlling compliance with the FFP requirements, including justifying the fair value of sponsorship contracts and appealing UEFA decisions;
- inconsistency between FFP break-even requirements and "real" financial situation of clubs, including the costs on youth development, infrastructure, and training facilities.

Gallagher and Quinn B. [16] analyzed the impact of FFP rules on the sporting and financial performance of English football clubs and concluded that UFEA regulations reduce the average efficiency of clubs by raising the relative importance of financial goals whilst lowering the importance of sporting goals. According to the authors, the FFP rules strengthen the financial and sporting power of the elite clubs and undermine the league's competitive intensity by shifting the priorities of clubs from the sporting component to the financial component.

Similar research has been done by Ghio, Ruberti, and Verona [17] but the results are different. The authors find that FFP does not improve the average efficiency of the Italian first division teams, however, FFP has contributed to reducing the gap in terms of efficiency between top teams and lower-tier teams.

Birkhäuser, Kaserer and Urban [18] find that FFP rules have further amplified the competitive imbalance. This might be caused by the fact that FFP raises some barriers against the entrance of new investors and supports the former season's winner.

The author of the present paper analyzes the club licensing system in several European countries and assessed Russian clubs' FFP compliance. In addition, the author suggests recommendations for Russian clubs aimed at ensuring their financial stability [19, 20].

Most scientific research on this problem is theoretical. Additionally, practices have been designed in recent years to keep in line with the regulations. Finally, some FFP rules will be changed in light of the current global crisis. Thus, the aim of this work, which forms its novelty and practical significance, is to consider the practical application of FFP rules based on the experience of European football clubs considering current external challenges, illustrate its main aspects with a specific example and propose a system of indicators aimed at regular monitoring of the financial stability of football clubs.

FFP REQUIREMENTS

It should be noted that FFP rules are not limited to financial performance requirements, which is the result of the complex work of the clubs in several directions.

The *sporting criteria* require clubs to implement a youth development programme approved by UEFA; to protect, safeguard and ensure the welfare of youth players; to ensure a yearly medical examination for all first squad players and establish and apply a policy to tackle racism and discrimination in football. All players must be registered with the UEFA member association and have a written contract.

The *infrastructure criteria* require clubs to have a stadium available for UEFA club competitions and training facilities approved by the UEFA member association fulfilling the minimum requirements defined by UEFA.

Personnel and administrative criteria require clubs to appoint an adequate number of skilled secretarial staff, have an office space, and appoint qualified key personnel.

Legal criteria require clubs to submit a valid declaration confirming their participation in UEFA club competitions, a copy of their current, valid statuses, an extract from a public register or an extract from the UEFA member association's club register, information about legal group structure and ultimate controlling party at the statutory reporting date.

The financial criteria are set out in the most detailed and in practice, clubs find them challenging.

Clubs must provide the reporting perimeter in the first place, i.e. the entity or combination of entities in respect of which financial information (e.g. single entity, consolidated or combined financial statements) has to be provided. Annual financial statements must be audited.

Clubs must publish the total amount paid to or for the benefit of agents/intermediaries, and the audited financial information on the club's website or the website of the national association.

Clubs must prove that as of 31 March preceding the license season it has no overdue payables. As of the end of March 2020, this deadline was postponed to the end of April due to the spread of coronavirus.

Also, clubs must confirm any significant change that has occurred in relation to any of the licensing criteria, events of major economic importance that may have an adverse impact on the club's financial position after the reporting period.

Submitted future financial information is one of the most important criteria, demonstrating the ability of a club to continue as a going concern until the end of the license season. This information is provided if one of the two requirements has been violated:

1. Going concern.
2. Negative equity — deterioration in net liabilities compared to the previous year.

The break-even requirement is the most important and controversial when relevant expenses must not exceed relevant income by more than € 5 million over the rolling three-year period.

The break-even requirement monitoring period covers three consecutive reporting periods. For example, the monitoring period assessed in the license season 2018/19 covers the reporting periods ending in 2018 (reporting period T), 2017 (reporting period T-1) and 2016 (reporting period T-2).

UEFA considers previous reporting periods — in case of an aggregate break-even deficit for the monitoring period, a club may demonstrate a reduced aggregate deficit due to the break-even results of the two reporting periods prior to the monitoring period (i.e. reporting periods T-3 and T-4). At the same time, there is an acceptable deviation — the maximum aggregate break-even deficit, at which a club is considered to have met the break-even requirement. The acceptable deviation is € 5 million. It can exceed the level up to € 30 million if such excess is entirely covered by contributions from equity participants. Only relevant incomes and expenses, income related to the football activities, are included in the break-even calculation. Income related to non-football operations is not included, for example, operations based at, or in close proximity to, a club's stadium such as a hotel, restaurant, conference centre, business premises, health-care centre.

Additionally, UEFA considers the following indicators:

1. Sustainable debt. At the end of the reporting period T-1, the relevant debt must not be greater than € 30 million and greater than 7 times the average of the relevant earnings of T-1 and T-2. The relevant debt is calculated as the net debt less the amount of debt that is directly attributable to the construction and/or substantial modification of the stadium, and/or training facilities from the inception of this debt until 25 years after the date when the asset is declared ready for use. The relevant earnings for a reporting period are calculated as the sum of total revenue (as calculated for the break-even result) and the player transfers net results minus the total operating expenses (as calculated for the break-even result).
2. A player transfer balance deficit must not be greater than € 100 million in any player registration period that ends during the license season.

3. Employee benefits expenses must not exceed 70% of total revenue.

4. Net debt must not exceed 100% of total revenue.

If a club breaches any of the indicators, it must prepare and submit to UEFA the projected break-even information. In addition, UEFA assesses the liquidity of the license applicant, i.e. the availability of cash after taking account of financial commitments until at least the end of the license season. Besides, a long-term business plan may be requested (including future break-even information up to reporting period T+4). Additional information may be requested from a club regarding its debt situation: the source of debt, the ability to service interest and principal payments, the debt covenant compliance and the maturity profile of debt.

As part of its considerations, the UEFA Club Financial Control Body may evaluate among others the following debt ratios:

i) Degree of leverage — the level of debt relative to revenues and underlying assets;

ii) Profitability and coverage — the level of revenues relative to debt servicing costs;

iii) Cash flow adequacy — the capacity to cover both interest and principal repayments.

UEFA may also take into account additional factors that have a financial impact on the club, such as an unfavorable change in exchange rates. Also, extraordinary events or circumstances beyond the control of the club are considered as a case of force majeure. For example, on April 1, 2020, it was decided to suspend the FFP rules for clubs participating in the Champions League and Europa League in 2020–2021, due to the coronavirus outbreak[1].

As part of its considerations, UEFA may consider if the club is operating in a structurally inefficient football market. The inefficiency of a football market is determined by the UEFA administration on a yearly basis by means of a comparative analysis of the top division clubs' total gate receipts and broadcasting rights revenues relative to the population of the territory of the UEFA member association concerned.

The UEFA Club Financial Control Body will take into consideration the squad size of the licensee and may view more favourably licensees which used a maximum of 25 players (excluding players under the age of 21).

If a club fails to comply with the FFP requirements, it may be subjected to disciplinary measures by the UEFA Club Financial Control Body. The break-even requirements and overdue payables are the most challenging criteria for clubs. The most common sanctions imposed by UEFA include competition bans and fines. It should be noted that clubs may apply for a voluntary agreement with the aim to comply with the break-even requirement. In this case, a club must:

- submit a long-term business plan;
- setting the maximum break-even deficit for several forecasting periods;
- restrictions on players' wages (wages-to-revenue), as well as financial expenses;
- restrictions on receiving prize money;
- restrictions on transfers of players.

In general, despite strict requirements, UEFA is often flexible with the clubs, trying not to punish but to stimulate the development of football. So, at the end of June 2015, some changes were introduced to the Licensing Rules. In particular, UEFA began to take into account the difficulties clubs faced due to the sudden economic shocks or structural market changes in their country. UEFA eased some FFP requirements for clubs that play in countries where the football business is not yet developed and where broadcasting and gate receipt revenues are significantly lower than in the leading leagues. They were promised a preferential, less severe audit, and evaluation regime. Also, clubs looking to invest in infrastructure can contact UEFA to sign a settlement agreement. This is a precautionary measure designed to encourage clubs not to wait until they break the rules of the financial FFP. The main problem is precisely a uniform approach to each club, regardless of the scale of its activities and owners. Examples of UEFA's diverging positions on various FFP rule breaches will be discussed below.

[1] URL: https://www.uefa.com/insideuefa/mediaservices/mediareleases/newsid=2641230.html

ALLEGATIONS AGAINST MANCHESTER CITY AND ESTIMATION OF POTENTIAL CLUB LOSSES

Manchester City committed breaches of FFP regulations in 2012–2016 by overstating its sponsor revenue and failing to cooperate in the UEFA investigation. Additional documents published by Der Spiegel revealed that Manchester City sponsorship was mostly funded by the owners, £ 57 million of the £ 65 million agreement with state airline Etihad, £ 12 million of £ 15 million are from Aabar. Therefore, UEFA's main complaint was the cash infusion of the owners and not the size of sponsorship agreements. The UEFA decision is subject to appeal and will be taken to the Court of Arbitration for Sports (CAS) and then the Swiss Supreme Court (which has jurisdiction over UEFA), and, probably, the sanctions to the club will be reduced.

Manchester City's ban from European competition incurs 2 types of risks:

1. Decreased motivation of players and coaching staff and the need for their additional motivation.
2. Club's revenue losses.

Minimizing the first risk group is possible through the negotiation process, and will also depend on the efforts of the lawyers involved in the appeal of the UEFA decision.

The potential losses of the club from missing European competition depend on the stage of the tournament they manage to reach. In the 2018/2019 season, Manchester City reached the quarter-finals and received £ 86 million from UEFA. If we assume that in the next season the club achieves a similar sporting result, then the losses will be identical. At the same time, this amount may differ both ways, depending on the sporting result. The club will also receive less revenue from ticket sales, merchandise and catering at home matches. On average, each game manages to earn £ 2 million, i.e. on condition of reaching ¼ (5 matches) losses will amount to £ 10m.

Sponsorship deals also have a number of conditions for the tournaments in which the club participates. The club's commercial revenues are estimated at £ 230 million per season. Assuming a 10% cut in the Champions League skip, the club's losses would be £ 23 million.

At the same time, the club re-signed several sponsorship agreements in the new season and expects to increase revenue from selling broadcasting rights outside the UK. Thus, the total revenue should grow. The total amount of losses, taking into account income growth, is presented in *Table. 1*.

However, these are future losses of the next season, while this season the club will lose money because of the suspension of the Premier League and Champions League due to the coronavirus outbreak[2]. The losses will depend on whether the season is finished or the results will be summed up based on the current position of the teams. Revenue losses on match day could be around £ 12 million (assuming 6 home games remain). It is not clear yet whether the clubs will return some of the money to the season ticket holders. The sale of season tickets for the next season may also be delayed, which will affect the cash flow of the clubs.

If the season had not been played out, clubs could have lost £ 750 million for violation of the TV contract. The total amount of the contract is estimated at £ 2.64 billion, i.e. the share of losses is 28.4%. In total, Manchester City was supposed to earn £ 171million, then the loss can be estimated at £ 49 million.

Manchester City also have good chances in the Champions League — the tournament was stopped just before the home match against Real Madrid. Winning this tournament could bring in an additional € 45 million (around £ 40 million) in prize money of € 42 million and an increase in the TV pool by € 3 million. In addition, 3 home matches (assuming the club reaches the final) could bring in another £ 6 million.

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[2] The calculations below were made in April 2020, when the decision to resume the Premier League had not yet been made, and the probability of a complete suspension of the championship was high. A more accurate assessment of potential losses can be made as events develop and will depend on the conditions for the start of games and the epidemiological situation in a particular country and in the world.

Table 1

Potential losses of Manchester City due to the UEFA Champions League ban

Source of income	Admission	£ million
Match day revenue	Reaching the Champion League quarter-finals (5 matches per £ 2m)	(10)
UEFA revenue	Reaching the Champion League quarter-finals	(86)
Sponsorship deals income decrease	Sponsorship deals dropped by 10% due to the Champions Leagues ban	(23)
Total losses		(119)
Broadcasting	New Premier League TV deal (overseas rights)	20
Sponsor deals	New sponsorship deal with Marathonbet	10
Commercial deal	New commercial deal with Puma £ 65m instead of Nike £ 20m.	45
Revenue Growth		75
Total net losses including revenue growth		(44)

Source: The Swiss Ramble: UEFA's Club Financial Control Body has found that Manchester City have committed serious breaches, published online 24.02.2020. URL: https://threadreaderapp.com/thread/1231847021973245952.html (accessed on 16.05.2020).

Finally, Manchester City's sponsorship deals incomes are estimated at £ 230 million. Assuming that they are reduced in proportion to the number of unplayed matches (only 10 out of 38 including home and away), the loss could be 26% or £ 60 million.

The total losses of Manchester City from the ban on participation in the UEFA Champions League in the 2020/2021 season, as well as from the suspension of matches of the Premier League and the Champions League in the 2019/2020 season are shown in *Fig. 1*.

ALLEGATIONS AGAINST OTHER EUROPEAN CLUBS

When appealing a UEFA decision, Manchester City will necessarily refer to the experience of other clubs that have also been subject to certain sanctions.

Thus, Manchester City is not the leader in sponsorship deals; there are clubs with more significant support (*Fig. 2*).

In turn, UEFA has never imposed such severe sanctions in case of more serious breaches.

Of the most recent high-profile cases involved Milan, which were related to the debt obligations to the American hedge fund Elliott, which took part in financing a deal totaling € 740 million to acquire the club by a Chinese consortium headed by Li Yonghun and Silvio Berlusconi. Later, the fund issued a large loan of € 300 million, which helped Milan to carry out a large-scale transfer campaign.

UEFA refused settlement agreement with Milan — an approach that has always been applied to the world top football clubs, and in its rigidity is similar to the case of Dynamo Moscow FC (which will be discussed below). The case was referred to the adjudicatory chamber of financial control body (CFCB)

On July 20, 2018, the Court of Arbitration for Sport (CAS) ruled the initial decision of UEFA to disqualify Milan disproportionate for the expected reason — other clubs were imposed fines for similar breaches. Indeed, PSG did not incur any punishment based on the results of the two largest transfer deals: UEFA did not find any obvious breaches of the FFP rules in its actions, however, PSG were obliged to sell players worth € 70 million.

Players' transfers, or rather their financing, are another subject for UEFA's ques-

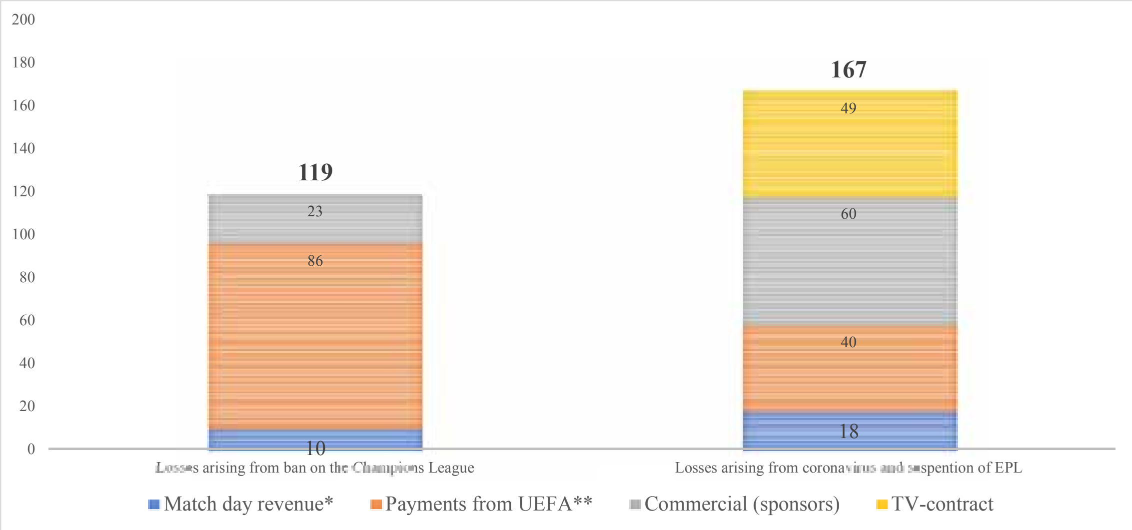

Fig. 1. **Losses for Manchester City, million pounds**

Source: The Swiss Ramble: The shutdown of football until at least end-April due to the coronavirus pandemic, published online 24.03.2020. URL: https://threadreaderapp.com/thread/1242351518319366144.html

The Swiss Ramble: UEFA's Club Financial Control Body has found that Manchester City have committed serious breaches, published online 24.02.2020. URL: https://threadreaderapp.com/thread/1231847021973245952.html (accessed on 16.05.2020).

Note: * £ 18 million: per £ 2 million for 6 home matches in the Premier League and 3 matches in the Champions League.

** For losses from FFP breach the club was admitted to 1/2 final; for losses from tournament suspension — to the final.

tions. Typically, clubs circumvent the cost cap through an installment agreement. Thus, Manchester United issued a transfer to Pogba for € 105 million, reporting expenses only of € 52.5 million. Also, lease with subsequent buy-out is often used, including transactions between related clubs when several clubs belong to the same structure. This is exactly the case of Manchester City, which is part of the City Football Group holding, which owns such clubs as New York City and Melbourne City, as well as minority stakes in Yokohama F. Marinos (Japan), Montevideo City Torque (Uruguay), Girona (Spain), Sichuan Jiuniu (China), Mumbai City (India). In addition to rental deals, a similar holding is used by the club to minimize the payroll. For example, in 2013, Manchester City transferred a large proportion of its employees to City Football Group, cutting wages from £ 233 million to £ 205 million. This has reduced the share of wages in revenue, which UEFA is focusing on. Interestingly, such schemes (both in terms of renting players and in terms of the payroll) are becoming more widespread. Given a large number of investors from China, players may move from European to Asian clubs and then return on lease terms.

The biggest FFP rules breach was in the deal to transfer Neymar from Barcelona to PSG. The player received € 300 million from the Qatar Sports Investments fund as part of an agreement to promote the World Cup in 2022, with these funds he bought his own contract from Barcelona and ended up at PSG already as a free agent. As a result, the French club did not reflect the costs of buying a player at all, and thus, did not violate the FFP rules.

Returning to the allegations against Manchester City, it should be noted that they were conditioned not so much by the amount of the sponsorship contract as by the fact that the funds received by the club did not cover sponsorship but were provided by the shareholder to cover operational losses.

Sponsorship contracts with companies that are also shareholders of the club are not uncommon in European football. Bayern Munich has the third-largest commercial income in

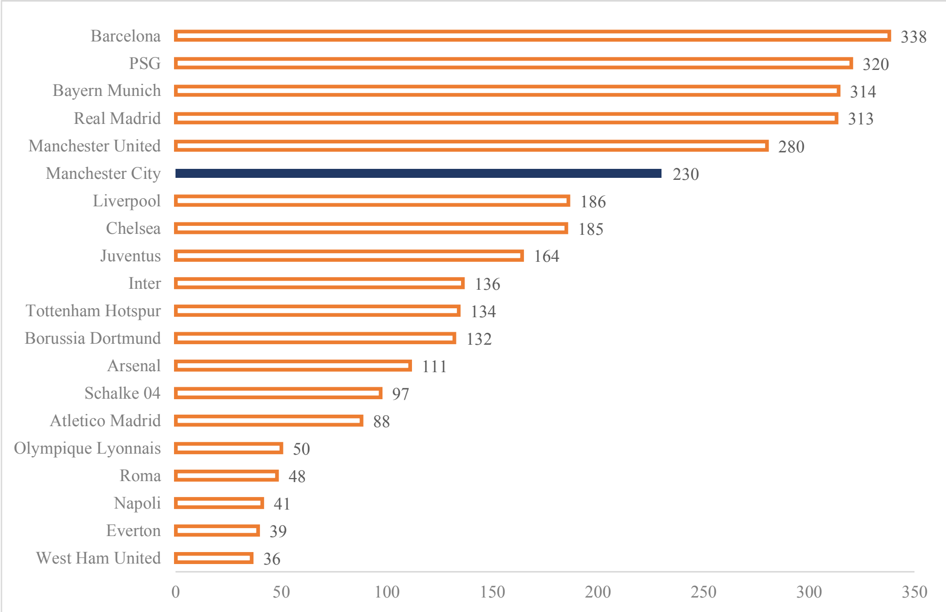

Fig. 2. **The largest sponsorship deals of football clubs in Europe, season 2018/2019, million pounds**

Source: The Swiss Ramble: The shutdown of football until at least end-April due to the coronavirus pandemic, published online 24.03.2020. URL: https://threadreaderapp.com/thread/1242351518319366144.html (accessed on 16.05.2020).

Europe due to the strategic partnerships with three German companies, each of which owns 8.33% of the club's shares (the remaining 75% are owned by fans): Adidas — € 60 million, Audi — € 60 million (recently increased up to € 40 million) and Allianz € 6 million.

Similarly, some of Borussia Dortmund's largest sponsorship deals are with companies that are also shareholders: Evonik (14.78% of shares), title sponsor € 40 million (combined deal with 1 & 1); Puma (5% of shares) — € 31 million; Signal Iduna (5.43% of shares) — € 5.8 million.

The contract value between Juventus and Jeep was increased from € 17 to € 42 million from the 2019/2020 season onwards — 2 years before the end of the contract. This is three times more than Milan, Roma, and Inter receive. At the same time, Jeep is part of Fiat, which belongs to the Agnelli family — the main beneficiary of Juventus.

Finally, another important criterion for UEFA is the club's debt load. In this case, Manchester City complies with this rule (*Fig. 3*).

Thus, the above figures show that Manchester City does not demonstrate the most severe breaches of FFP rules. However, two points should be mentioned. First, the allegations against the club concern the past periods when the violations actually took place. The club's current indicators are fully within the FFP rules. Secondly, one of the most important claims of UEFA is related to the club's refusal to cooperate in the CFCB investigation, and the club's leaked correspondence, confirming this, had an additional negative effect.

Finally, it is important to note that the damage caused by the ban from European competition could lead to losses, which in turn will raise questions from UEFA. This is one of the main complaints about the FFP rules — sanctions lead to new losses, which form a vicious circle.

RUSSIAN PRACTICE

Russian clubs were among the first to face the problem of compliance with the FFP rules. The Dynamo Moscow FC found itself in the most difficult situation [19, 20]. The excess of permissible losses amounted to over € 100 million, and the violations were reduced to three points:

- overstated market value of the contract with the title sponsor;
- attracted loans not secured by assets;

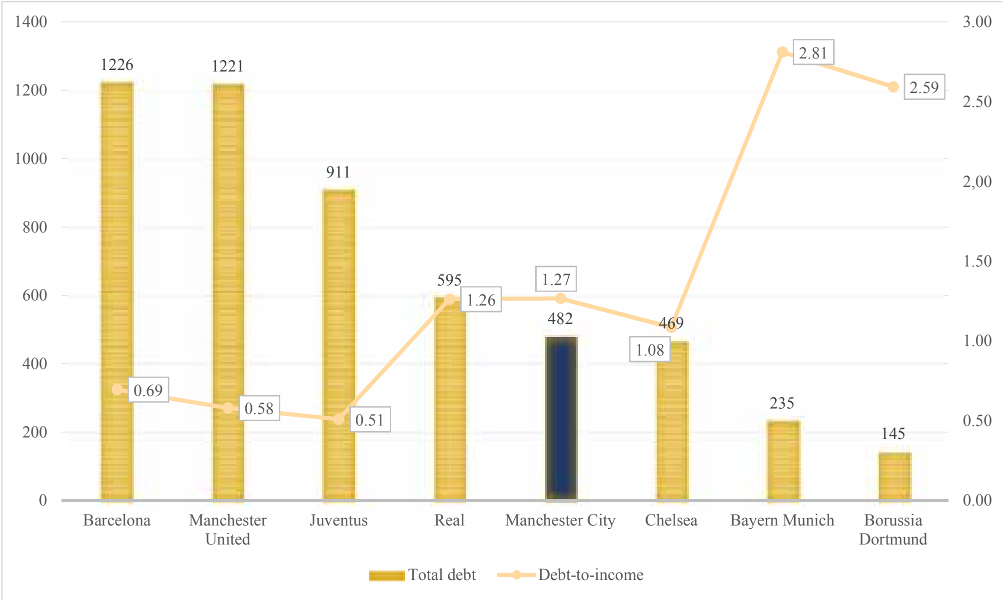

Fig. 3. **The most indebted European clubs (long-term debt plus accounts payable), season 2018/2019, million euros**

Source: The Swiss Ramble: The shutdown of football until at least end-April due to the coronavirus pandemic, published online 24.03.2020. URL: https://threadreaderapp.com/thread/1242351518319366144.html (accessed on 16.05.2020).

- exceeding the share of the players' salaries, 70% of the budget.

Several clarifications should be made regarding the overstated sponsorship contract. In 2009, the club was unable to pay off VTB loans in the amount of about € 200 million, as a result, the bank received a 75% share in Dynamo. With the club, the bank received its assets, namely 41 hectares of land in Petrovsky Park. To compensate the club for the loss of assets, VTB provided the club with financing in the amount of € 80 million per year. However, this was not a sponsorship contract but a payment against future income from the implementation of a development project in Petrovsky Park. In mid 2013, the scheme of cooperation with VTB changed: funds were allocated under a title sponsorship contract. With the onset of the economic crisis, the amount of the contract was converted into rubles and amounted to 4.5 billion rubles a year.

Thus, until mid-2013, the bank's financing was classified for FFP purposes as "excess gains on disposal of property, plant, and equipment". Since the land in Petrovsky Park was put on the club's balance in the 1920s, the market value of the development project was estimated at € 1.5 billion, then payments in installments of € 80 million per year were recognized by UEFA as relevant. However, after the proceeds were reclassified to title sponsorship, the need for a contract value arose. Currently, € 80 million per year is a huge amount even for a European elite club, at the same time Dynamo earned more than the top clubs — Manchester United and Chelsea, with sponsorship deals incomes of £ 53 and £ 40 million, respectively. As a result of the agreement, only € 8 million was recalculated and recognized as relevant income.

The second breach is the attraction of unsecured loans. In August 2013, Dynamo made a number of major transfers. In two weeks, six players from Anji Makhachkala were bought. Moreover, these transactions were paid by using borrowed funds. As a result, the club's net liabilities increased and negative capital was formed.

The third breach was related to the excess of the share of players' salaries with 70% of the budget. Then it was typical for Russian clubs, it was not considered a breach and was punished with a fine and restriction of the players' applications in European competition.

As a result, Dynamo was subjected to severe punishment — a ban from the European Cups for 4 seasons.

The claims to Zenit were limited to the provision of the club's budget by the structures of the Gazprom group. The parent company officially paid the club € 20.8 million under a sponsorship contract and allocated another € 28 million in donations. Another € 80.4 million were accounted for by 8 companies directly related to Gazprom. The exclusion of these incomes from the list of relevant resulted in losses. However, the club cooperated with UEFA, conducted an audit, restructured its reports, registering all sponsorship deals related to Gazprom under one item. Zenit also presented future financial information. As a result, the club was imposed with a € 6 million fine, restrictions on the transfers of players, and financial monitoring for a period of three years.

Similar allegations were applied against the Lokomotiv Moscow — 94% of the budget (about € 187 million) was provided by a single structure — Russian Railways. The club followed the same path as Zenit, agreeing to cooperate with UEFA, hiring an independent auditor, assessing the real cost of the sponsorship contract, and redistributing the incoming cash flows — the money began to be transferred through another company, not related to Russian Railways. As a result, Lokomotiv was imposed with a fine of € 1.5 million, restrictions on transfers, and three-year financial monitoring.

Break-even requirements were also breached by football clubs Rostov, Krasnodar, Anzhi and Rubin. All of them were fined (from € 0.2 to € 3 million), agreed to impose limits on employees' benefits expenses and transfer costs, and also fell under the application restriction.

RECOMMENDATIONS FOR CLUBS AND FUTURE RESEARCH

Guided by the practice of applying the FFP rules of recent years and the detailed case study of Manchester City, we can suggest recommendations for meeting UEFA FFP requirements.

First, despite the inconsistency of certain FFP provisions, in general, they are aimed at improving the overall health of European club football and the financial conditions of clubs. The improvement in the aggregate financial performance of the European football leagues is shown in *Fig. 4*. These figures should be considered at the club level and take into account the country specifics (for example, the TV deals of the English league makes the main contribution to the improvement of the aggregate financial results of European football). However, the FFP rules played an important role in this.

It is important to note that the damage caused by the ban from European competition could lead to losses, which in turn will raise questions from UEFA. This is one of the main complaints about the FFP rules — sanctions lead to new losses, which form a vicious circle.

The first general recommendation concerns building a transparent and open system of cooperation with UEFA. The European Association always meets the needs of the clubs and shows a willingness to cooperate. The situation with Manchester City confirms this rule. One of the main allegations against the club was precisely the refusal of such cooperation. In addition, the countries of Eastern Europe (with underdeveloped "football market") can count on a number of indulgences due to more modest

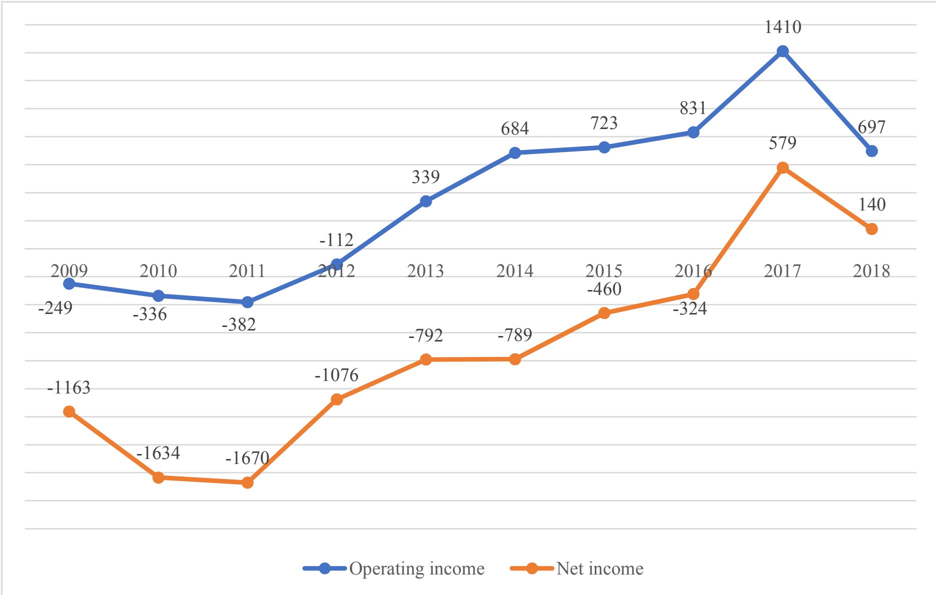

Fig. 4. **Total financial results of all European football clubs, 2018, million euros**

Source: UEFA: The European Club Footballing Landscape. Club Licensing Benchmarking Report Financial Year 2018. URL: https://www.uefa.com/MultimediaFiles/Download/OfficialDocument/uefaorg/Clublicensing/02/64/06/95/2640695_DOWNLOAD.pdf (accessed on 16.05.2020).

starting positions. To illustrate these “positions”, it is enough to look at the match day’s revenue per fan (*Fig. 5*). If PSG earns € 93.3 per fan for every match, then for RPL clubs this figure is € 6.7. An obvious recommendation in the current situation would be to start an active work with fans, which will increase and diversify revenue.

The following recommendations are based on regular performance monitoring by UEFA. *Table 2* illustrates monitoring data on the example of Manchester City and CSKA Moscow.

These calculations clearly demonstrate the focus of the FFP rules on maintaining the financial stability of clubs. Thus, for Manchester City, player transfer costs are high. It is not possible to correctly calculate the transfer balance since after 2017 the club stopped publishing a cash flow statement, however, it is obvious that expenses exceed income in this case. UEFA’s requirements are bypassed by the above-mentioned payment deferred scheme.

For CSKA, the main problem was the loan issued by Vneshekonobank for the construction of the stadium. And at the end of 2019, this problem materialized in the transfer of the club under the control of the lender.

In the context of the considered risks of the coronavirus outbreak and the ban from European competition, the availability of free funds is of particular importance, which will help to withstand at least in the short term. Manchester City, along with the largest English clubs, has such a safety cushion (Fig. 6), which does not apply to other clubs (including Russian). It seems that the current situation will prove to the clubs the need to build reserves.

It should be noted that even IFRS reporting does not ensure a full assessment of compliance with the FFP rules. Additional data is required, which the clubs do not disclose. However, it is realistic to obtain a basic understanding, and it is enough to see the big picture. Calculating the considered indicators will be useful for small clubs that do not yet apply for participation in European competitions, but need to assess the current level of financial stability.

Thus, regular monitoring of the considered indicators with an emphasis on the formation of cash reserves will help ensure long-term financial stability.

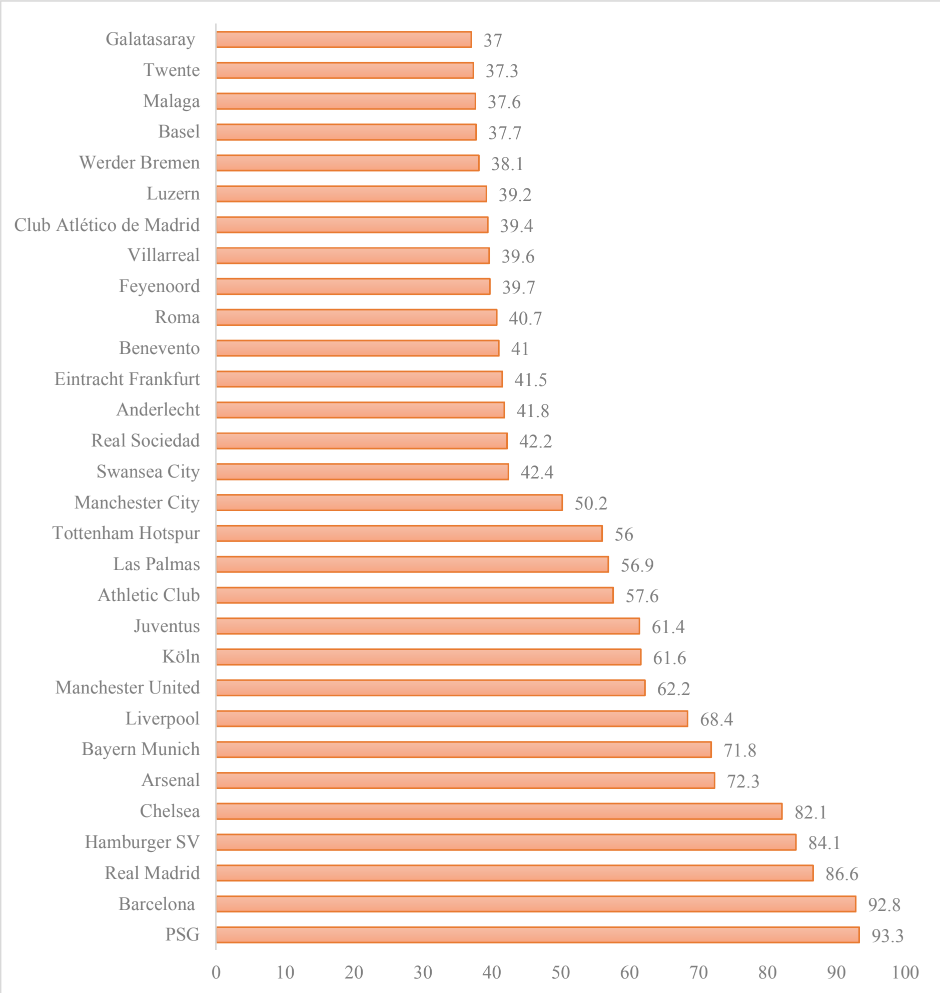

Fig. 5. **Top 30 European clubs in terms of revenue per fan per match, euro**

Source: UEFA: The European Club Footballing Landscape. Club Licensing Benchmarking Report Financial Year 2018. URL: https://www.uefa.com/MultimediaFiles/Download/OfficialDocument/uefaorg/Clublicensing/02/64/06/95/2640695_DOWNLOAD.pdf (accessed on 16.05.2020).

CONCLUSIONS

The case of Manchester City, which breached some of the UEFA FFP rules, was scrutinized in this paper. Studying the main allegations against the club, the author analyzed the provisions of the FFP rules, breaches of other clubs, and the sanctions imposed on them, with a special emphasis on the experience of Russian clubs. The data collected showed that UEFA pays particular attention to the club's approach to addressing identified breaches, the reliability of the information provided, and the willingness to cooperate. The tough sanctions imposed on Manchester City were the result of the opposite approach.

Guided by the criteria in which European football clubs faced the greatest difficulties, the author performed calculations for Manchester City and the Russian PFC CSKA Moscow, which confirmed the challenges relevant to each of the clubs and made it possible to identify a set of indicators that can be used to regularly monitor and manage the long-term financial health of football clubs.

Based on the results of the study, the following recommendations can be proposed for Russian football clubs aimed at complying with the FFP rules and strengthening financial stability:

1. Approval of the list and target values of financial and operational indicators, consid-

Table 2

Indicators of financial stability, calculated for Manchester City and CSKA Moscow

Club	Calculation								Value	Standard	
	Relevant result (T)	=	Operating income	–	Operating expenses	+	Player transfer income	=			
Man City (2019)			538.17		560.314		38.787		16.643		
CSKA (2018)			100.38		87.784		48.566		61.162		
	Net debt (T-1)	=	Long-term interest debt	–	Cash			=		>= annual revenue	
Man City (2018)			65.571		27.855				37.716		✓
CSKA (2017)			272.06		2.079				269.981		☒
	Relevant debt (T-1)	=	Net debt (2018)	–	Debt attributable to the construction or substantial modification of infrastructure			=		<= € 30m <= 7 relevant results	
Man City (2018)			37.716		65.571				–27.855		✓
CSKA (2017)			269.981		272.06				–2.079		✓
	Relevant result (T-1)	=	Operating income (2018)	–	Operating expenses	+	Player transfer income	=			
Man City (2018)			503.491		525.654		39.057		16.894		
CSKA (2017)			76.345		89.469		3.087		–10.037		
	Relevant result (T-2)	=	Operating income	–	Operating expenses	+	Player transfer income	=			
Man City (2017)			475.825		506.004		34.563		4.384		
CSKA (2016)			57.694		91.011		26.602		-6.715		
	Average relevant result (T-1 и T-2)	=	Relevant result (T-1)	+	Relevant result (T-2)	/	2	=			
Man City									10.639		
CSKA									–8.376		
	Relevant debt (T)	=	Net debt	-	Amount of debt attributable to the infrastructure			=			
Man City (2019)			–64.685		65.171				–129.856		✓
CSKA (2018)			310.575		322.425				–11.85		✓

Table 2 (continued)

Club	Calculation								Value	Standard	
	Leverage	=	Net income	+	Assets	/	Total debt with short-term payables	=			
Man City (2019)			10.079		853.093		265.015		325.7%		
CSKA (2018)			25.853		337.103		403.307		90%		
	Coverage ratio	=	Interest on loans	/	Net income			=			
Man City (2019)			5.332		10.079				53%		
CSKA (2018)			15.62		25.915				60%		
	Absolute liquidity ratio	=	Cash	/	Short-term liabilities						
Man City			129.856		186.112				0.7		
CSKA			11.85		70.084				0.2		
	Transfer bal-ance	=	Received from transfers	-	Player transfer expenses			=		>= € 100m	
Man City (2019)			41.576		86.886				−45.31		✓
CSKA (2018)			33.781		10.574				23.207		✓
	Transfer bal-ance (T-1)	=	Received from transfers	-	Player transfer expenses			=			
Man City (2018)			155.47		328.073				−172.603		⊠
CSKA (2017)			14.432		6.434				7.998		✓
	Transfer bal-ance (T-2)	=	Received from transfers	-	Player transfer expenses			=			
Man City (2017)			39.02		203.535				−164.515		⊠
CSKA (2016)			24.601		10.456				14.145	<=70%	✓
	Wage-to-rev-enue	=	Wages costs	/	Revenue			=			
Man City (2019)			315.257		535.169				59%		✓
CSKA (2018)			39.68		100.38				40%		✓

Source: compiled by the author on the basis of annual reports of Bluecastle Enterprises Limited as of December 31, 2018, December 31, 2017, December 31, 2016 (USD million) and Manchester City Football Club Limited as of June 30, 2019, June 30, 2018, 06.30.2017 (GBP million).

Note: ✓ – standard observed, ⊠ – standard not observed.

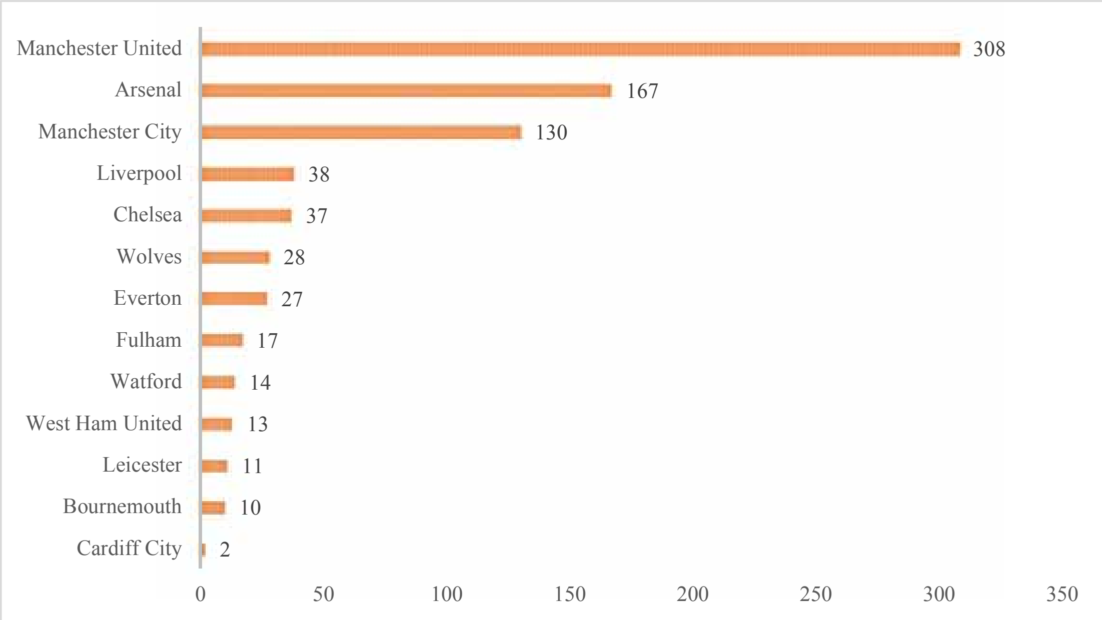

Fig. 6. **Cash balance of the Premier League clubs, 2018/2019, million pounds**

Source: The Swiss Ramble: The shutdown of football until at least end-April due to the coronavirus pandemic, published online 24.03.2020. URL: https://threadreaderapp.com/thread/1242351518319366144.html (accessed on 16.05.2020).

ering the requirements of the FFP rules and building a monitoring system.

2. Creation of a club's financial model, which allows predicting controlled indicators, included in the club's development strategy.

3. Appointment of club personnel responsible for monitoring and compliance with controlled indicators.

4. Approval of the scheme (business process) for the collection and submission of data required for the calculation of controlled indicators.

5. Approval of the system of cooperation with UEFA.

In the future, similar systems for monitoring and managing financial stability may be adapted for other team sports.

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