

# New Club Licensing and Financial Sustainability regulations commentary

Geneva | 20 April 2022

A week ago, UEFA adopted its new **Club Licensing and Financial Sustainability regulations**, which are due to come into force later on in 2022 and were widely hailed by stakeholder organisations such as ECA and European Leagues as a major step in the right direction towards creating a healthy economy for European club football. Now that the full text of these new regulations has been released by UEFA, we can analyse them in detail to find out whether they are really as revolutionary as seen by many, particularly in the area of cost control and salary capping.

- 1) The first thing that is immediately noticeable when looking at the new set of regulations are its changed aims. Compare the 2018 edition (amended in 2020):

#### Article 2 - Objectives

1. These regulations aim:
  - a. to further promote and continuously improve the standard of all aspects of football in Europe and to give continued priority to the training and care of young players in every club;
  - b. to ensure that clubs have an adequate level of management and organisation;
  - c. to adapt clubs' sporting infrastructure to provide players, spectators and media representatives with suitable, well-equipped and safe facilities;
  - d. to protect the integrity and smooth running of the UEFA club competitions;
  - e. to allow the development of benchmarking for clubs in financial, sporting, legal, personnel, administrative and infrastructure-related criteria throughout Europe.
2. Furthermore, these regulations aim to achieve financial fair play in UEFA club competitions and in particular:
  - 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 employees, 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.

## Article 2 Objectives

### 2.01

These regulations aim:

- a. to further promote and continuously improve the standard of all aspects of football in Europe and to give continued priority to the training and welfare of young players in every club;
- b. to promote participation in football and contribute to the development of women's football;
- c. to ensure that clubs have an adequate level of management and organisation;
- d. to adapt clubs' sporting infrastructure to provide players, spectators and media representatives with suitable, well-equipped and safe facilities;
- e. to protect the integrity and smooth running of the UEFA club competitions;
- f. to safeguard each club's identity, history and legacy;
- g. to encourage cooperation between licensors and clubs and enable the development of benchmarking for clubs in financial, sporting, legal, football social responsibility, personnel, administrative and infrastructure-related criteria throughout Europe;
- h. to embrace social responsibility in football;
- i. to promote a healthy relationship between clubs and supporters and increase accessibility in football.

## 2.02

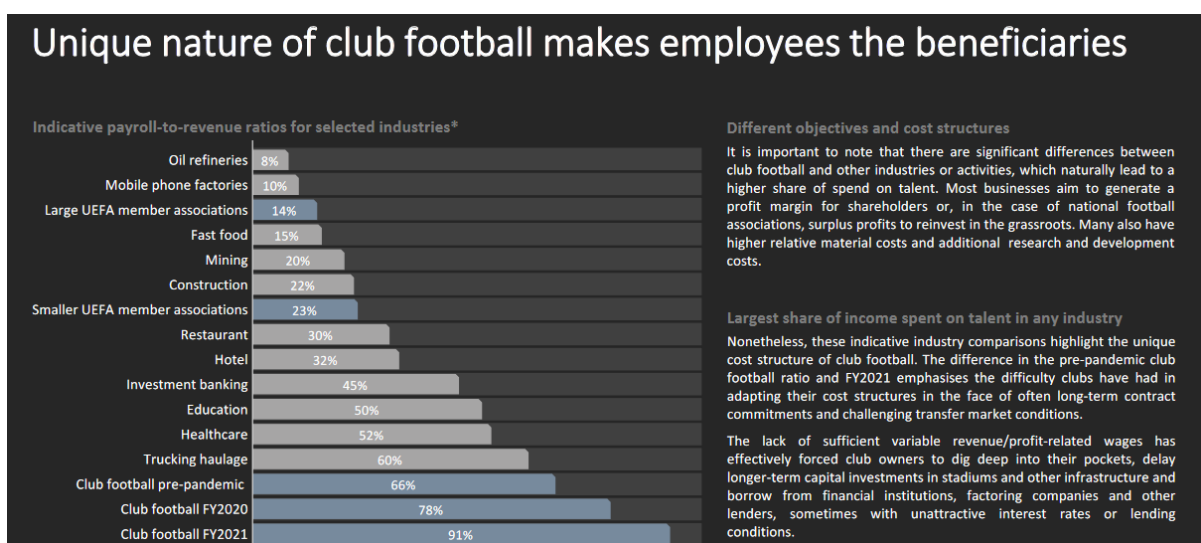
Furthermore, these regulations aim to promote more discipline and rationality in club football finances and in particular:

- a. to improve the economic and financial **sustainability** of the clubs, increasing their transparency and credibility;
- b. to place the necessary importance on the protection of creditors;
- c. **to promote better cost control;**
- 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.

As an aside, it is curious that the term “financial fair play” has disappeared from this article in the new set of regulations so we probably need to remove this word combination from our industry jargon in future, but beyond that we also see the inclusion of new aims to do with women’s football; safeguarding of club identity, history and legacy; encouraging cooperation between clubs and licensing authorities; embracing social responsibility and promoting a healthy relationship between clubs and supporters. There is also a shift from boosting financial capability towards improving financial sustainability, which is an interesting nuance in itself.

Overall, while the aims are all noble and arguably very useful for the football industry, doubling their amount within the scope of the same regulations could lead to a loss of focus: after all, it is probably better to aim to do a few things and do them very well rather than aiming to do a multitude of things and as a result not to achieve anything of note.

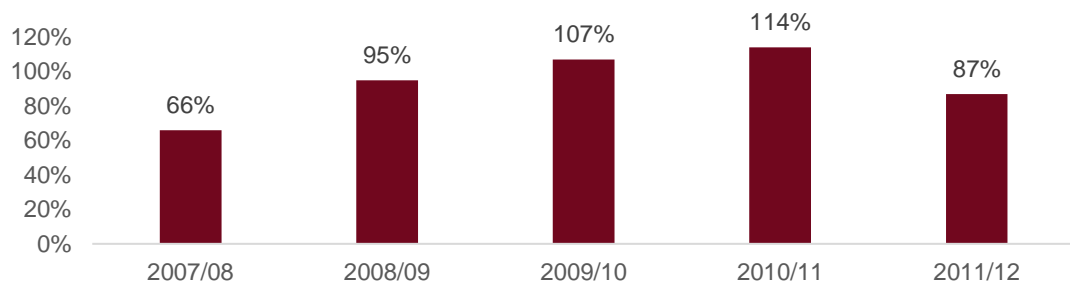
- 2) The most significant impact of the new regulations was, of course, the introduction of what can be effectively interpreted as a salary cap to the tune of 70% of revenues. This could have been interpreted as a long-overdue measure to finally create an effective mechanism to limit the continuously growing salary problem in European football, which was even highlighted by UEFA itself as a unique feature of the industry in its most recent Club Licensing Benchmarking Report, comparable only to the trucking haulage industry:



Source: UEFA Club Licensing Benchmarking Report

On the other hand, it could have also been interpreted as a mechanism to solidify existing power balance structures in the club landscape, removing from the arsenal of new or ambitious owners the potential strategy of using a significant “power surge” in player wages and transfer fees, which some new club owners used very effectively in order to dramatically improve sporting results, which, in turn, would lead to off-field growth and more resources for investment in the sport side, too:

**MCFC wage-to-turnover ratio pre- and post-takeover in 2008**



For some markets, an additional cause for concern could have been the “structural deficit paradox”, where clubs at the top of the local pile are unable to generate enough revenue from their domestic market in order to have a competitive budget and rely on qualification for UEFA competitions with its rich payments in order to cover that gap (for which they need that competitive budget in the first place!). Placing limits on how much these clubs can pay their players would lead to them having to reduce playing quality, thereby lowering their competitiveness on the field both domestically and in Europe, or get into even more risk by absorbing the penalties for overspending.

However, Article 79 of the new regulations makes it clear that the new cost control measures will not impact the vast majority of clubs in Europe outside of the elite belonging to the top leagues or the biggest clubs from the medium ones:

## 79.05

The cost control requirements must be fulfilled by all clubs that qualify for the group stages of the relevant competitions except those clubs that have employee benefit expenses in respect of all employees below EUR 30 million in the reporting period ending in the calendar year in which the UEFA club competitions commence and the reporting period immediately prior to that.

So, even if you as a club have a turnover of €30m and you spend 99% of it on player wages, you will still fall outside of the scope of the new salary limit!

- Another thought that springs to mind looking at the new regulations is that club financial directors and their accounting teams will really need to operate very flexible accounting systems, because now, on top of everything they need to do under their own club accounting principles as an entity established under the respective domestic legal requirements, and also the standard UEFA club licensing principles, which by now have become fairly established, they will also need the capability to extract from their numbers such specific items as “employee benefit expenses of relevant persons”, where the “relevant persons” are the club’s professional players and the head coach (only the head coach!). Of course, it is not so difficult to do it, but probably not too many clubs keep this kind of information ready to hand and will need to take some steps to retrieve it from their books.

It also remains to be seen whether, for the sake of alleviating the numbers, some clubs would resort to creative job descriptions, or rebalancing the power and responsibilities between, say, the head coach and the sport director of the club, to pay less to the former and more to the latter.

- 4) Our last observation concerns the approach taken by UEFA to implement a fixed penalty grid for clubs that overstep the permitted squad cost ratio:

#### L.4 Financial disciplinary measure grid

The level of financial disciplinary measure as a percentage of the licensee's squad cost ratio excess:

Squad cost ratio % points above defined limit	First time in breach	Second time in breach	Third time in breach	Fourth time in breach
> 0 - ≤ 10	10%-25%	25%-50%	50%-75%	75%-100%
> 10 - ≤ 20	25%-50%	50%-75%	75%-100%	
> 20 - ≤ 30	50%-75%	75%-100%		
> 30	75%-100%			

Unlike with the previous approach, which was case-driven, now we have pretty much what constitutes a menu, where financial directors can calculate the cost of a salary cap breach with a certain degree of precision, and CEOs or owners can decide whether it is an acceptable trade-off for their internal business and sporting plans or not.

Funnily enough, UEFA removed the aim “to introduce more discipline and rationality in club football finances” from the preamble to the new regulations, but this kind of hard-nosed approach would be very much in line with the aim of having more rationality. After all, club managements don't choose to overspend on salaries for no reason – they do so as a result of competitive behaviours in the battle for talent, high inflationary pressure on player wages and transfer costs within the industry and a strong desire to achieve sporting results above an economic benefit. As long as these items remain unresolved, there will be club owners and managers who will actually choose to pay a fine for breaching the salary cap, if it allows them what they perceive as a better chance of sporting success.

LTT Sports constructs bespoke solutions based on football expertise from the inside and corporate industry standards from the outside at strategy, operational and field levels, as well as a visionary conceptual understanding of the universally shared needs of the football industry in a fast-evolving landscape. With our extensive network we have worked and visited more than 200 clubs from leagues all over the world, but we have a genuine interest and deep understanding of the full football ecosystem.

## Previous analyses: COVID-19 CRISIS 2020 IN FOOTBALL

Free download

#Issue 1 Financial First Response, Mitigation and Contingency, March 2020

#Issue 2 Football Department Crisis Management, April 2020

#Issue 3 Governance, Decision Making & Football Economy, May 2020

#Issue 4 Resilience and Mitigation in Women's Football, May 2020

#Issue 5 Resilience and Impact on Community: Is football without fans really nothing?, August 2020

#Issue 6 Resilience and Impact on Global Football "the tip of the iceberg", November 2020

### Follow us for further insights:

[linkedin.com/company/lttsports/](https://www.linkedin.com/company/lttsports/)

[twitter.com/LTTsports](https://twitter.com/LTTsports)

[instagram.com/lttsports](https://www.instagram.com/lttsports)

[youtube.com/channel/UC3Xxg01N\\_NE7Je-EjYLipDQ/videos](https://www.youtube.com/channel/UC3Xxg01N_NE7Je-EjYLipDQ/videos)

### Contributors

#### Konstantin Kornakov

Strategy Council Member  
[konstantin@lttsports.com](mailto:konstantin@lttsports.com)  
Edinburgh, UK

#### Olivier Jarosz

Board Member  
[olivier@lttsports.ch](mailto:olivier@lttsports.ch)  
Geneva, Switzerland

#### Knowledge Hub team

[contact@lttsports.ch](mailto:contact@lttsports.ch)  
Carouge, Switzerland

© Copyright throughout this work is vested with LTT Sports and all rights are reserved. Reproduction is authorised provided the source is acknowledged. For any use or reproduction of graphics, permission must be sought directly from the copyright holders. All information is provided in good faith and whilst every effort has been made to ensure the accuracy of the information supplied herein, LTT Sports cannot be held responsible for any errors or omissions. LTT Sports shall not be held liable for any damages or losses arising from the use of any material contained in this work, or from any resulting action or decision.



[www.lttsports.com](http://www.lttsports.com)  
[admin@ltsports.com](mailto:admin@ltsports.com)