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# **Is UEFA Financial Fair Play ‘fair’? The case of Real Madrid**

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## **Abstract**

This study intends to inform whether UEFA (Union of European Football Associations) Financial Fair Play (FFP) is ‘fair’. More specifically, it examines whether Real Madrid built its past successes in the men’s Champions League ‘unfairly’ (as per FFP requirements) as a platform for its current ‘fair’ revenue and wins. The methods are documentary search and calculation of the percentage of revenue derived from earlier ‘unfair’ wins to assess whether it contributed to recent wins. Results suggest that Real Madrid’s initial wins in the Champions League would have complied with FFP requirements, but not its three wins over the period 1998-2002, meaning that the club currently generates revenue considered as ‘fair’ from past ‘unfair’ wins. However, this additional revenue does not seem to have acted as a platform for recent successes. Therefore, FFP might be ‘fair’. Extending the analysis to more clubs is needed to investigate this further.

## **Le Fair Play Financier de l’UEFA est-il ‘juste’ ? Le cas du Real Madrid**

## **Résumé**

Cette étude cherche à élucider si le Fair Play Financier (FPF) de l’UEFA (Union Européenne des Associations de Football) est ‘juste’. Plus spécifiquement, elle examine si le Real Madrid a construit ses succès passés dans la Ligue des Champions des hommes ‘injustement’ (selon les exigences du FPF) comme une plateforme pour ses revenus considérés comme ‘justes’ et ses succès actuels. Les méthodes utilisées sont la recherche documentaire et le calcul du pourcentage de revenus dérivés des succès passés pouvant être considérés comme ‘injustes’ pour évaluer si cela a contribué aux victoires récentes. Les résultats suggèrent que les victoires initiales du Real Madrid dans la Ligue des Champions auraient été conformes aux exigences du FPF, mais pas ses trois victoires sur la période 1998-2002. Cela signifie que le club génère actuellement des revenus considérés comme ‘justes’ à partir de victoires passées ‘injustes’. Cependant, ces revenus additionnels ne semblent pas avoir contribué aux succès récents. Dès lors, le FPF pourrait être ‘juste’. Étendre l’analyse à plus de clubs est nécessaire pour examiner cela plus en profondeur.

**JEL codes:** L83, Z23.

## Introduction

UEFA (Union of European Football Associations) Financial Fair Play (FFP) was established in 2010 and implemented in 2013, with the aim that clubs live within their means rather than resorting to equity participant funding and/or debts (Dermot-Richard et al., 2019). According to Dermot-Richard et al. (2019, p. 412), the key requirement in FFP used to be that “*clubs should report a break-even position, calculated by comparing relevant income and costs, over a rolling three-year period, subject to what is termed ‘an acceptable level of deviation’.*”

New financial sustainability regulations have been approved by UEFA in 2022 without modifying the core principles of FFP (UEFA, 2023). Dermot-Richard et al. (2019, pp. 411-412) note that “*It is unavoidable that some clubs have more and larger income sources than others for reasons related to history, population or market demand.*” Nevertheless, clubs relying on historical sporting successes may have built them by acting financially in a way opposite to FFP, i.e., lived beyond their means and resorted to equity participant funding and/or debts. One may argue that since FFP was not implemented until 2013, it does not matter whether some clubs built their historical sporting successes – and subsequently part of their current financial value (Scelles et al., 2016) – in contradiction with FFP. Yet, this may create a competitive disadvantage for other clubs aiming to build their sporting successes in the context of FFP.

Against this background, the present study intends to answer a simple question: is UEFA FFP ‘fair’? More specifically, it examines whether Real Madrid – the most successful club in the UEFA men’s Champions League – built its successes ‘unfairly’ as a platform for current ‘fair’ revenue and wins through an analysis of its past financial approaches. The objectives are to review relevant evidence and identify the financial approaches applied historically by the club. If there is some evidence that Real Madrid built its successes ‘unfairly’, this raises some questions around the notion of ‘fair’ revenue. Therefore, a subsequent objective of the

present analysis is to reflect on this notion and provide some consideration around how much of Real Madrid's current 'fair' revenue comes from historical successes funded while living beyond its means.

### **UEFA Financial Fair Play, financial sustainability and acceptable deviation**

FFP and more recent financial sustainability regulations are based on the comparison of relevant income and costs, relevant here meaning football related, with the exclusion of long-term investments such as youth development, community development, women's football, as well as the construction and/or substantial modification of tangible assets such as stadium (UEFA, 2023). In FFP, there was some flexibility in the strict application of the rule, with an acceptable level of deviation allowed. This was €5m but could be extended, if entirely covered by equity participants and/or related parties, to €45m over the reporting periods 2013-14 (based on the monitoring periods ending in 2012 and 2013) and 2014-15 (based on the monitoring periods ending in 2012, 2013 and 2014) then €30m over the reporting periods 2015-16 to 2017-18. It was supposed to be strictly reduced to €5m over the reporting period 2018-19 (UEFA, 2012), however the €30m deviation still applied (UEFA, 2018). It was then softened due to Covid-19 (UEFA, 2020).

The new regulations approved by UEFA in 2022 do not affect the core principles of FFP (UEFA, 2023). The acceptable level of deviation is €5m but can be extended, if entirely covered by equity participants and/or related parties, to €60m over the three-year reporting period, with the possibility to further increase it up to €10m for each reporting period in the monitoring period under specific conditions. Squad costs should be no more than 70% of adjusted revenue and the net equity (difference between assets and liabilities) must be positive or have improved by at least 10% over the last year. Solvency requirements still include no overdue payments to football clubs, employees, social/tax authorities and UEFA.

Of particular interest is how the acceptable level of deviation compares to the revenue generated by clubs, as it can help compare with situations before FFP was implemented. The revenue used as reference for the initial acceptable level of deviation of €45m over two then three seasons was that recorded by Paris Saint-Germain before its new ownership in 2011, i.e., before the edition 2012 of FFP was finalised. The club generated €100m in 2010-11 (Deloitte, 2014). This means that the initial acceptable level of deviation was up to 45% of the annual revenue generated by the club over two then three years. For clubs with a similar revenue but not able to rely on equity participants, the acceptable level of deviation was 5% of the annual revenue over two then three years. Therefore, an acceptable level of deviation of up to 45% of the annual revenue over two or three years can be used as a reference to assess situations before FFP was implemented if clubs could rely on equity participants vs. up to 5% of the annual revenue if clubs could not rely on equity participants.

## **Methodology**

The method is documentary search. Documents informing how Real Madrid built and, in particular, funded its successes in the men's Champions League were reviewed and analysed. This was done to identify evidence relevant to the research, i.e., primarily the financial approaches, while also listing any other elements likely to explain successes in the Champions League such as a new stadium. The documentary search adopted a snowballing approach. It started with the club's Wikipedia pages in English, French, and Spanish translated in English. This was done to identify initial evidence of how success was built, before checking the external sources mentioned by Wikipedia to support the content, then conducting further checks through typing relevant key words (e.g., Real Madrid, names of key players and presidents, period considered, finance, investment, transfer) in Google and Google Scholar.

A first Excel sheet was organised, listing the years of the wins, comments about evidence potentially relevant to the research, their sources and the corresponding internet links. This data collection led to 34 initial comments supported by a mix of academic references, financial reports or articles, newspapers articles, blogs and Wikipedia pages (always supplemented by at least one of the four other sources). The comments collected were compared, contributing to the triangulation of the data to strengthen the validity of the evidence. While every effort was made to ensure a sufficient triangulation, the author does not speak Spanish and, hence, may have not been able to access all evidence potentially relevant to the research. Besides, some relevant evidence may not be available on the internet, e.g., books only available in paper and not electronic version. Relevant comments and associated figures then informed the findings, as evidenced by the later sources used in the results section.

A second Excel sheet focuses more specifically on Real Madrid's economic and financial figures over 1955-63, mainly derived from Simón (2017). This article looks at the economic model of the club and in particular the impact of international friendly games over the aforementioned period, based on the documentation of the Real Madrid's archive. The club's economic and financial figures, supported by comments, were assessed against the FFP requirements presented above.

A third Excel sheet focuses on recalculating revenue and operating profits/losses based on the loss in revenue Real Madrid would have suffered from if FFP requirements would have applied from the start of the Champions League. Former titles increase current revenue, however some titles were 'unfairly' won as per UEFA financial sustainability requirements. From Scelles et al. (2016)'s data on the determinants of clubs' financial value, one additional Champions League title increases revenue by 3.08% while one additional domestic title

increases revenue by 0.92% (see Appendix 1). These percentages were applied to Real Madrid to assess if additional revenue from past ‘unfair’ wins contributed to recent wins.

## **Results**

### ***The first six titles (1956-66)***

Real Madrid won the first five editions of the Champions League over 1956-60 and a sixth title in 1966. Simón (2017) provides and allows the calculation of figures relevant to the examination of its financial approach over 1955-63, see Table 1 and its explanatory notes.

Table 1

The net equity became negative in 1956-57. However, player transfers were registered as revenue and expenses, not capitalised and amortised. At the start of 1956-57, Real Madrid bought Kopa for 52m old francs (Kopa & Burchkalter, 2006), equivalent to 6.5m pesetas then (Edvinsson, 2016). If capitalised and amortised over three years (the length of Kopa’s initial contract; Cazal, 2022), then Kopa would have represented an asset valued 4.3m pesetas at the end of 1956-57. By repeating the same process for other players, it is likely that the net equity would have been positive. Capitalising players may not have been enough to reach a net equity of 0 in 1957-58, but it may be that at least part of the debts could be considered as subordinated loans. If so, UEFA allows their inclusion as equity rather than debts (UEFA, 2023). Therefore, the net equity would have been likely to become positive. A deviation of 10m over two years can be seen in 1957-58, representing around 15% of the revenue that season. This is well below the acceptable deviation of 45% suggested above. Yet, there is no evidence that the club could rely on equity participants, meaning an acceptable deviation of

5% should be considered instead and the club would have not respected the maximum deviation over two years. Nevertheless, if extended to three years from 1955-56, the deviation was 2m (3% of the revenue in 1957-58), in line with the maximum deviation.

The squad cost ratio is not considered in Table 1. Simón (2017) refers to salaries, signings and bonuses for the players of 14m (21% of revenue) in 1957-58, salaries of the players and coaching staff of 35m (37% of revenue) in 1961-62 and 33.5m in 1962-63 to which 12m have to be added for signing Amancio (Ruiz, 2012), i.e., 45.5m (42% of revenue). The other relevant expenses may have represented a higher percentage of the revenue in the 1950s and 1960s than nowadays, meaning the squad cost ratio that UEFA would have expected under FFP might have been lower than 70%. However, the club may have reduced its squad cost ratio by applying capitalisation and amortisation rather than expenses and income. Besides, if FFP would have applied, the club would have been able to adapt its behaviour.

There were overdue payments of 15m at the end of 1962-63 (Ruiz, 2012). UEFA would have considered only 5m due to players if FFP would have applied. Real Madrid may not have been allowed to sign Amancio in 1962-63 based on the assessment UEFA would have made of the club's future financial information. However, the club's financial difficulties appeared when Italian clubs drove the inflation of transfer fees and salaries thanks to industrial patronage (Doidge, 2015). This would have been prevented under FFP. Thus, Real Madrid may have well signed Amancio in 1962 without this signing being so risky economically.

### ***The last eight titles (1998-2022)***

Real Madrid won in 1998 and 2000 while having undisclosed large debts in 1995 that only grew further until 2000, leading the club on the brink of bankruptcy (Mandis, 2016). When Pérez was elected President in 2000, he took a large personal financial risk, estimated at €147m by Mandis (2016), that contributed to sign new players. Yet, the squad cost ratio



(amortisations not included) was already 66% in 1999-2000 and grew to 90% in 2001-02, the season the club won another Champions League, before starting to decrease the next season, being still 72% in 2002-03 (The Swiss Ramble, 2011).

Real Madrid may have then benefitted from its ‘unfair’ wins over 1994-2003 to generate ‘fair’ revenue later. If the club would not have won any titles if FFP would have applied over 1994-2003 (not its three Champions League, not its four La Liga), its later revenue would have supposedly been around 12% lower than its actual revenue. For example, over 2011-13, the club’s annual revenue would have decreased by €64m (see Table 2), more than the club’s operating profits then but not much more. Thus, it is unlikely that it would have suffered from lower revenue to attract players and win the Champions League in 2014. From the monitoring period 2016-17 based on the cumulated ‘fair’ operating loss over the last three seasons, the club would not have met FFP requirements. It would have probably adapted its approach from 2014-15, e.g., by not signing players not key in the 2016-18 wins. Therefore, the club might have still won without them. It then won in 2022, while displaying a large cumulated ‘fair’ operating loss over the last three years. However, based on the adjustments allowed under Covid-19, it could have been limited to €67.5m, even less if not signing players not key, in line with FFP.

Table 2

## **Discussion and conclusion**

FFP might be ‘fair’ since Real Madrid does not seem to have benefitted from the additional revenue it may have generated from ‘unfair’ historical wins. It remains that such additional revenue may help reach current success for other clubs, suggesting the need to extend the

analysis to more cases. Besides, as per Table 2, if Real Madrid would not have won any titles if FFP would have applied over 1994-2003, its 2021-22 revenue would have reduced by €132m. This is more than the difference of €115m found between the actual value of a sponsorship agreement between Paris Saint-Germain and Qatar Tourism Authority (€215m) and its “fair value” as evaluated by UEFA (€100m) in 2014-15 (Dupré, 2018). The idea is not to conclude that €132m of the revenue generated by Real Madrid in 2021-22 should have been requalified as ‘unfair’; it is rather to put in perspective the amounts considered for further discussion of the notion of financial ‘fairness’, with some clubs criticised for applying a financial approach under FFP not dissimilar to that applied by other clubs before.

Approaching the notion of ‘fair’ revenue based on how past successes affect current revenue highlights the importance of historical considerations when assessing financial ‘fairness’. A policy implication is that UEFA may consider the economic potential of clubs (e.g., based on the predictions of a regression explaining financial value) against their ability to unlock it via initial financial losses prior to FFP. Financial sustainability requirements may be softened for clubs not relying on additional revenue from historical wins constrained in their ability to reach their full economic potential. Although complex to implement and subject to criticisms, this direction may allow clubs to better align financial management and economic potential.

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**Table 1 Financial figures (in pesetas) for Real Madrid, 1955-63 (from/calculated from Simón, 2017), with explanatory notes**

Season	Relevant revenue	Relevant expenses <sup>1</sup>	Relevant earnings	Relevant earnings over last two years	Assets	Debts	Net equity
1955-56	45m	37m	8m	8m <sup>2</sup>	122m <sup>3</sup>	<i>115m<sup>4</sup></i>	<i>7m</i>
1956-57	<i>52m</i>	<i>60m</i>	-8m	0m	122m	<i>128m</i>	<i>-6m</i>
1957-58	66m	68m	-2m	-10m	122m	<i>135m</i>	<i>-13m</i>
1958-59	85m	69m	16m	18m	122m	<i>124m</i>	<i>-2m</i>
1959-60	94m	<i>88m<sup>5</sup></i>	<i>6m</i>	<i>22m</i>	122m	<i>123m</i>	<i>-1m</i>
1960-61	95m	<i>90m</i>	<i>5m</i>	<i>11m</i>	122m	<i>123m<sup>6</sup></i>	<i>-1m</i>
1961-62	95m	87m	8m	13m	122m	<i>120m</i>	<i>2m</i>
1962-63	109m	<i>110m<sup>7</sup></i>	<i>-1m</i>	<i>7m</i>	172m	<i>180m<sup>8</sup></i>	<i>-8m</i>

General note: Figures in italics are assumed because they are not available and cannot be calculated, or they have been retreated compared to Simón (2017).

<sup>1</sup> Relevant expenses exclude costs related to other sports sections and grassroots. Simón (2017) highlights a cost of 3m for other sports sections and 2m for grassroots in 1963. It is assumed that these non-relevant costs were constant over 1955-63. Hence, 5m are automatically deducted from the overall expenses to calculate the relevant expenses, while it is considered that other sports sections and grassroots did not generate any revenue. The 5m non-relevant costs need to be automatically reincorporated for the calculation of the debts.

<sup>2</sup> It is assumed that relevant earnings in 1954-55 were 0m.

<sup>3</sup> Assets correspond to the new stadium built in the 1940s costing 37m (Ruiz, 2007), as well as its expansion between 1952 and 1954 and the construction / cash initially borrowed for the construction of the Ciudad Deportiva ("Sports City") inaugurated in 1963 for an overall amount of 85m (Simón, 2017). It is assumed that the club was constantly with no or negligible cash at the end of each season covered here, an assumption consistent with the constant difficult economic situation experienced by the club over 1955-63 (Simón, 2017).

<sup>4</sup> The new stadium was funded through a loan of 2m for the purchase of land and obligations up to 30m covered by members and supporters in 1944 (Relaño, 2016). It is assumed that the remaining 5m were funded directly by the club, and the loan of 2m was fully reimbursed by the end of 1955-56.

<sup>5</sup> Simón (2017) mentions expenses of 104m in 1959-60. It is assumed that they include not only the 5m non-relevant costs but also a repayment of 11m for the stadium expansion, see note 6 for further rationale.

<sup>6</sup> Simón (2017) refers to a long-term debt of 93m in 1961, with still a pending repayment of more than 63m for the stadium expansion and the Ciudad Deportiva (the remaining 30m being assumed to correspond to the obligations up to 30m covered by members and supporters in 1944). Therefore, it is assumed that a further repayment of 11m for the stadium expansion was made in 1960-1961, i.e., an overall repayment of 22m in 1959-60 and 1960-61 explaining the pending repayment of 63m out of the initial 85m. The additional 30m for the overall debts on the top of the long-term debt of 93m correspond to short-term debts accumulated over 1956-61 to fund cumulated losses (8m) and repayment of long-term debts (22m).

<sup>7</sup> Simón (2017) talks about an expenditure of 111m in 1962-63. A new loan of 50m was agreed in 1962, with 43m still owed in 1963, meaning 7m were already repaid, assumed to be included in the expenditure. Also in 1963, 15m were due to players for their salaries and other assorted costs from the previous season (Ruiz, 2012), including a 4m loan (not a cost), meaning a cost of 11m from the previous season was not paid yet. Therefore, the 111m provided by Simón (2017) were retreated by deducting not only the 5m non-relevant costs for other sports sections and grassroots but also 7m repayment and adding a 11m unpaid cost.

<sup>8</sup> The debts in 1962-63 correspond to the 120m debts in 1961-62, the addition of the new loan of 50m agreed in 1962 and the 15m due to players for their salaries and other assorted costs at the end of the season, the deduction of 7m repayment for the new loan of 50m, and the addition of 2m corresponding to the difference between 1) the sum of the 7m repayment and 6m loss (1m loss for relevant earnings and 5m for the non-relevant costs) in 1962-63, and 2) the 11m the club was able to repay based on the cost of 11m not paid yet.

**Table 2 Actual vs. 'fair' revenues and operating profits for Real Madrid, 2011-22**

Season	Actual revenue	'Fair' revenue	Actual operating profit	'Fair' operating profit/loss	Cumulated 'fair' operating profit/loss over last three years
2011-12	€535m	€471m	€44m	-€20m	-€20m (one year)
2012-13	€539m	€475m	€56m	-€8m	-€28m (two years)
2013-14	€566m	€498m	€57m	-€11m	-€39m
2014-15	€653m	€575m	€64m	-€14m	-€33m
2015-16	€621m	€547m	€39m	-€35m	-€60m
2016-17	€726m	€639m	€28m	-€59m	-€108m
2017-18	€802m	€706m	€45m	-€51m	-€145m
2018-19	€854m	€752m	€54m	-€48m	-€158m
2019-20	€794m	€699m	€0m	-€95m	-€194m <sup>1</sup>
2020-21	€754m	€664m	€5m	-€85m	-€228m <sup>2</sup>
2021-22	€1,100m	€968m	€23m	-€109m	-€289m

Source: Real Madrid (n.d.)

<sup>1</sup> Due to Covid-19, the 2020-21 FFP monitoring period was limited to the two reporting periods 2017-18 and 2018-19. Over 2017-19, the cumulated 'fair' operating loss was -€99m.

<sup>2</sup> Due to Covid-19, the 2021-22 FFP monitoring period included the four reporting periods 2017-18, 2018-19, 2019-20 and 2020-21, with 2019-20 and 2020-21 considered as one single period, i.e., their sum was averaged if displaying a loss. Based on this, the cumulated 'fair' operating loss was -€189m. Additional adjustments were allowed, e.g., adjusting the revenue to the pre-Covid-19 level (2018-19) (UEFA, n.d.). Based on a 'fair' revenue of €752m in 2019-20 and 2020-21, the 'fair' operating profit/loss would have been -€42m then €3m. The cumulated 'fair' operating losses would have been -€118.5m over 2017-21 and -€67.5m over 2018-21.

## Appendix 1: Revenue recalculation.

The revenue recalculation is based on two steps. The first step is to conduct the regression explaining the log-revenue of the most valuable European men's football clubs as evaluated by Forbes by the determinants of financial value identified by Scelles et al. (2016), see Table A1. This is to identify the coefficients associated with historical successes in the Champions League and the national league (in bold in Table A1).

**Table A1 Regression explaining log-revenue in European men's football, 2005-13**

Variable	Coefficient	Standard error
Intercept	6.16***	1.13
Log-income	0.20***	0.07
Log-population	0.002	0.03
Local competition	-0.04*	0.02
Facility age	-0.001**	0.0005
Private ownership	0.16**	0.07
New foreign ownership	0.08**	0.04
Log-attendance	0.20***	0.05
National sports performance t	0.14	0.13
National sports performance t-1	0.16	0.13
<b>Historical national sports performance</b>	<b>0.0092***</b>	<b>0.003</b>
Continental sports performance t	0.04***	0.01
Continental sports performance t-1	0.001	0.01
<b>Historical continental sports performance</b>	<b>0.0303***</b>	<b>0.01</b>
Log-player value	0.45***	0.05
England	ref.	
France	-0.01	0.08
Germany	-0.14**	0.05
Italy	-0.05	0.08
Netherlands	-0.85***	0.15
Portugal	-0.72***	0.17
Scotland	-0.48***	0.14
Spain	-0.17***	0.06
Turkey	-0.36**	0.16
2005	-0.37***	0.05
2006	-0.27***	0.05
2007	-0.29***	0.04
2008	-0.09**	0.04
2009	-0.16***	0.05
2010	-0.25***	0.05
2011	-0.09**	0.04
2012	-0.10**	0.04
2013	ref.	
R <sup>2</sup>	0.940	
Number of observations	199	

Note: \*, \*\* and \*\*\* mean significant at 10%, 5% and 1%, respectively.

Based on these coefficients, the second step is to estimate the loss in revenue that Real Madrid would have been supposed to suffer from with a lower number of wins. In other words, the coefficients are applied to the ‘unfair’ wins by Real Madrid (three Champions Leagues and four La Liga over 1994-2003). Since the coefficients are derived from a regression explaining log-revenue and not revenue, the formula to calculate the percentage of loss in revenue in Excel is  $=\text{EXP}(\text{number of titles} \times \text{coefficient}) - 1$ . The percentage of loss in revenue from the Champions League is  $\text{EXP}(3 \times 0.0303) - 1 = 9.52\%$  and the percentage of loss in revenue from the national league is  $\text{EXP}(4 \times 0.0092) - 1 = 3.75\%$ . This means that the overall percentage of loss in revenue is  $1 - 1 / ((1 + 0.0952) \times (1 + 0.0375)) = 11.99\%$ . For example, in 2021-22, the loss in revenue is  $1100 \times 0.1199 = \text{€}131.9\text{m}$ .