Does the Lampard Loan Deal Raise Financial Fair Play Concerns for Man City?

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In this article, James Ferrow considers whether Frank Lampard's recent loan move from New York City FC to Manchester City raises any concerns for the English club under the UEFA Financial Fair Play Regulations, and continues to reflect on whether arrangements, such as overseas networks, that may proffer intangible benefits to clubs, will come under closer investigation from UEFA in the future.

THE LAMPARD LOAN DEAL

There has been much discussion in recent weeks regarding the loan of ex-Chelsea talisman, Frank Lampard, from New York City FC (New York FC) to Manchester City FC (Man City).

The fact that New York FC's majority shareholder is City Football Group, a holding company established to hold shares in the growing number of overseas clubs affiliated with Man City, has led a number of figures within the game - most prominently, current Arsenal manager, Arsene Wenger - to question whether the transaction complies with, or is designed to subvert, the UEFA Financial Fair Play Regulations ("*FFP Regulations*")[1].

Last month, Wenger queried whether the move was designed to "*get round*" the FFP Regulation[2]. Since his comments, Man City have been quick to point out that they will be paying Lampard's wages themselves during his loan spell and there is nothing underhand about the transaction.

Below we will briefly recount the current status of Man City's compliance with the FFP Regulations before examining whether Wenger is right to draw attention to the Lampard transaction as potentially subverting the Regulations.

It is worth noting at the outset that, as a standalone transaction, the Lampard deal does not breach the FFP Regulations per se. However, potentially there is scope for UEFA to view the deal as a "*related party transaction*" (explained below). The rules related to related party transactions empower UEFA to adjust the value of the deal when assessing City's future "*break-even*" calculations (explained here[3]).

[1] UEFA Club Licensing and Financial Fair Play Regulations, 2012 Edition

[2] Press Association, 'Manuel Pellegrini hits back at Arsene Wenger over Lampard and Sagna deals', 8 August 2014, viewed on 3 September 2014, http://www.theguardian.com/football/2014/aug/08/manuel-pellegrini-arsene-wenger-lampard-sagna-manchester-city-arsenal

[3] Daniel Geey, 'Daniel Geey's Top Ten Tips for understanding Financial Fair Play', LawInSport.com, 22 January 2013, last viewed 8 September 2014, http://www.lawinsport.com/blog/daniel-geey-s-blog/item/daniel-geey-s-my-top-ten-tips-for-understanding-uefa-financial-fair play?highlight=WyJkYW5pZWwiLCJkYW5pZWwncyIsImdlZXkiLCJnZWV5J3MiLCJkYW5pZWwgZ2VleSJd

MAN CITY'S RECENT PROBLEMS WITH THE FFP REGULATIONS

SETTLEMENT WITH UEFA

Earlier this year, Man City entered into a settlement agreement with UEFA whereby it was agreed that the reigning Premier League champions would pay a conditional £49m fine and accept the imposition of certain restrictions on their European squad and incoming transfers.

A statement made on the club website referred to a "*fundamental disagreement between the club's and UEFA's respective interpretations of the FFP Regulations on players purchased before 2010*[4]." The club maintained that the regulations had been complied with; UEFA clearly thought differently[5].

The settlement agreement stipulates a number of sanctions and restrictions, the key ones being as follows[6]:

- "*Man City will lose €10m of its share of income from UEFA for competing in the Champions League for season 2014-15;*
- *Rather than having a cumulative allowance of €30m of losses over the next two reporting years (like all other clubs), Man City will have specific stipulated allowances for 2013-14 and 2014-15 of €20m and €10m respectively;*
- *Man City's European squad for the 2014-15 competition will be limited to 21 players of which five must be 'home-grown'*[7]*;*
- *The club's expenditure on new players for the transfer window which has just closed, on top of income from players it sold, was limited to €60m; and*
- *The wage bill of the whole club (playing and non-playing staff) for the 2014-15 season must not exceed the level of the 2013-14 season (although additional bonuses for performances can be paid outside this number).*"

If Man City complies with the restrictions contained in the settlement agreement, the constraints will be lifted at the end of 2015-16 season.

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[4] Extracted from 'MCFC Financial Fair Play Statement', 16th May 2014, viewed on 3 September 2014, http://www.mcfc.co.uk/News/Club-news/2014/May/Club-statement-16-May

[5] We can speculate that the substance of the disagreement was as follows: Man City believed that the wages of certain players purchased prior to 2010 ought to have been excluded from the break-even calculation in accordance with an exclusion set out in Annex XI of the FFP Regulations; UEFA's case, on the other hand, may well have been that Man City had not satisfied certain conditions which allow the exclusion to be utilised, namely that the wages of players under contract before 1 June 2010 can only be excluded from the break-even calculation where a club is able to (i) report a positive trend in the annual break-even results (proving it has implemented a concrete strategy for future compliance) and (ii) that the break-even deficit is only due to the annual break-even deficit of the reporting period ending in 2012 which in turn is due to contract s with players undertaken prior to 1 June 2010.

[6] Initially Man City were to be required to name eight home-grown players but this was subsequently reduced to five. (http://www.rte.ie/sport/soccer/english/2014/0611/623145-champions-league-boost-for-manchester-Man Man City/)

[7] 'Paris St. Germain's £167m deal fails UEFA financial fair play rules' (http://www.bbc.co.uk/sport/0/football/27243933)

IS LAMPARD'S LOAN A "RELATED PARTY TRANSACTION" UNDER THE FFP REGULATIONS?

Due to the connection between Man City and New York FC, the relevant FFP Regulations to look at when analysing the Lampard loan deal are those regarding related party transactions.

Annex X (E) of the FFP Regulations makes reference to "*related party transactions and fair value of related party transactions.*" Annex X (E.7) states:

"*A related party transaction may, or may not, have taken place at fair value…An arrangement or a transaction is deemed to be 'not transacted on an arm's length basis' if it has been entered into on terms more favourable to either party to the arrangement than would have been obtained if there had been no related party relationship.*"

Usually, this rule is engaged when dealing with scenarios where the owners of clubs attempt to artificially inflate a club's revenues in order to bolster the chances of passing the FFP Regulations e.g. by providing the club with a sponsorship deal from one of the owner's other companies.

The most obvious real-world example of this is the £167m sponsorship deal between the Qatar Tourism Authority ("*QTA*") and Paris St.Germain ("*PSG*")[8]. PSG are, of course, owned by a sovereign wealth fund that invests Qatar's oil and gas wealth in overseas companies. The QTA is a branch of the Qatari state. It is likely that UEFA deemed the deal between the QTA and PSG to be a related party transaction when assessing PSG's break-even calculations.

Where a transaction is regarded as a related party transaction, UEFA has the power to adjust any artificial 'mates rates' deals when calculating whether the relevant club is compliant with the rules regarding the amount of losses that clubs are permitted to make.

Due to the aforementioned ownership link between Man City and New York FC (sharing the same parent company), UEFA would be likely to regard the clubs as related parties and thus the loan deal for Lampard as a related party transaction under the FFP Rules and, as such, are empowered to assess whether or not the deal stuck between the clubs was at 'fair value'.

If UEFA deemed the Lampard deal to be at an undervalue, they could adjust the club's break-even calculation, which would result in City's expenditure, and potentially the club's losses, being artificially inflated.

Although we are not privy to the full terms of the settlement agreement referred to above, we do know that it contains restrictions on the amount of expenditure City is able to incur on new player registrations and limits on the extent of losses it is able to make over the next two seasons. If the club is close to breaching these terms and UEFA then deems the Lampard deal to be at undervalue, there

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[8] Essentially, 'Home-grown players' are defined by UEFA as players who, regardless of their nationality or age, have been trained by their club or by another club in the national association for at least three years between the age of 15 and 21. The UEFA rule does not contain any nationality conditions. It also applies in the same way to all players and all clubs participating in competitions organised by UEFA.

is a risk (albeit slight) that such an adjustment could put City in technical breach and, as such, could result in the club being sanctioned by UEFA.

WAS LAMPARD'S LOAN DEAL AT FAIR VALUE?

With Man City's spending power curtailed and European squad size reduced, the club has been forced to be more inventive in its transfer dealings this summer. The club has looked to sign players on free transfers (Bacary Sagna) and balance their books by selling players who are surplus to requirements (Jack Rodwell, Javier Garcia).

The deal for Lampard could be viewed as Man City making efforts to comply with the terms of its settlement with UEFA whilst strengthening the squad for the season ahead by doing 'smart business'. Not only will Lampard be an experienced figure on the pitch and in the dressing-room, he will also be one of the five 'home-grown' players in Man City's diminished European squad[9].

From a footballing perspective, it is possible to argue that Man City had an unfair advantage in securing Lampard's services. Lampard has signed a two year deal with New York FC; a deal which, given he is 36, other clubs would be unlikely to have been able to offer him. Therefore, Man City will benefit from his services without having to offer him a long-term contract.

However, given Lampard's age (and the fact that he was a free agent when he was signed by New York FC) it would be difficult to make a case that the deal is not at 'fair value'. Man City will be paying the player's wages during the loan spell and, upon his return to New York, the parent club will be able to call upon a player who is match-fit and fully prepared for the start of the MLS season.

Although the deal would be regarded as a related party transaction, it seems unlikely that UEFA would regard the deal as not being at 'fair value'. If New York FC continued to pay some or all of Lampard's wages during the loan spell, effectively subsidising Man City, this would probably be more likely to be regarded as a deal which is more beneficial to Man City than one which a non-related party would have offered to it.

Would the analysis be different if a different player was involved? Potentially, yes. Imagine a scenario where New York FC buy Lionel Messi from Barcelona for a world record fee of £200m (perhaps unlikely, but certainly not impossible) and then proceed to loan Messi for no fee to Man City (with Man City paying his wages). How would this be substantially different to the Lampard deal? Ostensibly it is the same transaction.

The answer must surely be that a player with a large transfer fee, such as Messi, could not reasonably be expected to be loaned to another club for no fee. To continue to use the hypothetical Messi example, New York FC would have effectively paid the transfer fee on Man City's behalf (although it is true that New York FC would get the benefit of any fee on a subsequent transfer). The difference is not necessarily the player, but the fee.

[9] 'Chelsea: Vitesse Arnhem links investigated by Dutch FA' (http://www.bbc.co.k/sport/0/football/26847853)

UEFA would be likely to deem the free loan of such a player as being below ‘fair value’ and would adjust the financial figures accordingly when calculating a club’s break-even result.

Therefore, it is likely that the FFP Regulations would be ‘effective’ from a purely financial perspective. However, will UEFA also attribute value to the kind of intangible factors mentioned above i.e. transactions allowing a club to fulfil ‘home-grown’ player squad conditions?

TO WHAT EXTENT MAY INTANGIBLE FACTORS ATTRACT UEFA’S ATTENTION?

It will be interesting to see whether these types of intangible factors will attract UEFA’s attention.

In a wider sense, it will be instructive to see how UEFA reacts to clubs developing overseas networks. City Football Group now owns Man City, New York FC, Melbourne City FC and holds a minority stake in Yokohama F. Marinos.

Of course, City is not the only English club with such relationships. Some of these relationships are of a more informal nature. For example, Chelsea has an unofficial arrangement with Vitesse Arnhem (Vitesse’s owner, Alexander Chigirinsky, is reportedly a close friend of Roman Abramovich) whereby Chelsea can loan out its young players to get experience in the Dutch league in return for Chelsea getting first refusal on emerging talent at Vitesse[10].

Other relationships are more transparent. For example, Udinese and Watford are both owned by the Pozzo family and constantly loan players to each other (and like Man City and its sister clubs, it is clear that they are related parties under the FFP Rules).

Clearly, these connections and arrangements are designed to gain a competitive advantage; it will be interesting to see whether UEFA starts to investigate such relationships more closely as part of the FFP regime.

[10] FIFA Financial Fair Play Regulations Football Governance Major League Soccer (MLS) Premier League Regulation UEFA UEFA Club Licensing and Financial Fair Play Regulations United Kingdom (UK) United States of America (USA)

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