

# The impact of capital gains manipulation on the financial reporting of football clubs – the Plusvalenza case and Juventus

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**SUMMARY:** In recent decades, football has attracted huge numbers of spectators and has become an increasingly popular sport among sports fans, a major entertainment industry and a growing concern for its financial sustainability. When assessing financial stability, it is essential to ensure that the financial statements are adequate, reliable and present a true and fair view.

Playing rights are considered to be an indispensable resource for football clubs, but their evaluation is highly subjective. This also undermines the reliability of reporting and provides scope for manipulation of capital gains. This latter phenomenon has been evident in the operation of European football clubs, the most notable of which is Juventus. In this paper, we will attempt to examine the case of Juventus through a case study analysis, highlighting how the pricing of playing rights can help to portray a club's wealth, income and financial situation in a more favourable light, and the short and long-term consequences of manipulation.

**KEYWORDS:** playing rights, capital gains, capital gains manipulation, sports management

**JEL-CODES:** L83, M41, Z23

**DOI:** [https://doi.org/10.35551/PFQ\\_2024\\_3\\_6](https://doi.org/10.35551/PFQ_2024_3_6)

## Introduction

The role of sport, and football in particular, has changed in recent decades. As Tóth and Mátrai (2023) point out, sport is now more than just a function, as professional sport can no longer be seen as a simple health promotion and leisure activity. Football is a sector of the entertainment industry which attracts a great deal of attention and is therefore of great and growing economic importance. This can be seen in the steady rise in transfer fees and capital invested (Nagy, 2011). In the 2021/22 season,

the top 20 football clubs with the highest revenues generated more than €9 billion in total revenue (Deloitte, 2023a), while European football clubs generated a total of €29.5 billion in revenue, already exceeding the 2018/19 season (Deloitte, 2023b). In line with this, there has been a growing interest in understanding and monitoring economic performance alongside sporting performance. As a result, the issue of the quality of accounting information has also become more important, which is similar to more broad trends (Denich, Budai, Baracsi, 2023).

One of the most significant football-related scandals in recent years is the Plusvalenza<sup>1</sup> case, which is mainly linked to Juventus Football Club S.p.A (hereinafter „Juventus”). Several Italian clubs have been suspected of manipulating capital gains, but Juventus has proved to be the most significant. In a number of cases, the club is suspected of having manipulated the fees paid for player signings in such a way that the results presented were more favourable than the real economic performance. The case was also investigated by the Italian stock exchange regulator (CONSOB) and the Italian Football Federation (FIGC). As a result of the latter’s investigation, the club was deducted 10 league points.

The aim of the study is to show the effects of transfer fee manipulation and to explore how much of an advantage it could have been for Juventus. The next chapter will also highlight some of the operational characteristics of the football industry, the difficulties of valuing playing rights and the Financial Fair Play (FFP) regulation that supports the stability of the football ecosystem. The case of Juventus will then be examined after a discussion of the methodology. Finally, the paper concludes by presenting the conclusions.

## Literature background

The central issue of the study is the difficulties of evaluating playing rights and the possibilities of manipulation associated with them. This, in turn, requires an overview of the main features of the football ecosystem.

### Operational characteristics of the football ecosystem

In the world of sport, the measurement of performance is twofold: it can be interpreted in terms of the results achieved on the field (win maximizing), but also, as in any other business, in terms of the financial-income dimension (profit maximizing) (Solberg-Haugen, 2010). The two aspects are interdependent, as sport performance can imply an increase in profitability (through an increase in revenues), but adequate economic performance is the basis for acquiring the resources necessary to achieve results. The complexity of the situation is increased by the fact that clubs, in addition to outperforming their rivals, are also interested in ensuring that their

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1 „Plusvalenza” is the terminology used for capital gains in Italian.

opponents are also good players, since the lack of fierce competition may reduce fan interest, which may lead to a reduction in revenues (Sloane, 1971).

Football's investor base is also different from the majority of industries, as a significant proportion of investors make decisions based on emotion (Fűrész-Rappai, 2020) rather than rational-economic considerations. Thus, for them, sport performance will be the primary consideration. For the fans, too, sporting performance will be the most interesting aspect, while the economic aspect will be of most interest when the financial situation of the club prevents the signing and employment of talented players (Solberg-Hauge 2010).

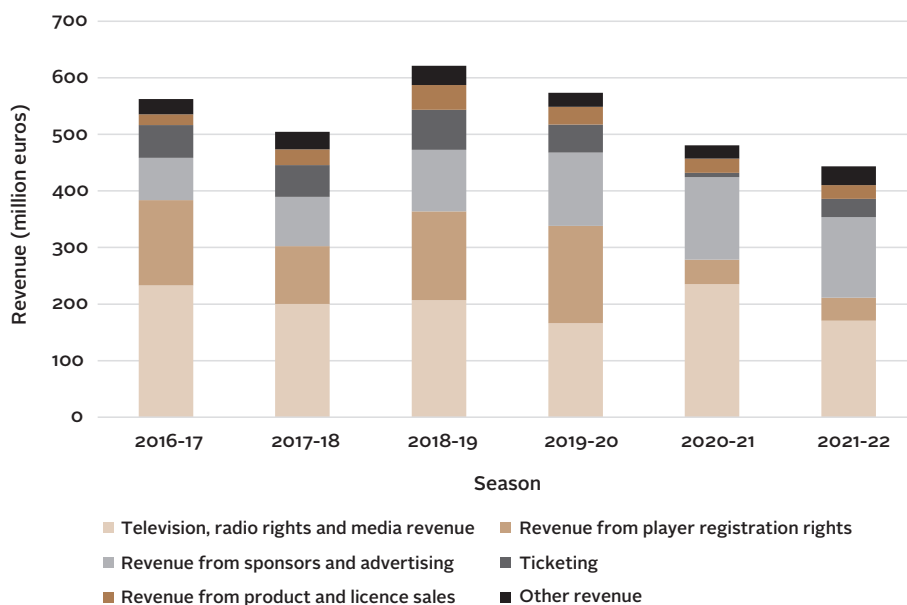
Another specificity is the special labour market of the sport, the transfer market, where a lot of data on football players is available to the general public (Frick, 2007). Additional particularity is that the resources (playing rights) that can be acquired are highly unique (Franceschi, 2020), so that prices cannot be credibly validated or challenged. Only one team at a time has a given asset and the seller has a monopoly, which is more pronounced for players with special skills (top) (Franceschi, 2020). Because of these characteristics, transfers may not only aim at strengthening one's own team but also at weakening other teams (Sawdust, 2018).

The transfer market changed radically after the 1995/96 season. Before the so-called Bosman affair, players could always be transferred for a transfer fee (even if their contract had expired), the number of foreign-born players who could be brought on board was limited and there was an extra registration fee for foreign players (Simmons, 1997, Feess-Muehlheusser, 2003). However, these rules were in conflict with Article 48 of the Treaty of Rome, as they were an obstacle to the free movement of labour. After the Bosman affair, the number of foreign players increased dramatically (Frick, 2007) and clubs had to pay more attention to protecting the value of their players, as well as the length of contracts (Simmons, 2007).

As pointed out in Fűrész's study (2018), the balance of the transfers of the top teams are usually negative, which they try to cover with revenues from successful sports activities and marketing. However, like many industries, the world of football has been hit by the crown virus epidemic. Closed gates and limited attendances have led to clubs losing matchday revenues and a decline in broadcast fees (Limba-Sapulette, 2021). This phenomenon has not avoided Juventus (Figure 1). In the 2020–21 season, ticket sales have decreased sharply compared to previous years. The 2018–19 season can be considered as the last season not yet affected by the coronavirus. At that time, the revenue from ticket sales was €70.7 million, which fell to €7.7 million for the 2020–21 season. Overall, revenues fell from €621.5 million to €480.7 million from 2019 to 2021, which, in addition to the decline in ticket sales, was due to the collapse of the revenue side of the already negative balance of player transfers. Among the TV, radio and media rights, we can mention the revenues from the international cup competitions received from UEFA in the respective season, which Juventus failed to increase significantly during the period of the COVID-19 crisis. Although the revenue from marketing increased by €56.4 million from the 2019/20 season to 2020/21, thanks to the matches that were replaced in the summer of 2020, this was not enough to offset the decrease in revenue over the two seasons. For the 2021/22

season, the decrease in revenue from marketing to the previous level further reduced Juventus' revenue for the current year.

**Figure 1: Evolution of Juventus' revenue per season (million euros)**



Source: own editing based on Juventus financial reports

In our study, we focus on the activity related to playing rights and the impact of capital gains manipulation on this category of outcomes. Since manipulation has no direct impact on the other two categories, we have not modified them, but of course we cannot leave possible indirect effects unmentioned. The effect of manipulated capital gains is to put the club in a more favourable budgetary position (at least in the short term), which implies a higher degree of managerial freedom, allowing it to sign more or more expensive players. In addition to on-field performance, the justifications may also increase other revenues through publicity (Martín et al, 2021). This can increase interest in the club, which can lead to an increase in the value of broadcasting rights (and hence the revenues from them) and an increase in demand for match tickets.

### Valuation problems of playing rights

Defining and valuing intangible assets is a challenging area, as several studies (Kovács-Deák, 2012; Kovács, 2015; Kovács-Lippai-Makra, 2023) have highlighted. Playing rights meet the criteria for asset recognition as they are resources that are well identifiable, controlled by enterprises (football clubs), expected to generate

some economic benefits in the future and whose costs can be reliably estimated. The criteria for recognition of intangible assets under IAS 38 are (1) it is probable that the entity will generate future economic benefits and (2) the cost of the asset can be measured reliably (IAS 38.21). Players are part of the human structure based on their individual competencies and skills, as categorised in Kovács et al (2021). Given that playing rights are among the most important assets of top clubs, their proper valuation has a fundamental impact on the quality of accounting information.

Whereas in traditional industries the demand for labour depends on the demand for the product and the consumer only sees the final product (Sloane, 2006), in professional sport the input (labour) has a separate value (Rosen – Sanderson, 2001). In professional sport, as in the entertainment industry, consumers pay to observe the process itself (Saw, 2021), not just the final product.

Several researchers (Feess – Muehlheusser, 2004; Martín et al., 2021; Franceschi et al., 2023) have addressed the difficulties of player evaluation. The book value of playing rights is essentially an updated historical cost value (adjusted for amortisation), where the cost value is derived from the value of the resources sacrificed to obtain them. In most cases, this is likely to differ from the market value, reflecting future earnings and growth potential (Rodov – Leliaert, 2002). The latter is rather subjective. Consequently, the book and market value of playing rights can differ significantly.

In their study, Franchechi et al. (2023) consider, in addition to the time factor (which takes into account the price level increase observed in the gaming market), other market factors (market activity, valuation), the characteristics of the player's contract, the characteristics of the player's performance, and the resulting direct and indirect consequences (e.g. prizes, trophies, valuations). Furthermore, the financial situation and sporting performance of the selling and buying clubs were also considered as factors influencing the value of the player, in addition to the player's athletic and individual characteristics and popularity.

The starting point for determining the historical cost value is the transfer fees, which are considered as compensation for the termination of live contracts, the value of which is determined by negotiations between market participants (Poli, Besson, Ravenel, 2022). During negotiations, the buyer will be interested in negotiating the lowest possible price, while the seller will be interested in setting the highest possible price. Prices are often affected by a lack of managerial rationality, information asymmetries between clubs, and the fact that clubs are not price takers (Franceschi, 2020).

When evaluating a certificate, it should also be borne in mind that not only the impact on the field and the change in results, but also, as mentioned above, the increased publicity and other revenues from this are important considerations.

### **Presentation of manipulated capital gains**

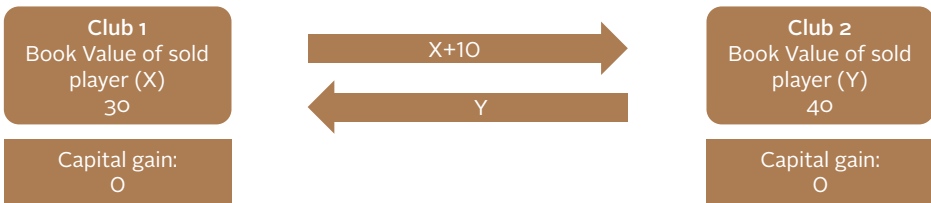
In transfers where the seller receives a higher transfer fee than the book value of the playings rights, a capital gain is realised. This can easily happen in the case of players

coming from the club's academy with a consequently low historical cost. In such cases, the presentation of capital gains reflects a reliable and fair picture.

In addition to the emotional decisions mentioned above, there is some economic rationality in the operation of football clubs, so even if every selling club would want to sell the rights at the highest possible price (thus gaining capital gains), the buyer would not be interested in making the deal. Thus, normally, clubs will only make a capital gain if the rights are worth more to the buyer than their book value.

The question arises: if the buyer is not interested in buying the playing rights at an inflated price, how can the capital gains be manipulated? A good way to do this is through player swaps, where both teams are both sellers and buyers. In our example, Team 1 and Team 2 are involved in a player swap. The book value of the player sold by Team 1 is 30, the other 40. The value judgements of the two teams are equal to the value recorded by the other party, so Team 1 pays 10 units for the transfer of X players' playing rights (or the compensation can be done by Team 1 paying 40 for Team 2's 30). In this case, neither party realises a capital gain (Figure 2).

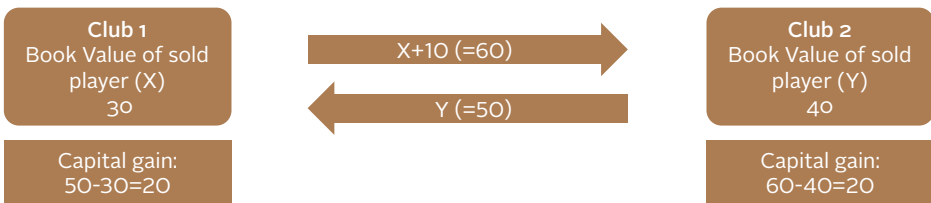
**Figure 2: Player swap transaction with fair values**



Source: own editing

The two teams can, however, agree on other amounts so that the difference between the two players' values remains 10 (Figure 3). If player X has a transfer fee of 50 and player Y has a transfer fee of 60. Thus, they achieve the same effect in terms of cash flow, but both parties gain 20-20 capital gains<sup>2</sup>.

**Figure 3: Player swap transaction with manipulated values**



Source: own editing

2 As pointed out in Denich and Hajdu (2021), swaps often open the door to creative accounting solutions.

It should be stressed that such a transaction is only in the short-term interest of the clubs involved. The higher cost value will lead to higher amortisation costs of the playing rights and the higher book value will also increase the chances of a potential capital loss on sale. Such a manipulation is only economically rational if the aim is only to improve the current result, as the club management has more positive expectations for the future. If the natural increase in revenues is not expected or is not achieved, the club is making a wrong decision in addition to the fact of irregularity, and its future management margin is reduced by higher costs<sup>3</sup>.

As we have seen above, there is a high degree of subjectivity in the amount of a transfer fee, and it is also difficult to establish an objective transfer fee. As a consequence, the comparison of a transfer fee with the market value is not meaningful, and it is also possible that in the example the parties have independently determined the values of 50 and 60 without any intention of manipulation.

Creative accounting solutions often appear within the framework of the rules, exploiting their flexibility (Denich, Hajdu 2021). Due to the subjectivity mentioned above, the detection of manipulations cannot be done solely on the basis of differences between estimated market value, book values and actual transfer fees. When detecting suspicious transactions, the following signs can be revealing (Franceschi 2020, Franceschi-Giuffr  2023):

- ▶ two or more reciprocal transfers between teams,
- ▶ the context of disposal,
- ▶ realisation of (accounting) capital gains for both clubs,
- ▶ disposals are financially irrelevant.

The factors mentioned above were accompanied by additional indications, such as:

- ▶ the short period between the renewal of the contract and the transfer (capital gain) – the capital gain is realised immediately after the renewal of the contract,
- ▶ the significant discrepancy between the purchase price of playing rights and the average price of players and the lack of correlation with their salaries (the related assumption is that players who are worth higher transfer fees also receive higher salaries, too low salaries raise suspicion of inflated transfer fees),
- ▶ the activity of players (e.g. in terms of minutes played / matches played) after obtaining playing rights,
- ▶ other irregular conduct in the agreement (if available).

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3 The negative impact of higher cost levels can be covered by new manipulated capital gains, but this only postpones problem solving while costs continue to rise. Such a strategy will force the club into more and more manipulation if revenues do not grow at the right pace (or other expenses do not decrease at the right pace).

So, the suspicion of manipulated capital gains cannot be linked to a single bad investment, a misplaced player acquisition, but to several factors, repeated several times, the transaction must be unjustified from several professional points of view.

## Sustainability of the ecosystem

As mentioned in the section on the specificities of the sector, the consequences of irresponsible management of a club go beyond the problems it creates. As Sloane (1971) points out, the actors in the ecosystem (clubs and leagues) are interdependent. For this reason, it is important that the loss of one actor does not upset the balance. However, the financial sustainability of the industry is also made more difficult by rising transfer fees and wages (Saw, 2021).

As we have seen, in many cases the industry does not operate rationally and in a profit-maximising way, so its financial sustainability was not ensured. This is putting the ecosystem of the sport at risk. To mitigate these risks, UEFA enacted the first version of Financial Fair Play (FFP) in 2011. In addition to the introduction of a loss limit, the regulation aimed to improve the quality of accounting data, transparency and comparability, thereby increasing accountability. Following its introduction, the profitability of first-tier clubs has steadily improved, up to and including the 2018/19 season.

Even so, the economic impact of the COVID epidemic was significant. As a result, UEFA has also taken steps to increase the effectiveness of FFP by introducing new regulations, the „UEFA Club Licensing and Financial Sustainability Regulations“. The financial regulation is composed of three pillars:

- Pillar 1: Solvency: the club must not have any overdue liabilities towards employees, authorities and UEFA,
- Pillar 2: stable operation,
- Pillar 3: cost control.

The rules allow a maximum loss from football for clubs. This amount is set at €5 million in the statutes. For a reporting period, this maximum allowed revenue shortfall can be up to €60 million, provided that this excess is fully covered by contributions paid in during the period under review or fully covered by equity at the end of the period. During the monitoring period, the tolerance may be increased up to a maximum of a further EUR 10 million for each reporting period in which:

- a. the person concerned has not been subject to disciplinary action in relation to club inspection requirements;
- b. the beneficiary concerned is not subject to a settlement agreement with the Club Financial Control Body; and
- c. you meet the following financial conditions:
  - 1. has positive equity,
  - 2. the liquidity quick ratio is satisfactory (min. 1),



3. debt level is sustainable<sup>4</sup>,
4. business continuation is assured<sup>5</sup>.

UEFA seeks to ensure cost control by means of a so-called Squad Cost Ratio, which is defined as follows:

$$\begin{aligned}
 \text{Squad cost ratio} = & \\
 = & (\text{Employee benefit expenses of relevant persons} \\
 & + \text{Amortisation and impairment of players' refistration} \\
 & + \text{Agents and intermediaries fees}) \div (\text{Total operating revenues} \\
 & + \text{Net profit or loss on disposal of relevant persons registratons} \\
 & + \text{Other transfer } \frac{\text{income or}}{\text{cost}})
 \end{aligned}$$

The new indicator limit is set at 70%, starting from the 2025/26 season. Clubs will have a gradual transition period to adapt. For the 2022/23 season there was no cost control requirement, while for 2023/24 and 2024/25 the threshold was set at 90% and 80% respectively.

As it can be seen, given the fragility and growing importance of the ecosystem, UEFA has developed a complex approach to ensure financial stability.

## Data and methodology

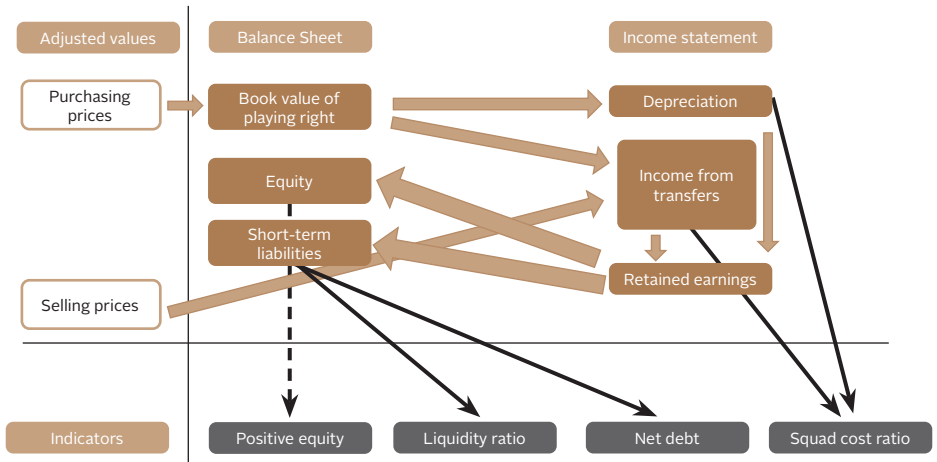
The case study is a methodology that combines empirical data collection with theory, one of the aims of which is to explore and understand rare and unique events (Takács 2017). In the course of the research, we used the methodology of documentary analysis to explore the effects of capital gains manipulation, given that we were not able to observe and conduct interviews. Document analysis involves the systematic review and evaluation of documents (Bowen, 2009). The method is also suitable for primary research, reconstructing the workings of an organisation and the framework within which documents are created and used (Jakusné Harmos 2023). In the present case, we focus on an organisation as the unit of observation, as delimited by Babbie (2001), while the case study presented in our study can be considered an extreme case among the case types distinguished in Takács' (2017) study.

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- 4 a) The net debt of the club has decreased (excluding items related to the construction and renovation of stadiums and training centres)
  - b) the result of the following calculation is positive:
    - + total income
    - + net result from player transfers
    - total operating expenditure
  - 5 on the basis of an audit report

For the purposes of our analysis, we have taken the values shown on Transfermarkt.de, a frequently cited site among media staff and fans, as the benchmark market value (as is the case with the relevant Italian Football Federation procedure). The values shown on the site are primarily derived from user-estimated values (reviewed by users with specific authorisation), but also take into account the demand for a given player, as well as other statistics<sup>6</sup>. Thus this approach, like actual transfer fees, contains a high degree of subjectivity. Despite this contestability, the values on the site are closely related to expert estimates and player salaries (Franck – Nüesch, 2011; Torgler – Schmidt, 2007).

When a club makes a manipulated capital gain it is reflected in two items (Figure 4). As can be seen in Table 1, the purchased playing rights are entered in the books at a higher cost than the market. The club is thus able to increase its profit at the time of the transfer, based on the higher than market cost of intangible assets, which will result in higher amortisation for each year until the playing rights are derecognised<sup>7</sup>. This will lead to deteriorating results in each subsequent period. We have calculated these consequences in the financial reports of the club<sup>8</sup>, and have recalculated the values of the financial indicators presented earlier (Figure 4)<sup>9</sup>.

**Figure 4: Impact of the change in transfer fees**



Source: own editing

6 <https://www.transfermarkt.co.in/transfermarkt-market-value-explained-how-is-it-determined-/view/news/385100>

7 The club uses straight-line depreciation for the playing rights..

8 It should be noted that the audit report for the financial year ending 30 June 2022 is no longer entirely clean.

9 A limitation of our calculations is that we have not taken into account the interest on the newly (theoretically) acquired liabilities, nor can we estimate how the club would have performed in the transfer market in a less favourable financial situation, nor what the impact would have been on on-field performance and revenue (which we suspect would have been less favourable).

Using Transfermarkt data, we were able to directly adjust the annual profit after tax by reducing revenues, offset by an increase in current liabilities<sup>10</sup>, maintaining the principle of balance sheet consistency. By comparing cost and market values, we were also able to calculate an amortisation difference, which changed the value of amortisation for the year and thus the net book value of playing rights (Table 1).

**Table 1: Changes in balance sheet and income statement items based on market values (EUR)**

Season	Net book value of playing rights		Amortisation of playing rights		Profit after tax		Current liabilities	
	report	modified	report	modified	report	modified	report	modified
2016/17	247 752	257 724	63 699	53 727	42 568	17 570	427 480	462 450
2017/18	265 344	262 089	81 914	85 169	-19 229	-58 059	312 678	348 253
2018/19	312 297	306 526	111 203	116 974	-39 896	-98 992	390 566	443 891
2019/20	351 827	373 075	127 512	106 264	-89 682	-127 095	434 932	493 593
2020/21	269 016	293 158	116 736	92 594	-226 813	-230 691	387 458	415 478
2021/22	330 159	342 319	109 677	97 517	-239 258	-168 816	384 214	325 932

Source: own editing based on Juventus annual financial reports and Transfermarkt

## What effect has the manipulation of capital gains had on Juventus?

We have tried to assess the effects of capital gains manipulation using a set of indicators that take into account the specificities of the sport. We considered the renewed UEFA regulation as such a metric.<sup>11</sup>

<sup>10</sup> Given the financial situation of the club and the increasingly tight margin on the asset side, we assumed the inclusion of debt.

<sup>11</sup> The new model was chosen because the previous FFP looked at financial sustainability in a less complex way and financial losses could be compensated by the owners' contributions. We are not in a position to assess whether an adequate contribution would have been made if necessary. For this reason, it should also be pointed out that deviations from the expected values of the indicators do not constitute irregularities, as these restrictions were not in force during the period under review. They merely help to assess the financial situation.

## Equity capital

According to the financial reports, Juventus operated with positive equity throughout the examined period. To illustrate the situation, we have analysed the change in profitability resulting from the manipulated capital gains and analysed the resulting financial data. When comparing the revenue from player sales with market values, we observed that in most cases the reported figures were above market value, i.e. the transfers were overpriced. For this reason, when calculating with market values, we have reduced the profit for the examined years, and therefore the stock of equity, by these differences in each season, and have taken into account the resulting amortisation difference. Taking into account the adjusted values, it can be concluded that Juventus would have had negative equity in the 2018/19 season, and therefore would not have complied with the new financial condition (Table 2).

**Table 2: Equity based on reported and market value (EUR)**

Season	Equity according to the financial reports	Equity by market value
2016/17	93 773 793	68 775 993
2017/18	72 044 071	33 214 271
2018/19	31 242 712	-27 852 838
2019/20	236 351 085	198 937 635
2020/21	8 657 275	4 778 842
2021/22	164 707 771	235 150 154

Source: own work based on Juventus' annual financial reports

## Liquidity ratio

Liquidity ratio is the ratio of current assets to current liabilities. In the present case, we can use this ratio to describe Juventus' solvency. The value of this indicator should preferably be at least 1, which means that it is certain to be able to meet its liabilities within the year from its current assets that can be converted into cash within the year. Our procedure is similar to that for the analysis of equity (Table 3). By adjusting for market values and amortisation differences, we reduce the profit for the year in each season except 2021/22, thereby increasing current liabilities by the value of the difference. The result of this calculation is that the ratio, which is already consistently below 1, is even lower when calculated on a market basis. We would like to draw particular attention to the 2021/22 season, when Juventus regularly sold its players below market value. To give an example, the market value of the playing rights of Cristiano Ronaldo at the time of sale was €45 million, while Juventus sold him for €15 million + €2 million bonus. Consequently, this season we have increased profit (therefore reducing current liabilities), which has increased the value of the liquidity ratio compared to the value calculated from the figures in the financial reports.

Overall, however, this indicator has remained stable at a value below 1 throughout the period under review, which would not have met the expected criterion for the liquidity ratio, so it can be said that Juventus has not met it either on the basis of the reported data or on the basis of market values.

**Table 3: Liquidity ratio**

Date/indicator	Liquidity ratio	Liquidity ratio by market value
2017. 06. 30.	0,62	0,58
2018. 06. 30.	0,49	0,44
2019. 06. 30.	0,44	0,39
2020. 06. 30.	0,60	0,53
2021. 06. 30.	0,48	0,45
2022. 06. 30.	0,56	0,67

Source: own editing based on Juventus annual financial reports

### Net debt

To assess this indicator, we looked at the club's liabilities for each season, from which we deducted its receivables for that season to obtain the club's net debt. In addition to the size of the indicator, it is also necessary to take into account its trend over time. Furthermore, the evolution of the indicator is influenced by the evolution of the operating result, which determines the sustainability of the club's debt. For this reason, the debt for the current year has been adjusted in each case by the operating result for the year in question in order to obtain a more comprehensive picture. The indicator is also calculated separately, just as the difference between player transfer payables and player transfer receivables. For the debt stock for the 2021/22 season, we also observe the phenomenon that Juventus sold players in that season at well below market value, and therefore we have calculated a lower liability stock for that season than reported. It can also be observed that in the other seasons, due to manipulated capital gains, the net debt stock is higher when calculating with market values.

**Table 4: Net debt (euro)**

Season	According to the report		By market value	
	Liabilities – Receivables	Sat. trans. knit – Sat. trans. pb.	Liabilities – Receivables	Sat. trans. knit – Sat. trans. pb.
2016/17	651 863 322	91 138 852	686 833 322	126 108 852
2017/18	593 866 553	37 754 365	629 441 553	73 329 365
2018/19	783 199 907	91 640 217	836 524 907	144 965 217
2019/20	726 359 019	-6 233 125	785 020 019	52 427 875
2020/21	764 221 474	45 561 452	792 241 474	73 581 452
2021/22	652 914 116	58 717 169	594 632 116	435 169

Source: own editing based on Juventus annual financial reports

The increase in debt is further illustrated in Table 5, which now shows the figures adjusted for the operating result for the year. The main reason for this is that, with the exception of the 2016/17 season, the club has had a negative operating result in all the years under review, which would have breached the second pillar of the FFP. In the 2021/22 season, the operating loss will reach €220 million, which, whether compared to the debt stock according to the reported or market value player transfer, is roughly comparable. It can therefore be concluded that the club's operating losses in the current year also play a major role in terms of sustainable debt.

**Table 5: Net debt to operating profit (in euros)**

Season	According to the report		By market value	
	Liabilities – Receivables	Sat. trans. knit – Sat. trans. pb.	Liabilities – Receivables	Sat. trans. knit – Sat. trans. pb.
2016/17	584 485 891	23 761 421	619 455 891	58 731 421
2017/18	595 300 611	39 188 423	630 875 611	74 763 423
2018/19	798 529 204	106 969 514	851 854 204	160 294 514
2019/20	793 419 735	60 827 591	852 080 735	119 488 591
2020/21	978 343 780	259 683 758	1 006 363 780	287 703 758
2021/22	874 568 450	280 371 503	816 286 450	222 089 503

Source: own editing based on Juventus annual financial reports

## Squad Cost Ratio

The third pillar of UEFA's financial regulation is cost control, which, as mentioned above, it tries to provide through the Squad Cost Ratio (SCR), which looks at the cost per revenue per player squad. The reported SCR ratio had reached acceptable

values until the period of the covid crisis, compared to the projected values for the transition period, but the impact of the coronavirus has been above 100% from 2020 onwards (Table 6). The impact of the coronavirus can be felt on the revenue side, as mentioned earlier the manipulated capital gains resulted in higher gross value of players in the books, thus increasing the amortisation recorded per period, especially from 2020 onwards. The elements of the adjusted SCR ratio we calculated have therefore been adjusted both on the revenue side and on the expense side. Until the 2020/21 season, it is clear that the modified indicator takes on an even higher value than the reported one, as the reduction in revenue is greater than the reduction in the amortisation generated by it. The adjusted SCR takes a lower value this season than the original one because we have had to continue to reduce the amortisation to be recognised on the previously higher capitalised playing rights and, at the same time, increase the revenue as it is lower than the market value this season. It is clear from the corrections that the indicator is sensitive to the sale of players at significantly higher or lower than market value. For example, in the 2018/19 season, manipulated capital gains were able to cut 10 percentage points from the indicator compared to the adjusted value for the same season. In the 2021/22 season, the value of the indicator was increased by 17 percentage points by the fact that the revenue from player transfers did not reach the market value. UEFA gives clubs several years to reduce the value of the indicator from season to season, optimally by 10 percentage points. This is an indication of how striking it is when there is a 10-20 percentage point difference between the manipulated and market values within a season.

**Table 6: Squad Cost Ratio**

Season	SCR (%)	Adjusted SCR (%)
2016/17	62,0	64,4
2017/18	73,3	80,1
2018/19	78,8	88,3
2019/20	75,8	80,6
2020/21	102,6	103,8
2021/22	112,3	95,3

Source: own editing based on Juventus annual financial reports

In the case of Juventus, even manipulation has failed to create a positive economic picture. Even by such means, the club has not been able to improve its deteriorating liquidity, its budget is constrained by a year-on-year worsening profit and loss situation, which has left it unable to raise capital from its own resources. A possible external capital injection or further manipulation of capital gains would, based on our analysis, only exacerbate the club's debt situation, which would increase the club's default and operational risk.

In our opinion, the SCR indicator created by UEFA reflects the current situation of Juventus. The indicator suggests that the club could get out of this situation by cutting back on spending in the player trade, where it has not managed its debt well. It is therefore less and less involved in the international player trade. This problem will undoubtedly only worsen the potential value of the club's future matchday and broadcast revenues. In our opinion, a reversal of the process would be possible by changing the club model, developing the academy and integrating and selling players coming from the academy.

## Summary and outlook

Football has a number of industry specificities, with organisations operating with quite unique and difficult to evaluate resources. As this case has shown, this high degree of subjectivity also affects the content of financial reporting, which can jeopardise the provision of a reliable and fair picture. Manipulation under the guise of subjectivity can help to present the financial situation of clubs in a more favourable light, which can be detrimental to investors and also makes it more difficult to assess compliance with the rules (which indirectly affects other clubs to their detriment). It would therefore be important to establish more specific assessment procedures. However, it can also be seen that differences in assessment can arise from subjectivity within the framework of good faith, and therefore the detection of intentional and unintentional manipulation is also a critical area.

Looking at the case of Juventus, we have seen that the manipulation of transfer fees helped to put the club in a more positive light, but the negative trends were still there. The case also showed that the manipulation of transfer fees is only a short-term solution, but in the longer term it exacerbates the management difficulties. Thus, this solution can only be beneficial for a club if it does not comply with various regulations (due to one-off shocks) in a single year, but it leads to deepening problems in the case of sustained losses. This in turn jeopardises the functioning of the clubs and thus the sustainability of the ecosystem.

Therefore, we consider it of utmost importance that national and international organisations detect manipulative accounting, but at the same time, they should be aware of the high degree of subjectivity highlighted in the literature, which in our opinion cannot be completely eliminated. However, as Denich and Hajdu's study (2021) points out, the suppression of creative accounting techniques can increase transparency. In addition to maintaining or enhancing controls, we believe it is important to create a regulatory environment that encourages clubs to operate sustainably, thereby ensuring the stability of the industry's operating framework.

As with all case studies, this study has limitations. While the drawbacks of capital gains manipulation have been demonstrated through the Juventus case, the extent to which this phenomenon has spread into the world of football has not been explored, and so the risk to the ecosystem cannot be assessed on the basis of this study. However, further research into this issue could be a basis for further investigation.



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