



# Structural Overview of German Professional

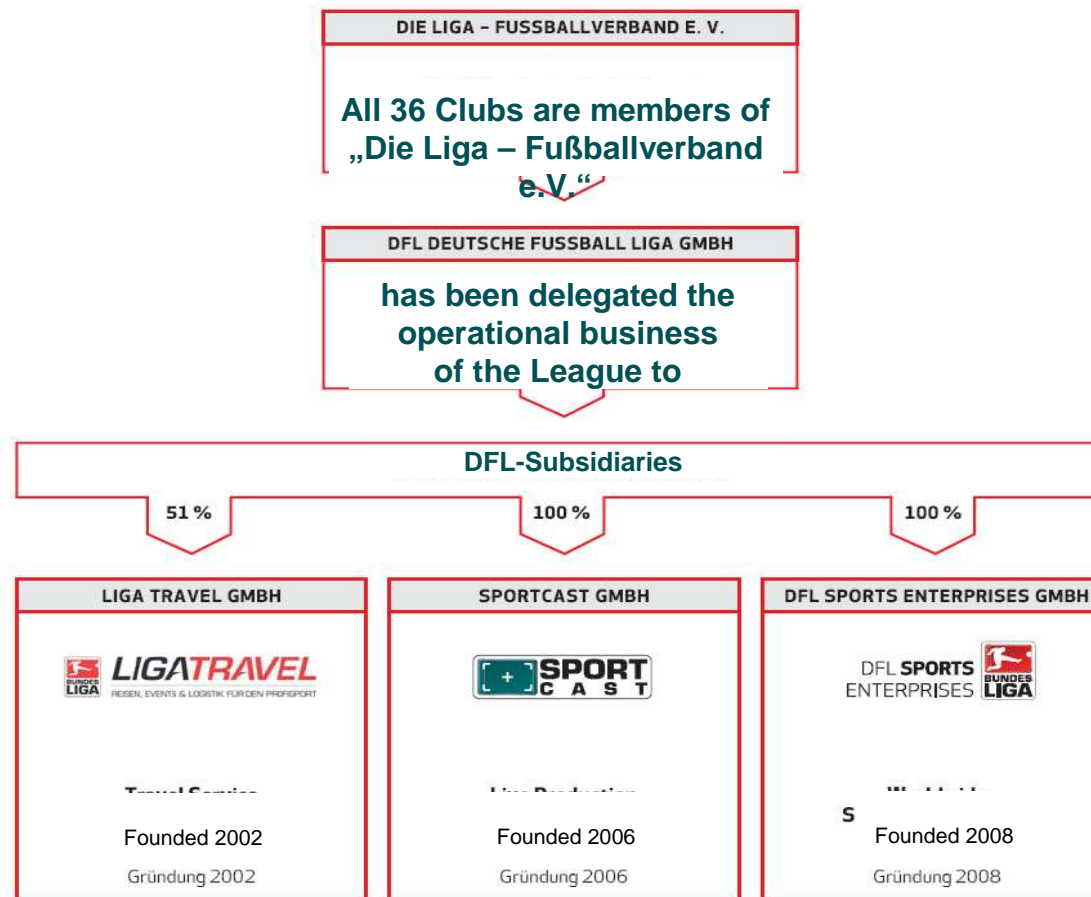
Christian Müller  
**Football**



# Structural Overview: Football in Germany



# Structural Overview: Bundesliga

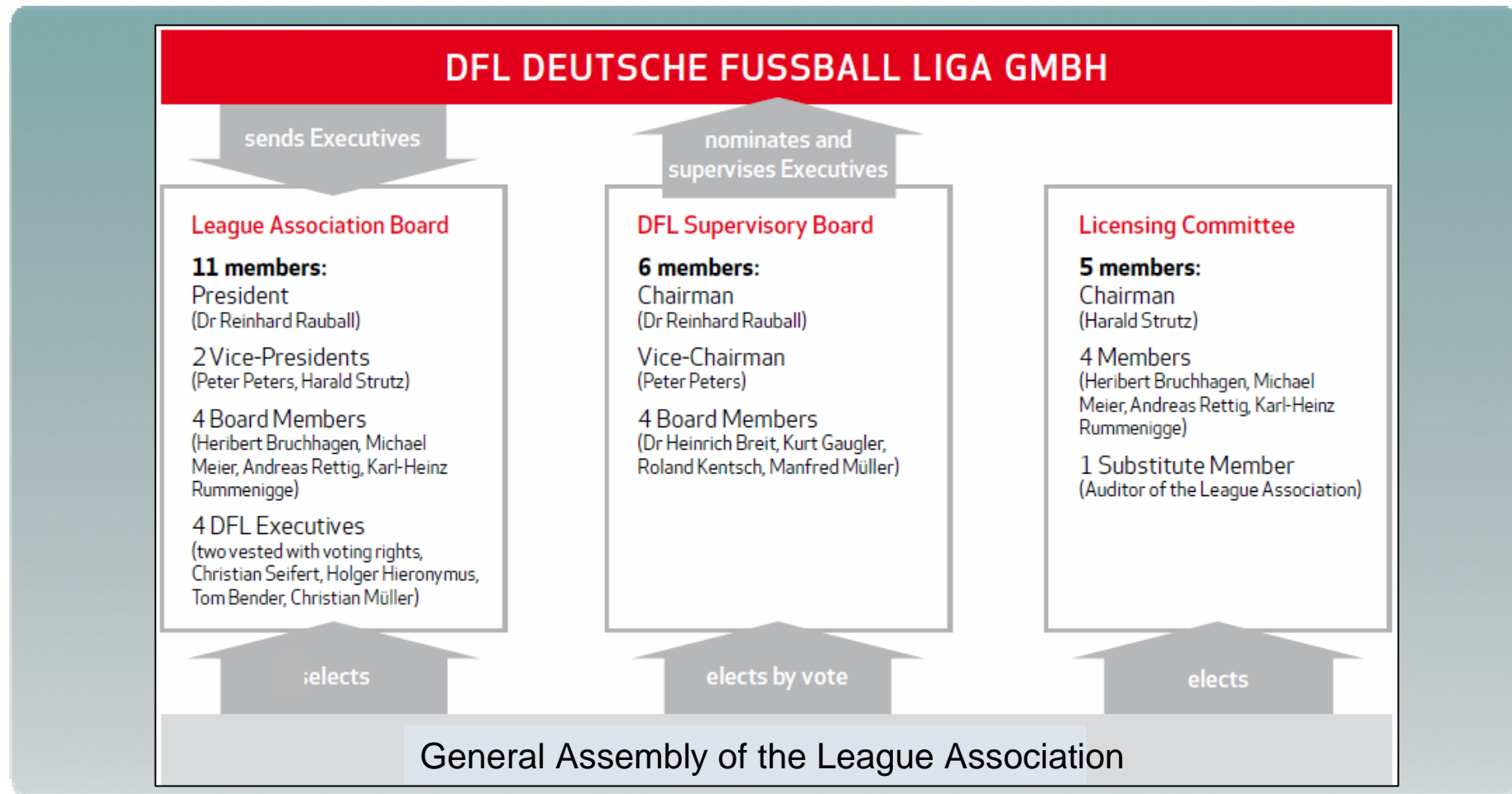




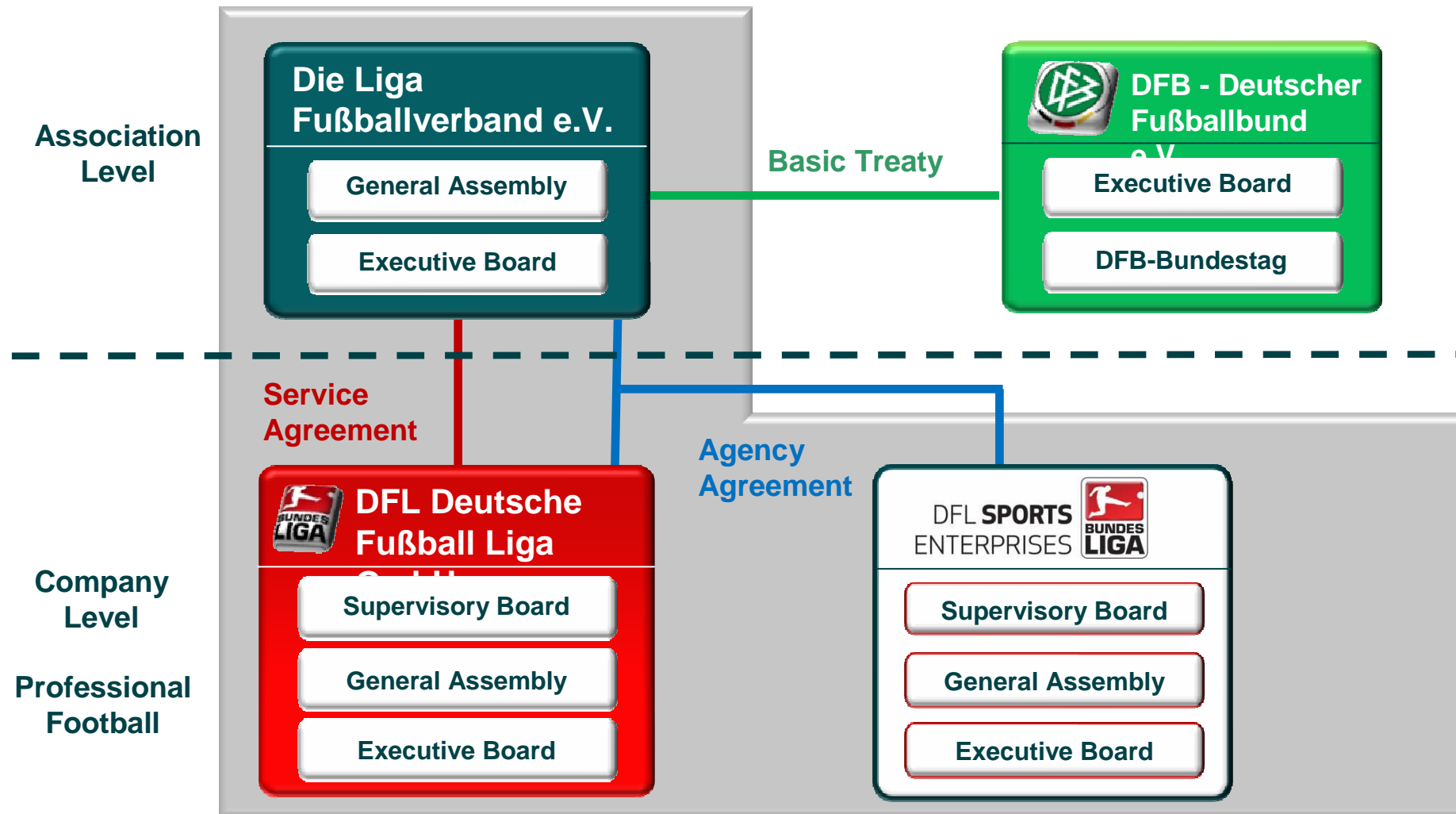
# Organisational Structure



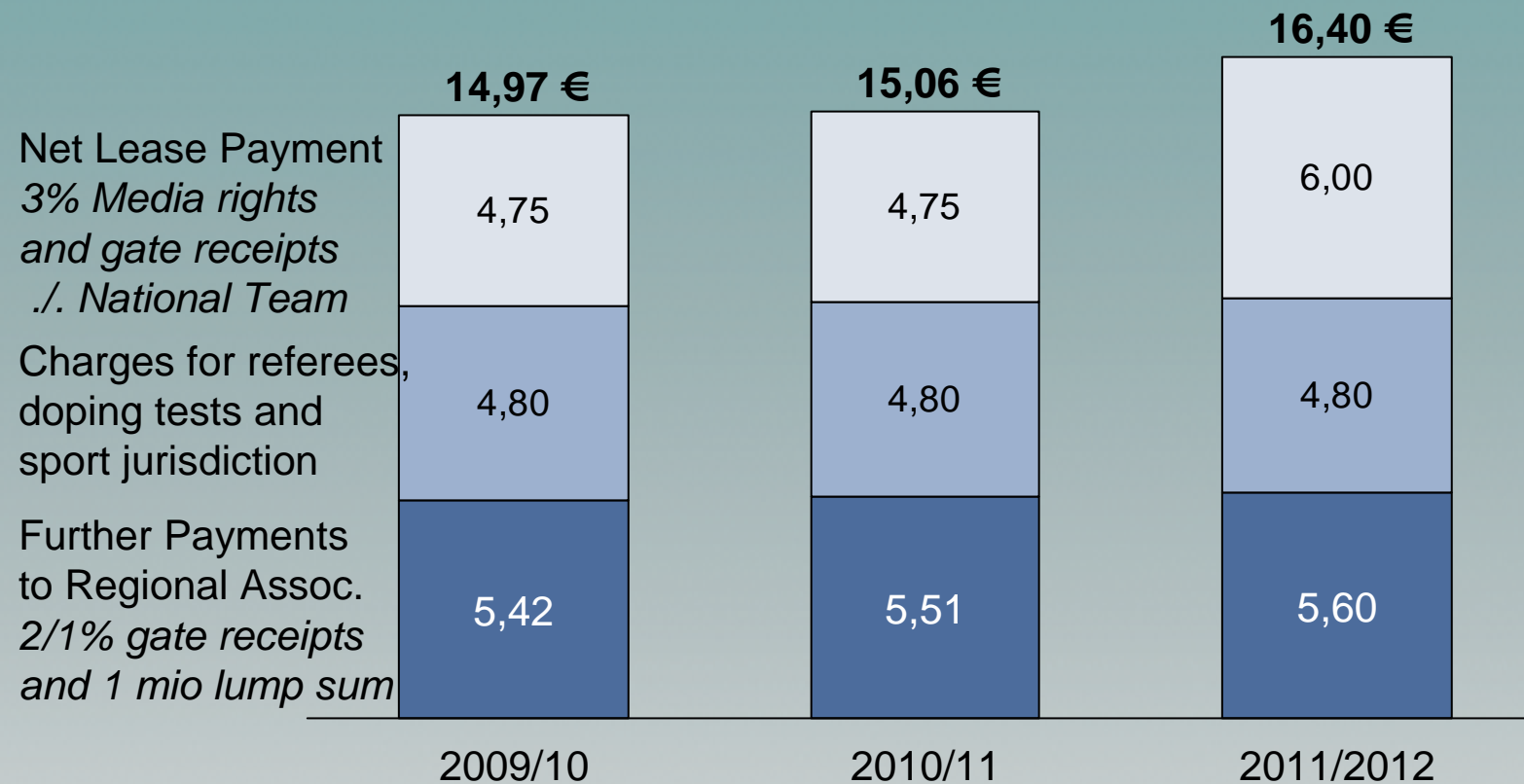
# Structural Overview: Bodies around DFL



# Structural Overview

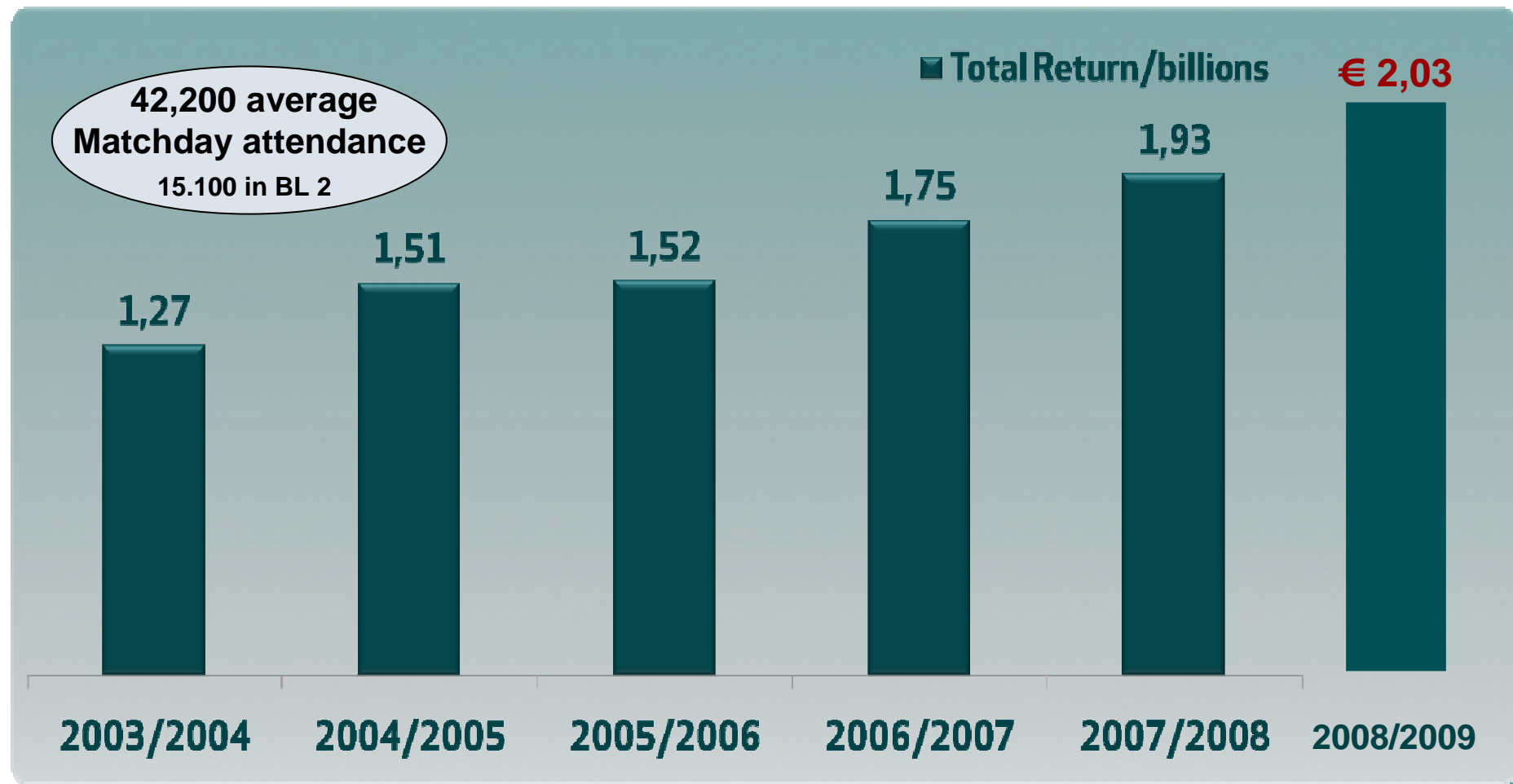


# Net transfer of money from the League to DFB according to the Basic Treaty



- **Voluntary** continuation of compensation for training for players becoming professionals (about 1 mio €)
- Fifty per cent participation of the League to the economic surplus from FIFA and UEFA final tournaments

# Still growing popularity of the Bundesliga and Bundesliga 2 in figures





# Licensing Procedure

## A Success Story for the Past 40 Years

- *No Bundesliga Club ever went bankrupt during a running competition or was unable to complete the season*
- *Gives business partners additional appeal and security*
- *Fully supported and accepted by the clubs*
- *Guarantor for fascinating competition in connection with the distribution of revenues generated through central marketing of rights*
- *Impetus for continuous professionalization in clubs and corporations*
- *Role model for UEFA's licensing procedure*

# Objectives of Licensing Procedure

## Preamble of Licensing Regulation

to safeguard  
frictionless  
match operations

- *To ensure, plan and execute league operations for the respective upcoming season as well as for the longer term*
- *To help guarantee stability as well as effectiveness and competitiveness for national and international competitions*
- *To increase the integrity of competitions*
- *To expand reliability and credibility*
- *To support the clubs' managerial and financial structures*
- *To improve the league's and licensee's image und marketability*

# First Instance Body

## The Management (Executive Board) of DFL Deutsche Fußball Liga

- comes to a first decision in the licensing procedure based on documents provided by the respective staff members
- may alter the first decision after an appeal of the applicant; if not applicant may submit an appeal to the Appeal Body



# Appeal Body

## The Licensing Committee

- renders the final judgement in appeal proceedings
- makes a final and binding decision on the fulfillment of license conditions based on recommendation of Licensing Manager

Members are:

Harald Strutz (Mainz 05 e.V.) – Chairman

Heribert Bruchhagen (Eintracht Frankfurt Fußball AG)

Michael Meier (1. FC Köln GmbH & Co. KGaA)

Andreas Rettig (FC Augsburg GmbH & Co. KGaA)

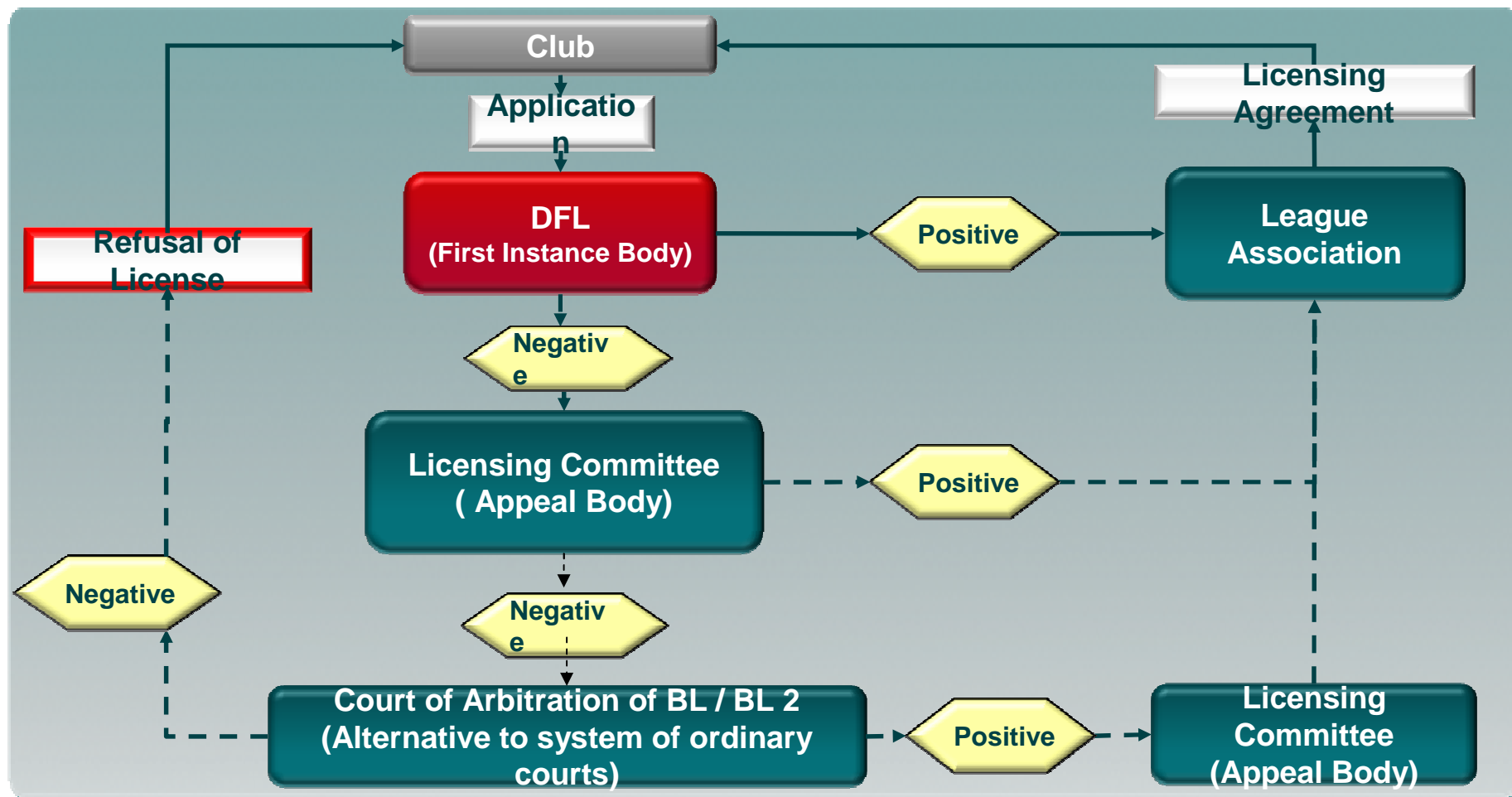
Karl-Heinz Rummenigge (FC Bayern München AG)

Alternative member in case of conflict of interest of one or more committee member(s)

Marc Schmidt (Auditor of Leagues Financial Statements)

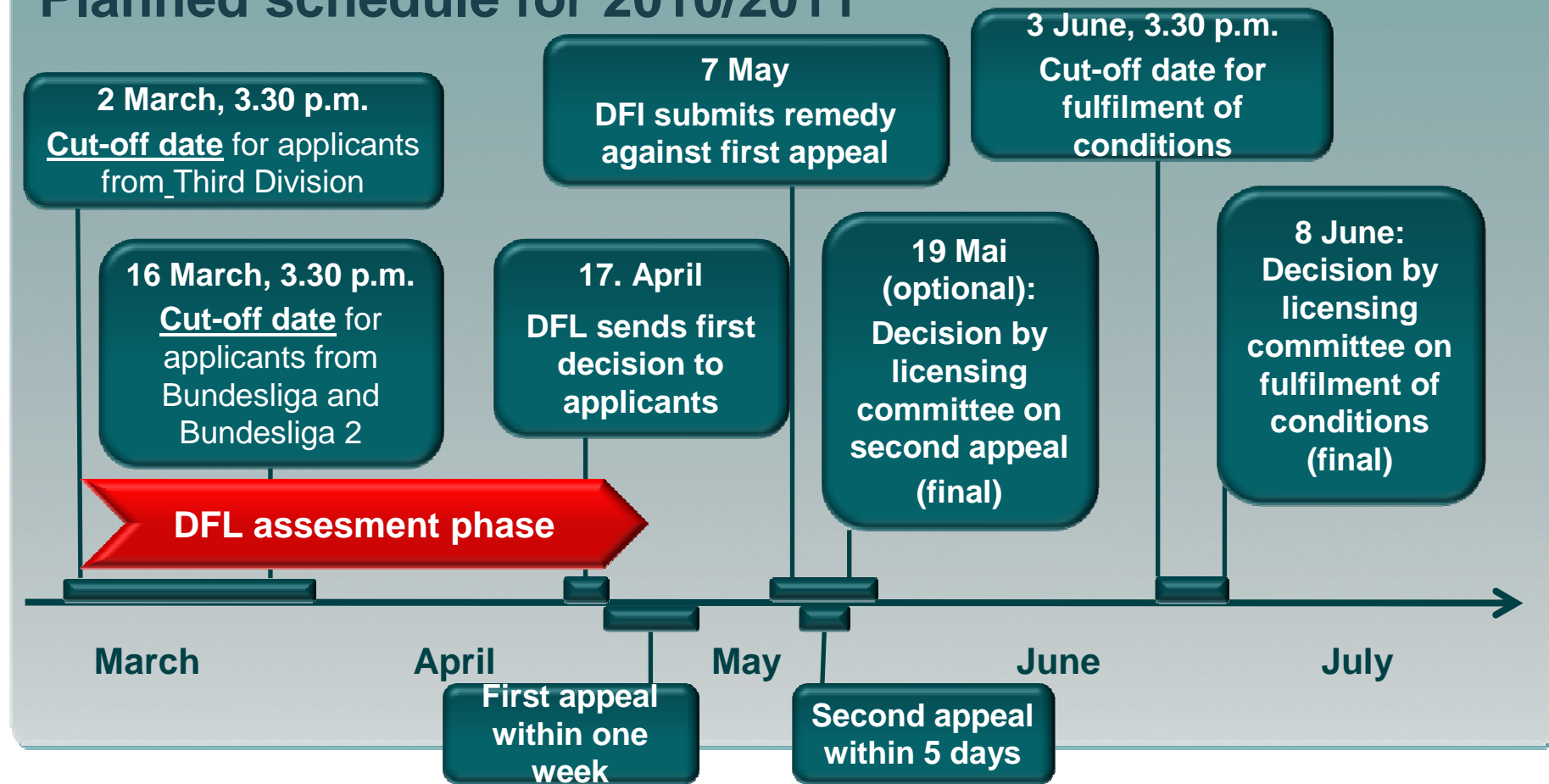


# Flow Chart of Licensing decisions



# Licensing procedure time line

## Planned schedule for 2010/2011



## Some key-words of Licensing

- Personal authorization of licensing applicant to use Bundesliga and Bundesliga 2 facilities. **The license is non-transferable.**
- The license is granted by an contract with the League Association. Applicant must have been member of the respective DFB state association for at least 3 years.
- The agreement includes rights and obligations of the licensee as well as the recognition of the regulations of the League Association, the DFL Deutsche Fußball Liga GmbH and the DFB.
- The license is **granted for one season** – Bundesliga or Bundesliga 2
- The granting of the license may be subject to the **prior fulfillment of conditions** (“Bedingungen”).
- The license may be granted **with additional requirements** (“Auflagen”).

# Refusal or Withdrawal of License

## Reasons for Refusal or Withdrawal of License

- *the license applicant failed to submit **complete** and/or **correct** documents in order to whitewash the financial situation*
- *Most common reason for refusal and/or withdrawal of license is the non-compliance with following requirements:*
  - Failed to **meet the deadline** to submit license documentation
  - **Breach of criteria/requirements** (decision Licensing Committee)
- *consequent and firm attitude in order to safeguard the system as well as **affected third parties** which are other applicants*
- *In order to ensure the integrity of the game the licensing procedure comprises of more than a proof of liquidity in particular the obligation **to submit the most important contracts** i.e. **to rule out multiple influence***



# Decisions

## Possible decisions regarding financial criteria (economic viability)

- Option A: The financial criteria have been fulfilled - no conditions or obligations
- Option B: The financial criteria have been fulfilled - no conditions but certain obligations apply
  - Liquidity as at 30 June 2010 is expected to be positive but
  - Share capital as at 31 December 2008 is negative
- Option C: The financial criteria have been fulfilled - but conditions and certain obligations apply
  - Liquidity as at 30 June 2010 is currently expected to be negative (a condition is imposed)
  - Obligations will definitely be imposed
- Option D: The financial criteria have not been fulfilled - no licence
  - The conditions have not been met - there are no signs that liquidity will be positive as at 30 June 2010

# Liquidity

## Liquidity as the critical benchmark

- The applicant's liquidity situation must guarantee:
  - That payment obligations can be fulfilled at all times
  - That regular match operations are guaranteed at all times
  - That financial distress can be countered
- This is operationalised with a liquidity calculation for the period 31 December y-1 to 30 June y+1

# Obligations

## Obligations...

...Must be met during the season

- **Obligations for the 2009/2010 season:**
  - *Confirmation that financial criteria have been met during the season ('re-audit'). Submission of documents at end of October.*
  - *Confirmation that financial undertakings in respect of salaries and wages, social insurance, income tax on wages and salaries, and transfer fees have been met. Submission four times per season.*
  - *Capital obligation: negative share capital in the balance sheet as at 31 December 2008 may not deteriorate any further in the period to 31 December 2009. This will be checked in the course of the next licensing procedure.*

## Second round of licencing

### Confirmation of financial soundness

#### Confirmation that financial soundness is still in place

Closing date: 31 October 2010

- **Annual or interim financial statements as at 30 June 2010**

- Balance sheet with receivables and payables aging reports
- Profit and loss statement for the 2009/2010 season
- Updated projected profit and loss statement for the 2010/2011 season showing semi-annual targets
- Cash inflows and outflows from player departures
- Payroll costs for match operations
- Confirmation that financial criteria have been met during the season ('re-audit'); submission of documents at end of October

- **OBLIGATION: Proof that any liquidity gaps will be closed by 30 June 2011**

- **OBLIGATION: Approval of players signed in transfer period II**



# Core features of the German licensing system

Goal:  
Sufficient liquidity

Goal:  
Positive equity  
capital

Goal:  
Ensuring the  
integrity of  
competition

Action:  
Fin. Forecast checked

Action:  
Capital requirements

Action:  
Submission of  
essential contracts

- The licence is regarded as the seal for good governance
- Quality assurance for clubs
- Benchmarking as a side effect



# Implications for the Business model



***Expenditure strictly in line with existing revenues***

**Prudence**



***Possibilities for using incoming capital to replace revenues are limited***



***Clubs have been planning and operating for years with positive results***

# Profitable Clubs

The majority of clubs operate in the black:

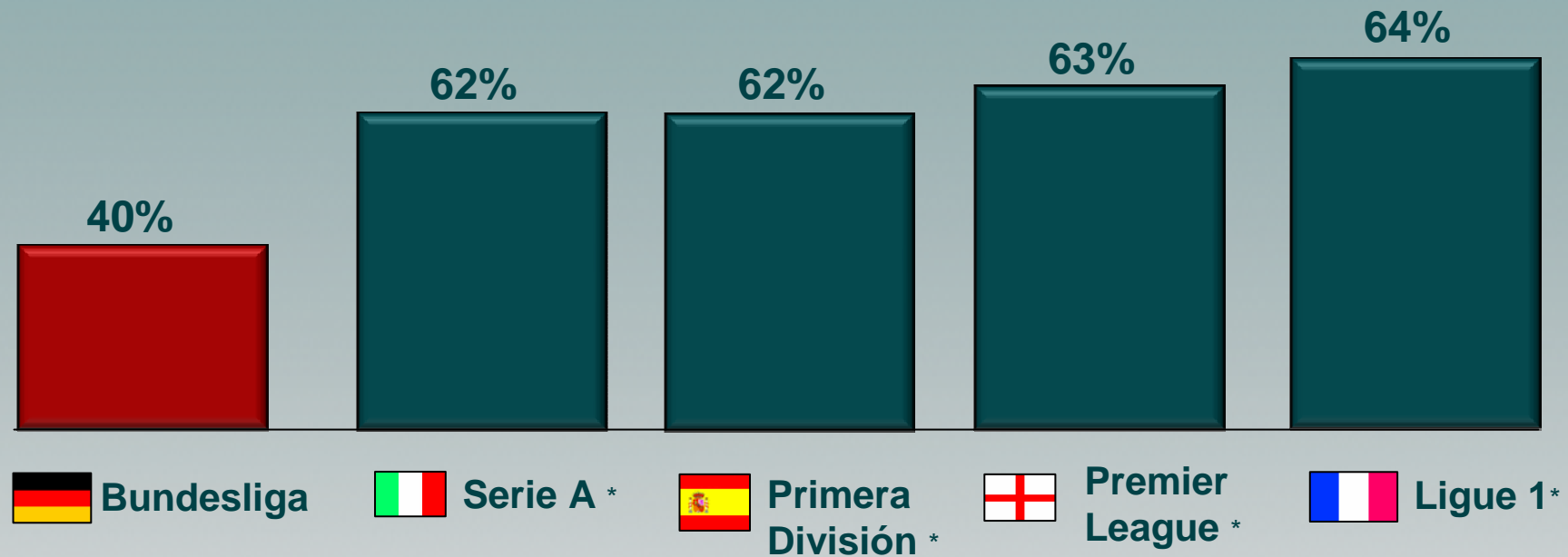
Number of clubs

Post-tax profit for the year

<u>Total</u>	<u>Bundesliga</u>	<u>Bundesliga 2</u>
2007/08 season 24	15	9
2006/07 season 30	18	12

# Reasonable Salaries

## Payroll costs to Total Revenue

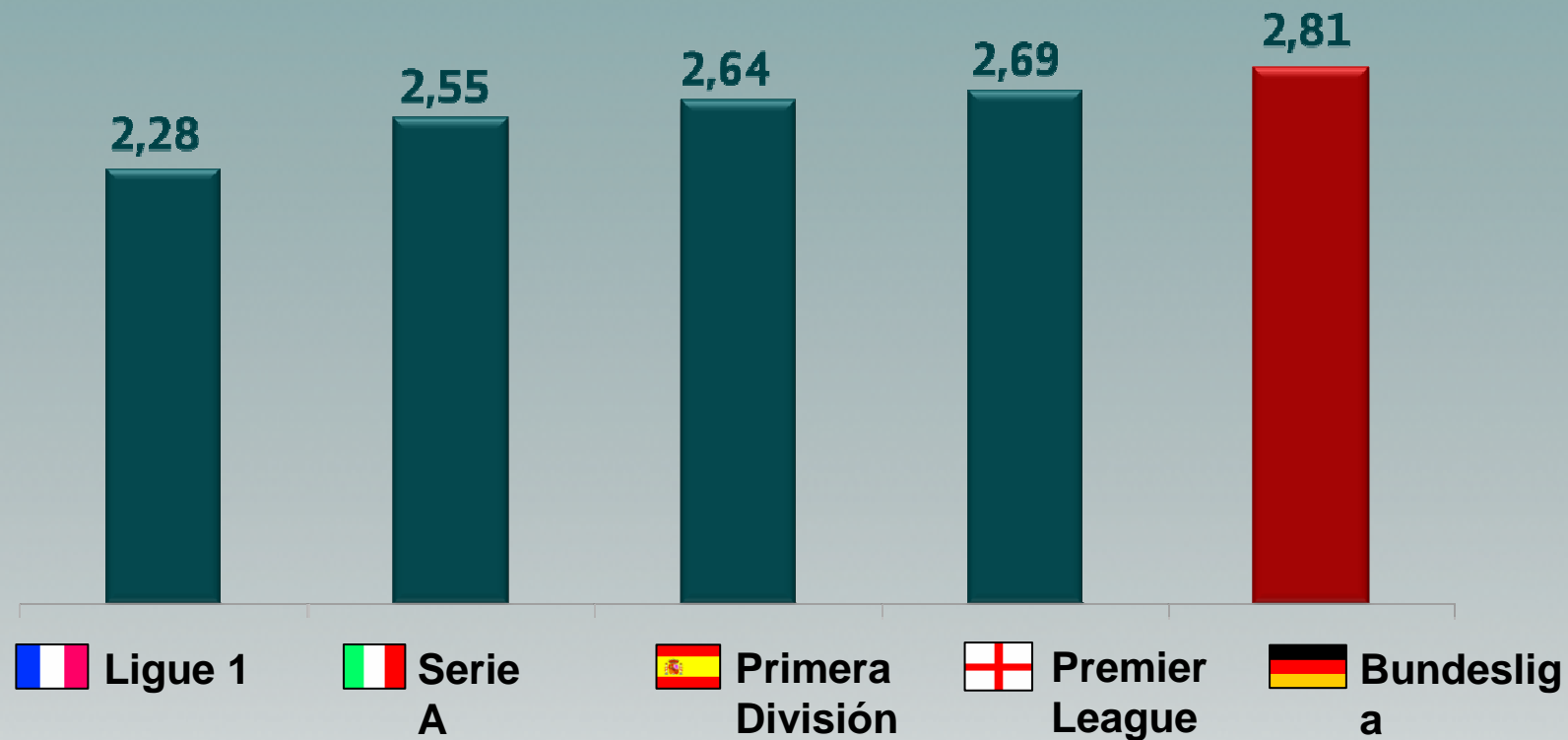


\* Source: Deloitte & Touche 2008 – 2006/2007 season



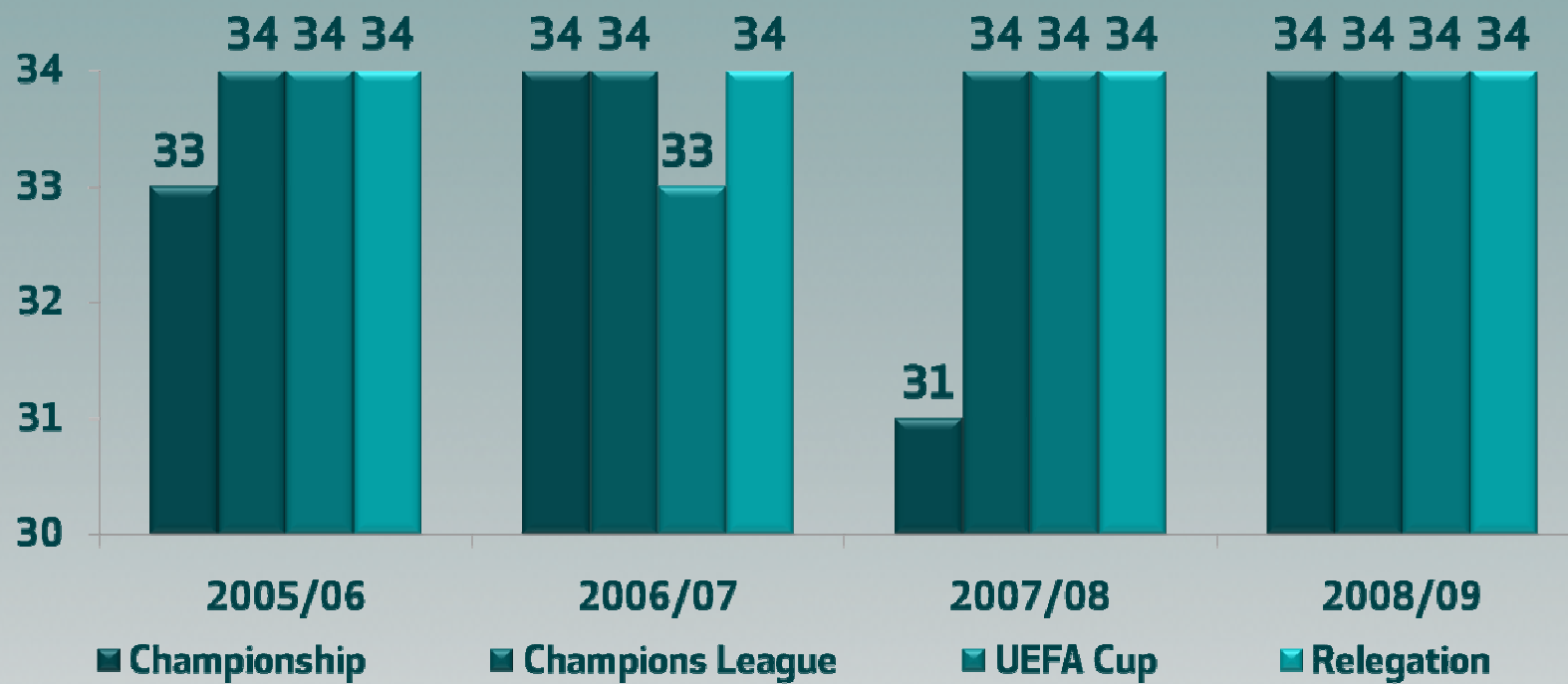
# Highest number of Goals scored, Europe-wide

## Goals per match (average)



## A balanced competition for years now

Was decided on match day



# State-of-the-art arenas

## State-of-the-art arenas for a fantastic football feeling!

- 11 of 34 stadiums meet UEFA's highest quality standard
- Seven other stadiums are in the second-highest UEFA category
- Average Bundesliga stadium capacities stand at 46,747 seats
- Average stadium capacity is the highest in Europe
- High comfort, high security standard, excellent infrastructure

## Ownership Issue

### „50+1“-Clause

- According to Statutes of DFB and Ligaverband, a football company (“Kapitalgesellschaft”) can obtain a license for Bundesliga/ Bundesliga 2 and hereby obtains the membership in the Ligaverband only if a football club (“Verein”) holds the majority of voting shares (50% + 1) of the football company.  
The football company becomes licensee and also automatically „registered member“ of the Ligaverband.
- Name of football club must be contained in respective name of football company. A company name as an addendum is not permitted (e.g. “Red Bull Leipzig” not possible; instead: „RB (=Rasenballsport) Leipzig“ in 5th Division).
- Principle: the connection between professional football (e.g. FC Bayern München AG = football company) and grass roots football (FC Bayern München e.V. = football club/Verein) shall be maintained (DFB explanatory information from 31.03.1999)
- Procedure: “50+1”-provisions of the statutes and licensing regulations may only be amended with a two-thirds majority of Ligaverband’s and DFB’s general assemblies.



## Ownership Issue „50+1“-Clause

- A football club (“Verein”) must hold the majority of voting rights of the football company (“Kapitalgesellschaft”), thus 50% + 1 voting rights (in the case of a GmbH & Co. KGaA, e.g. Borussia Dortmund, the football club must hold 100% of the GmbH shares).  
The football club’s determining influence on the course of business, especially the sportive competition, must be secured.
- The issuing of non-voting shares remains unaffected; major contribution of capital is therewith permitted.
- Interlocking participations (a licensed football company or its parent football club holds shares of an other football company or football club) are prohibited.

## Ownership Issue „50+1“-Clause

### Provisions of Ligaverband Licensing Regulation:

- **Incompatibility (§ 4 Nr. 4 LO):** Representatives of a company with economically significant contractual relations to more than one licensee are not permitted to become member of any of a licensee's bodies. The Ligaverband (through DFL) is able to grant exceptions for the membership in a controlling body.
- **Delegation rights** in a football company's controlling body may only be granted to the parent football club (§ 4 Nr. 10 LO).
- The parent football club should have the majority of votes in the football company's controlling body (§ 4 Nr. 10 LO).

## Legal Criteria, Part II: „50+1“-Clause

- Reasonableness and legitimacy of the 50% + 1-Clause were questioned by some club representatives, e.g. Mr Martin Kind, CEO of Hannover 96



**Does the acquisition of the majority of shares by investors, and the hereby improved financial capabilities for football companies, promote or jeopardize the objectives listed above and the competitive balance?**

## Ownership Issue „50+1“-Clause

### Issues to discuss:

- Competition's integrity and stability as well as credibility and marketability are compromised if clubs become subject to investors.
- Club's identity and its roots in society suffer when investors “start calling the shots”. Club's standing on political level becomes difficult when it becomes a solely economic subject/object (though with the obligation to fund grass roots football). It may become more difficult to refer to the “specificity of sport” when discussing exceptions from e.g. European Anti-Trust provisions.
- Balance in competition will suffer from excessive inflow of capital by investors.
- Investment spiral / “rat race” will crop up and in return lead to higher costs and expenditures for all clubs.
- Divide between “rich” and “poor” clubs that are in the position to attract financially strong investors will increase.



**Thank you for your attention**

# Documents to be submitted I

## Documents to be submitted by applicant - I

- **Audited balance sheet as at 31 December 2009**
- **Profit and loss statements** for the full **2008/2009** season and for the first half of the current season from **July to December 2009**
- **Management Report**
- **Projected profit and loss statements** for the second half of the current season from **January to June 2010** and for the forthcoming **2010/2011** season
- **Auditor's report** with a corresponding opinion on the plausibility of these documents

## Documents to be submitted II

### Documents to be submitted by applicant - II

The licence applicant must also submit several legally binding written declarations and confirmations. In particular:

- Submission of significant contracts related to marketing and match operations
- Control over its advertising rights (BL €500,000; BL 2 €100,000)
- Participation in the guarantee fund
- Authorisation for DFL to request information from fiscal authorities
- Authorisation for banks to provide DFL with information
- Authorisation for auditor to provide DFL with information
- Disclosure of shareholdings in other companies
- Prohibition of self-contracting for the executive bodies in respect of the applicant

## Documents to be submitted III

### Documents to be submitted by applicant - III

The licence applicant must also submit several legally binding written declarations and confirmations. In particular:

- That no letters of comfort have been issued to a third party
- That all business transactions are correctly booked within one month
- Information on events with economic significance after 31 December
- Payment by 16 March 2009 of all liabilities to employees overdue on 31 December 2008
- Payment by 16 March 2009 of all transfer fees overdue on 31 December 2008



# Content of audit report...

## Content of audit report as set out in Annex VII to the licensing rules

### *Conclusion reached as a result of the extended audit mandate*

- ***Conclusion regarding the projected profit and loss statement which should be drawn up on the basis of expected income and expenditure***
  - TV income
  - Payroll costs
- Income from match operations
- Advertising income
- ***Conclusion regarding liabilities overdue as at 31 December y-1***
  - Social security payments
  - Transfers
- Salaries and wages
- Income tax on wages and salaries

# Content of audit report...

## Audit report enclosures - I

### •Annual accounts

- Balance sheet
- Profit and loss statement
- Notes
- *Fixed assets movement schedule*
- *Receivables aging report*
- *Payables aging report*
- *Overview of contingent liabilities and other financial liabilities, subordination agreements, write off of receivables against future profits (Besserungsschein)*
- *Statement of cash flows*
- *Cash inflow and outflow related to transfers*

# Content of audit report...

## Audit report enclosures - III

- **Projected profit and loss statement**
  - **Planned investing activities**
  - **Planned financing activities**

# Economic viability

## Assessment of economic viability, Annex IX to the licensing rules

### 1. Liquidity situation

- Assets
- Receivables
- Cash and bank balances
- Liabilities/provisions
- Current account overdraft facilities
- Loan commitments
- Projected profit and loss statement
- Planned income from match operations
- Planned advertising income
- Planned income related to transfers
- Planned payroll costs for match operations
- Cash inflows and outflows from investing and financing activities

### 2. Net assets

### 3. Final verdict regarding economic viability

# Conditions

## Conditions...

- Imposed if applicant's **liquidity** is **expected to be negative** as at 30 June 2010.
- These conditions must be **met in full and before the cut-off date** - this year  
3 June, 3.30 p.m.
- The **Licensing committee** decides whether conditions have been **fulfilled**.
- **Conditions must be fulfilled as proof that financial criteria have been met**  
(economic viability)
- If they are **not fulfilled**, the financial criteria are considered not to have been met and **no licence** is granted.



# Sanctions

## Penalties which the DFL may impose for significant breaches of licence contract - I

- *Warning*
- *Temporary ban of licensee of up to two months*
- *Stadium ban*
- *Fines of up to 25% of media income*
- *Deduction of points*
- *Withdrawal of licence*

# Sanctions

## Penalties which the DFL may impose for significant breaches of licence contract - I

- **Institution of bankruptcy proceedings or refusal of a petition for bankruptcy due to lack of sufficient assets - immediate deduction of nine points**
- **Violation of capital obligation**
  - Fine of 5% of amount by which share capital has reduced
  - Fine of 10% of amount by which share capital has reduced
  - Disallowance of a point
  - Disallowance of three points
- **Confirmation that financial criteria have been met**
  - Late submission of documents - penalty ranges from €10,000 fine to immediate deduction of two points
  - Failure to comply with obligations - immediate deduction of two points
- **Late submission of documents related to obligations and deadlines required under the Statutes - €5,000 fine**