

# CROSSING THE LINE



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These terms and references are commonly used in football and used within the ICAEW training film, *Crossing the Line*.

### Promotion and relegation

Football teams usually compete in a tiered league system where their performance each season determines whether they move up or down between divisions. This system is known as promotion and relegation. At the end of each season, the top teams in a lower division are promoted to the division above, while the bottom teams are relegated to the one below.

Promotion and relegation also often have significant financial implications for clubs, influencing the amount of revenue generated from broadcasting, sponsorship deals, and matchday income.

In the film, Lewis Trent acquires Scarbridge Football Club (FC) when it is in the second tier of the league and has hopes to take it back to the top tier where it used to be. To achieve promotion, Scarbridge FC would have to finish in first or second place in its division (or to win a post-season play-off between the clubs finishing third to sixth). Scarbridge FC must make sure it avoids relegation to the third tier by not finishing in the bottom three.

### Player transfers

In football, a player may be transferred from one club to another, usually for a fee if the player still has time left on their contract. If a player reaches the end of a contract, they can usually move to another club for free. Transfers can happen for many reasons, such as a club wanting to improve its team, a player looking for a new challenge, or financial reasons. In Scarbridge's case, the club might need to sell a player to raise money.

Usually, a club interested in a player under contract will negotiate with the player's current club to agree on a transfer fee. If a player's current contract is ending soon, the fee is often lower since the player can leave for free once their contract expires. Clubs are able to capitalise transfer fees and amortise over the length of the player's contract.

In the film, Meriano FC offers one million for Scarbridge FC's Andre Sime, since he has only one year left on his contract and could leave for free next year. However, if Sime signs a new contract with Scarbridge FC, his value as a player would go up immediately.

### Transfer windows

Most football leagues operate on the basis that player transfers can only take place within specified "windows" which are usually a period immediately prior to the start of a football season or a short period in the middle of the season. In the film, Scarbridge FC cannot raise money through the sale of players after the season begins until the "January transfer window". After this window closes, no player sales can occur until the transfer window reopens after the end of the season which, in Scarbridge FC's case, is at the start of May.

### Football clubs going into insolvent administration

Most football leagues have a rule which penalises a club if they were to go into insolvent administration or some form of bankruptcy, which allows them protection from paying their debts. There is usually a rule which will lead to points being deducted if this were to happen during a season. Such a points deduction could move a club further down the league and possibly into the relegation zone.

## Football financial regulations

The financial regulations which apply to Scarbridge FC in the film are loosely based on various financial fair play, or equivalent sustainability rules, which have been applied by international or domestic football associations. These rules vary by jurisdiction and league, but their ultimate aim is to ensure that clubs manage their finances responsibly, avoid accumulating unsustainable debt, and operate within their financial means.

Clubs that fail to meet the applicable rules face sanctions, ranging from fines and transfer restrictions to points deductions and exclusions from competitions.

The specific financial rules which apply to the scenarios faced by Scarbridge FC in the film are as follows.

### Three-year aggregate loss limit

This rule means that Scarbridge FC must not run up bigger losses than the league prescribes over any rolling three-year period. If Scarbridge FC were to breach that aggregate limit, it will usually result in sanctions being levied by the league which can often include significant points deductions. In turn, this could move Scarbridge further down the division and potentially into the relegation zone.

In the film's opening scenes, Lewis Trent is told by his lawyer that he needs to remember that Scarbridge is already close to the aggregate loss limit for the three years ending with the current season, so it is important that Scarbridge FC does not make a loss in the financial year we watch in the film. Given that Scarbridge FC struggles in the bottom half of the second tier, any significant points deduction could mean relegation.

### Limits to owners' equity injections

In order to stop clubs overspending beyond the revenues they generate through reliance on private funding from club owners, rules have been introduced in many leagues to limit the amount of equity contributions which can be made by owners during any season.

In the film's opening scenes, Lewis Trent is reminded by his lawyer that he has already made the maximum equity injection for the season, so any further injection of funds might lead to a breach of the rules which could, in turn, result in sanctions including a points deduction.

Rules have also been introduced to include any funding coming from entities related to the owners as being part of the owners' equity injections to stop owners being able to inject additional funds through related party transactions.

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