

**IN THE MATTER OF A BREACH OF THE EFL REGULATIONS**

**BETWEEN**

**THE FOOTBALL LEAGUE LIMITED (trading as the “EFL”)**

**Claimant**

**- and -**

**THE READING FOOTBALL CLUB LIMITED (the “Club”)**

**Respondent**

---

**EFL CLUB FINANCIAL REVIEW PANEL DECISION**

---

**INTRODUCTION**

1. On 16 November 2021 pursuant to EFL Regulation 86 the EFL and Reading Football Club (“the Club”) reached a decision in respect of its failure to comply with the EFL’s Profit and Sustainability Rules (“P&S”). That decision (the “Original Agreed Decision”) was agreed following the Club exceeding the Upper Loss Threshold of £39.0m in the P&S assessment period of Season 2017/18 to Season 2020/21 by a total of £18.8m (i.e. an aggregated Adjusted Earnings Before Tax (“AEBT”) loss of £57.8m).
  
2. Sanctions agreed and detailed within the Original Agreed Decision included:
  - a. A six-point penalty in Season 2021/22; and
  - b. A suspended six-point penalty to be applied if the Club:

- i. fails to submit documents in accordance with Rule 2.2 of the P&S Rules;
  - ii. breaches the budget agreed between the EFL and the Club (the “Agreed Budget”) by having an AEBT in its March 2023 P&S submission with losses greater than the Upper Loss Threshold; or
  - iii. was found to breach the P&S Rules again before 30 June 2023.
3. The suspended penalty was stated to be in addition to any further penalties imposed in respect of further breaches of P&S or any breaches of the Agreed Budget.
4. By letter dated 23 March 2023 this matter was referred by the Club Financial Reporting Unit (“CFRU”) to the Club Financial Review Panel (“CFRP”) following breaches by the Club of the Original Agreed Decision.
5. This is the CRFP’s final decision. It is necessarily a summary. The CRFP considered and gave appropriate weight to the material made available to it.

## **FACTS**

6. The core facts are not in dispute. They can be summarised shortly.
7. The Club accepts breaching the Original Agreed Decision in two ways.
8. In October 2022, the Club confirmed its intention that, instead of achieving the forecast profit through player sales, it would instead achieve it through the sale of an investment it held to a related party. [REDACTED]  
[REDACTED] This sale (the “Proposed Transaction”) would generate sufficient profit to replace the profit the Club has failed to make on player trading.

9. Without the profit from the Proposed Transaction, losses would exceed the Upper Loss Threshold of £39m for the assessment period Season 2019/20 to Season 2022/23.

- a. [REDACTED]
- b. [REDACTED]

10. The Proposed Transaction represents two breaches of the Original Agreed Decision.

11. First, the Original Agreed Decision required the Club to be below the Upper Loss Threshold for the assessment period Season 2019/20 to 2022/23 after removing any related party sales conducted after 1 March 2023. Paragraph 19 of Appendix 1 to the Original Agreed Decision states:

*“19. These conditions are agreed as constituting an order, requirement, direction or instruction of the EFL. Failure to comply will render the Club liable to the application of the suspended sanction as outlined in the Agreed Decision in circumstances where the failure to comply results in Adjusted Earnings Before Tax in the Club’s P&S Calculation as submitted in March 2022 (or March 2023) of losses exceeding the Upper Loss Threshold after any of the following amounts have been removed:*

*19.1 profit or losses from sale of player registrations in the period 1 March to 30 June of the relevant Season; and/or*

*19.2 revenue/income from any Related Party for the period 1 March to 30 June of the relevant Season.”*

12. The values as presented in the Club's P&S Submission show that its AEBT loss without the Profit from the Proposed Transaction would be [REDACTED] over the Upper Loss Threshold of £39.0m.

13. Second, the Club breached the Original Agreed Decision further as it has not generated profit from player sales in line with the Agreed Budget.

## **PROCEDURE**

14. This matter was referred to the CFRP Chair by letter from Mr Potterill-Tilney dated 23 March 2023. He subsequently confirmed that it was a referral of a Compliance Matter pursuant to paragraph 4 of the Appendix 6 to the EFL Regulations ("the Rules").

15. Paragraph 1.5 of the Rules provides:

*"1.5 Compliance Matters means:*

*1.5.1 [...]*

*1.5.2 ratification of Agreed Decisions proposed by a Club and CFRU in relation to matters concerning the Financial Regulations in accordance with the procedures set out in Regulation 85 as if the same were set out in this Appendix 6; [...]"*

16. In accordance with paragraph 4.2 of the Rules the CFRU has prepared a (helpful) CFRU Report and drafted terms of a new Agreed Decision (the "Proposed Agreed Decision").

17. By letter dated 24 March 2023, and pursuant to paragraph 4.3 of the Rules the Club stated that it is "*happy to accept and agree the content*" of the CFRU Report and Proposed Agreed Decision.

18. The CFRP Chair did not consider it necessary or appropriate to order a hearing in exercise of his power in paragraph 4.6 of the Rules.

19. Paragraph 6 of the Rules provides the procedure to be adopted where a hearing is held. The said Rules are silent as to the procedure where, as here, the CFRU and club agree. Therefore, the CFRP Chair appointed himself, together with Geoff Mesher and Alison Royston (in accordance with paragraph 6.2 of the Rules) to consider this matter.

20. The CFRP was provided with and has read the following materials:

- a. CFRU Report.
- b. Relevant exhibits.
- c. Original Agreed Decision.
- d. Proposed Agreed Decision.

## **DECISION**

21. The CRFP has jurisdiction. It concerns a Compliance Matter which has been properly referred.

22. The CRFU and Club submitted a further Proposed Agreed Decision which the CFRP has considered with care.

23. The CFRP notes the following of relevance:

- a. The Club has been cooperative and shared information following all requests.

- b. It appears that the existence of the [REDACTED] was not designed to circumvent the P&S Rules. The shares in [REDACTED] have been owned by the Club for many years prior to the P&S Rules amendment.
- c. The Club did not mislead the EFL deliberately at the time of the Original Agreed Decision.
- d. Further, upon realising there was limited value in the playing squad, it has attempted to generate profit of a similar nature from an alternative source.

24. As we understand it the Proposed Agreed Decision is prepared on the basis that:

- a. There is a breach of the Agreed Budget by Reading FC: (1) breaching the Upper Loss Threshold (2) failure to generate agreed sums via player sales.
- b. The suspended penalty of 6-pts is applied in the 2022-23 season.
- c. The Proposed Transaction is not, prima facie, disallowable but is subject to the Fair Market Value test as it is with a related party.

25. On 29 March 2023 we raised with the CRFU and the Club the following:

*“Does the wording of the Proposed Agreed Decision mean that it is agreed that the Proposed Transaction is accepted as reducing the AEBT loss in the 2022-23 period subject to the Fair Market Value Test or that the Proposed Transaction will be considered subject to both Fair Market Value and Section 6, Appendix 5, Rule 1.1.4(b)? We consider it unclear based on 9(c) and 9(d) of the Proposed Agreed Decision.”*

26. The CRFU Director replied to the same day thus:

*“It is both parties’ intention that, under the Proposed Agreed Decision, it is agreed that the Proposed Transaction can be accepted as reducing the AEBT loss in the 2022-23 period but it is still subject to a fair value assessment.*

*Further, both parties have agreed as part of the Agreed Decision that the Proposed Transaction will not be viewed as the sale of a tangible asset and therefore Section 6, Appendix 5, Rule 1.1.4 (b) does not apply.”*

27. The Club’s Financial Director/Company Secretary replied the same day in these terms:

*“I am happy to confirm that is our understanding as well.”*

28. We note that the Club is content to accept the points reduction. We also note that the Proposed Transaction is not challenged, save for the Fair Market Value aspect. Rule 1.1.4 (b) of the EFL Financial Fair Play Rules excludes profits from the sale of “*tangible fixed assets*”. An investment in a company is not a tangible fixed asset and does not represent a key aspect of the investor’s business; but neither is it an intangible asset. This is the only aspect of the Proposed Agreed Decision which we think may prove controversial as it may be that certain other clubs might consider that the sale of such an investment should be excluded under the above rule. However, our view is that, based on the rule as drafted, the sale of an investment does not qualify as a “tangible fixed asset” and, therefore, may be allowed in the calculation.

29. Having considered the papers and noting the agreement recached between the CRFU and the Club, pursuant to paragraph 8.3 of the Rules the CFRP ratifies the proposed Agreed Decision. The effect, as set out in paragraph 9 thereof is:

- a. The suspended sanction of a six-point penalty from the Original Agreed Decision is to be immediately deducted in the 2022/23 Championship Season.
- b. The Club will continue to be bound by and shall observe the P&S Rules.
- c. The Club’s submission for the assessment period Season 2019/20 to Season 2022/23 is still subject to review by the EFL (operating via the CFRU). Disciplinary

action will follow if the review finds that the Club's AEBT loss exceeds the Upper Loss Threshold.

- d. The proposed transaction, following fair value assessment, can be included in the Club's AEBT calculation for Season 2022/23 under the EFL Regulations as currently drafted so long as it competed prior to 30 June 2023.
- e. Assessment of the Club's compliance with the P&S Rules for the reporting period ending with Season 2022/23 will reflect the principle that the Adjusted Earnings Before Tax for each of the financial years up to and including Season 2020/21 will be capped at Adjusted Earnings Before Tax of a loss of £13m.
- f. The Club and the CFRU will agree a new budget for Season 2023/24 within 30 days of the CFRU completing its review of the Club's P&S submissions for the assessment period Season 2019/20 to Season 2022/23. The approach to this budget is detailed further in Appendix 2.



**Christopher Quinlan KC**

**Chair, CFRP**

31 March 2023

