

Whitepaper

MONEY LAUNDERING IN THE GLOBAL FOOTBALL INDUSTRY

Financial Institutions' Guide To Clean Football Finances





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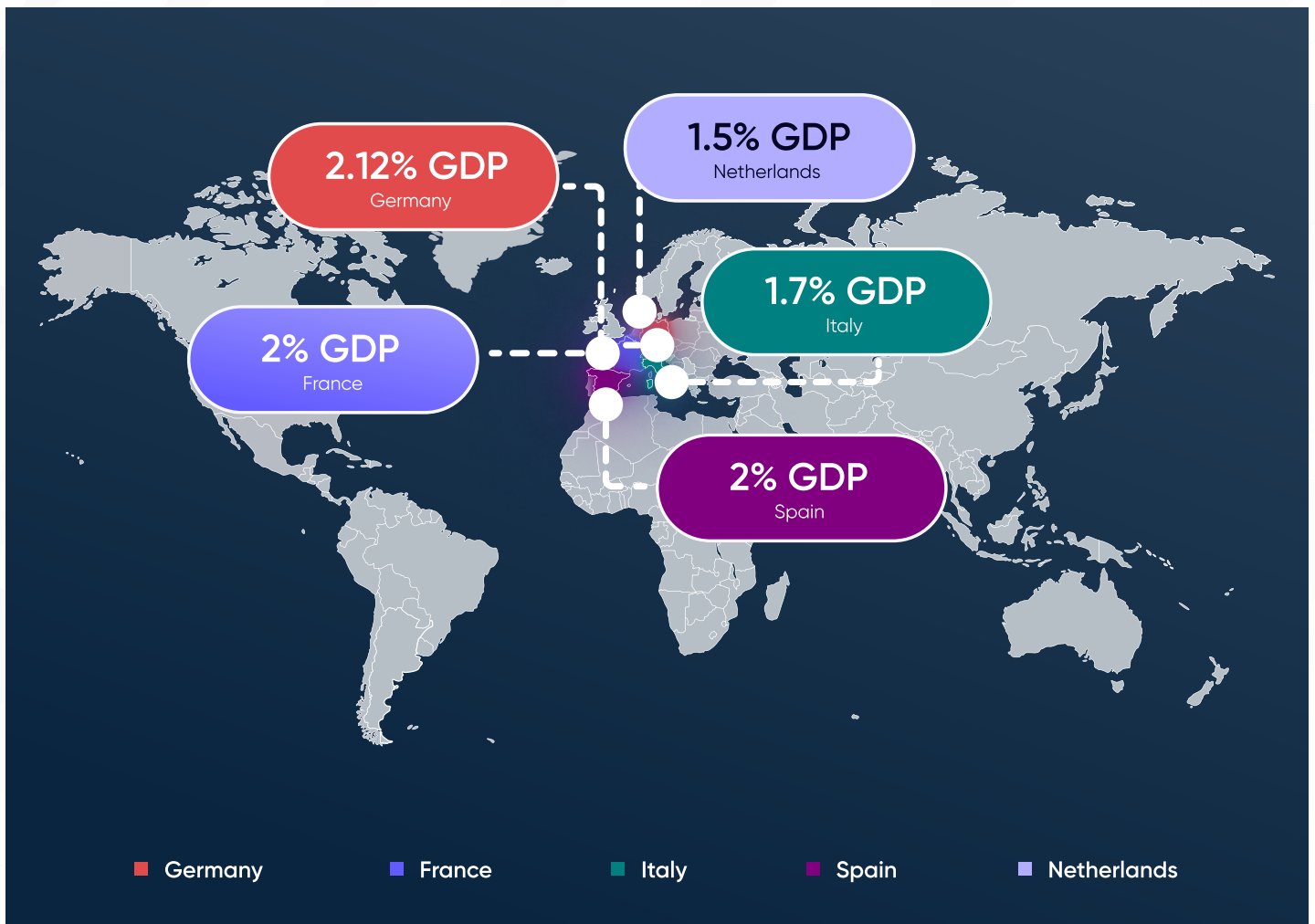
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Introduction

Since the beginning of human civilization, societies all around the world have massively invested in sports activities, and athletes are celebrated for their accomplishments by the rich and the poor alike. What's novel about today is the internationalization and commercialization of the sports industry. It offers international opportunities for athletes with “filthy rich” private investors—who are making significant international funding as well as broadcasters and sponsors bringing in large sums of money.



Economic Contribution Of Sports To Top Five EU Economies



It can be hard to assess the entire monetary worth of sports. The athletic sector in Europe reportedly contributes anywhere from 2.12% of the EU's total GDP. Large stadium events unquestionably contribute to the local economy. At all societal levels, sports also have a significant social and psychological purpose.

Money Laundering & Sports



Money can be laundered via financial transactions, including the purchase of clubs, the transfer of players, betting activities, image rights, sponsorship, and marketing arrangements. Money currently has a significant impact on the sports industry due to the expanding economic and social significance of sports in all cultures around the world, as well as the massive fortunes that can be produced from them.



Large sums of money invested in sports have long-lasting implications, like building and expanding sporting facilities and making them more accessible to the general population, but they also have massive downsides. The quantity of money at stake makes fraud and corruption more likely to occur. Sport can also be another profitable conduit for the laundering of ill-gotten gains.



Criminals have demonstrated worrisome adaptability in finding new ways to move around the proceeds of their illicit activities in response to the financial industry around the world complying more and more with the Financial Action Task Force (FATF) anti-money laundering and counter-terrorist financing standards.



Concurrently, the expansion of information technology and the globalization of financial markets have progressively strengthened the illicit economy and increased the opportunities for economic crime. Given this, there are rising worries that money from crime could contaminate several legal industries.

Structure Of The Sporting Industry



The sporting industry is one of the many sectors that could be attractive to criminals for money laundering purposes and merits closer consideration given the large scope of monetary transactions and increase in the number of individuals involved.



Like any other industry, sports can be exploited by criminals to commit crimes for financial gain or to move around their revenues from those crimes in the legitimate financial system. Contrary to other industries, thieves are not usually drawn to sports because of their apparent profitability. Criminals are driven by more than just the need to make money when they connect with sports. Social standing is also another crucial element.

Sports like boxing, kickboxing, and wrestling—sports that have historically been associated with the criminal underworld due to the relationship between crime and violence—high-value sports like horse and car racing, where there are plenty of opportunities to launder large sums of money—sports involving (high value) player transfers, and sports where there is a lot of cash around are among the sports that could be vulnerable to money laundering issues. Due to this reality, criminals may target almost any sport, albeit for various motives.

Vulnerabilities Of The Football Sector

Football is the most manipulated sport, with an estimated net worth of \$600 billion (£470 billion) . Why is the football industry particularly susceptible to money laundering? Its vulnerabilities may be based on the particular size and structure of the football sector on an international, national, or even local level, and they are not exclusive to football or even sport in general. Most weaknesses are relevant. Football is one of the many industries that attracts criminals due to several variables.

Penetrable Nature Of Football Market

The sector's low or nonexistent entry requirements are the primary cause of the football market's ease of penetration. Football stadiums serve as a platform where football enthusiasts from all walks of life come together. Business partnerships can occur at meetings between representatives of the public and private sectors, as well as between law enforcement and organized crime.

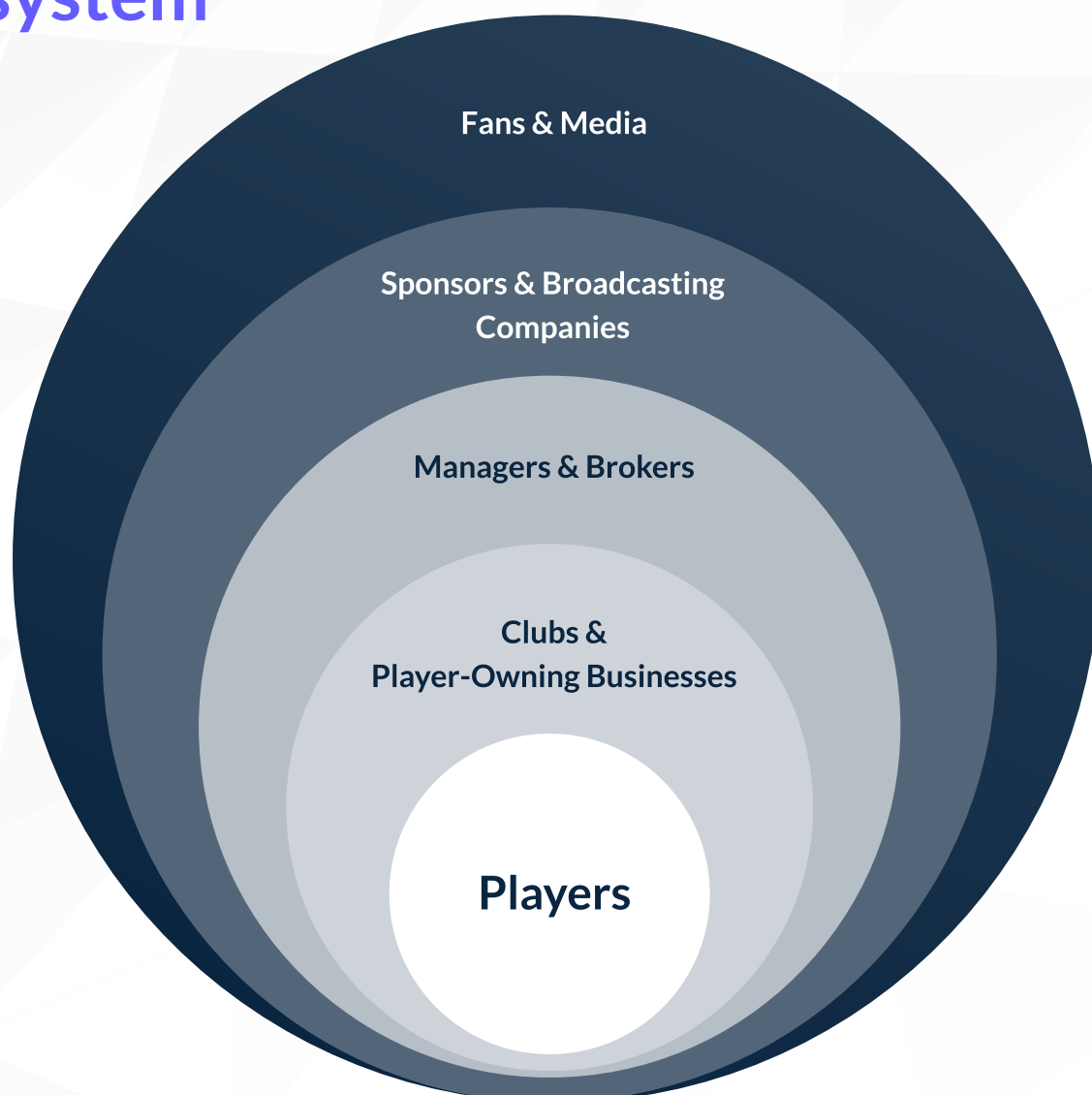
Complex Matrix Of Stakeholders

The football industry is intricate and complex, with numerous actors and opaque networks. With international transfers and large-scale player sales, it's easier to conceal fraudulent activity due to the extensive money movement and wide range of players involved.

Editor The SportsLite, n.d., "Top 10 Richest Sports in the World in 2024." The SportsLite. Accessed May 21, 2024. <https://thesportslite.com/>.



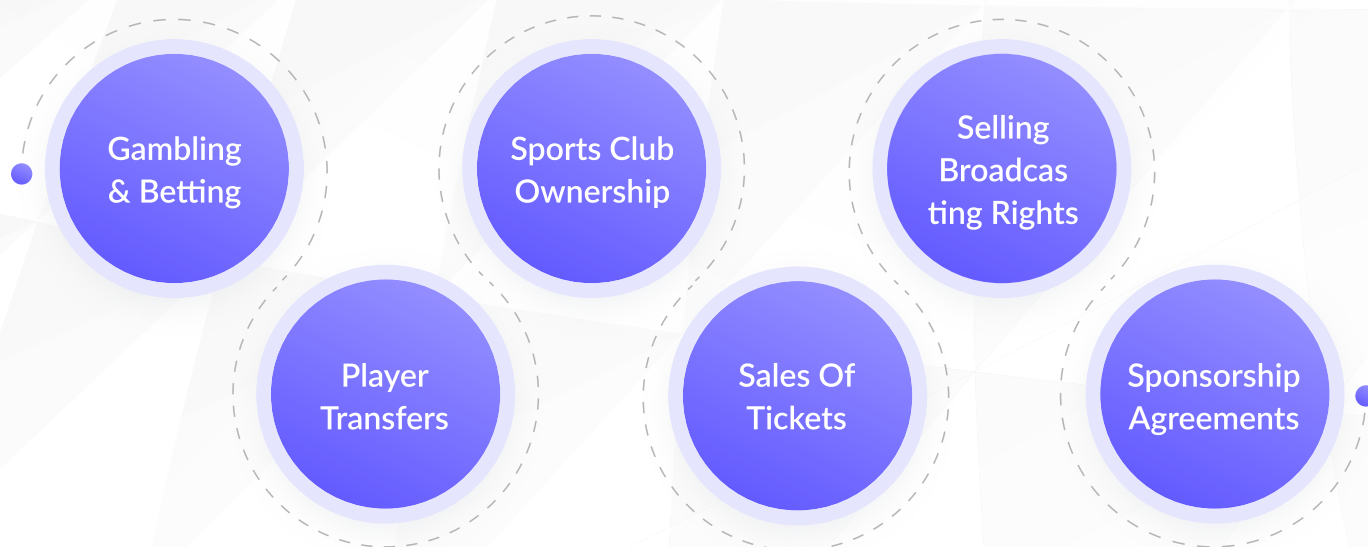
Onion Diagram Representing The Stakeholder Levels In The Football Ecosystem



Onion diagram representing the stakeholder levels in the football ecosystem. The diagram visually displays the different layers, with players at the core, surrounded by clubs and player-owning businesses, then managers and brokers, followed by sponsors and broadcasting companies, and finally fans and media in the outermost layer

Money Laundering In The Global Football Industry

Illegal gambling, especially in sports where large sums of money are spent, can be used to launder money. With illegitimate finances, criminals are able to place many bets and win legitimately. Online gaming provides a platform for this type of behavior. Professional sports money laundering can be executed in a variety of ways, taking advantage of various aspects of the sports industry. Key techniques are provided in the following figure.



Typical Methods Of Money Laundering In Sports Industry

Distinct Legal Frameworks

Football teams can be foundations or private limited businesses under different legal frameworks. The operation and maintenance of the stadium are frequently overseen by several businesses. Players' funds, sometimes known as talent pools, are occasionally separate legal entities. Football club's memberships are easily obtained due to the absence of ownership or control regulations over legal frameworks.

Source: Abrahamyan, L. (2023). Major International Competition Funding and Money Laundering Risks. *European Journal of Sport Sciences*, 2(5), 20–25. <https://doi.org/10.24018/ejsport.2023.2.5.86>

Money Laundering In The Global Football Industry

Enormous Cost & Unpredictability Of Future Outcomes

Player costs can seem illogical and difficult to regulate. Not only may youthful talent be found and trained, but enormous and unmanageable fortune can also be established. There are transfers between clubs, which makes money laundering prospects plentiful.



Furthermore, a major characteristic of sports is the extreme uncertainty of future outcomes. This "culture of unpredictability" may make people more tolerant of payments that appear illogical. There are numerous accounting techniques that are used. Last but not least, the ethereal aspect of player principles has given rise to some peculiar customs.



For instance, in certain nations, it was customary in the past for two clubs to overvalue each other's players in a trade that allowed for the inflation of the price of assets and the balance sheet.



Money Laundering In The Global Football Industry

Financial Costs Of Football Clubs

Even if the football industry has grown tremendously overall, many football clubs are in dire financial situations, which may lead them to take money from questionable sources. The nature of the game contributes to its financial fragility.



Large sums of money are necessary for big teams to succeed and be able to purchase players. A typical "winner-take-all" market is found in sports. In winner-take-all marketplaces, compensation is determined by performance in relation to competitors rather than by performance in absolute terms.



Even one loss can have a significant financial impact (relegation to a lesser level, loss of sponsorship revenue, and television rights). Football teams that are financially vulnerable may be more easily targeted by shady money.



Financial doping may be necessary for clubs facing relegation or experiencing financial difficulties. The current global financial crisis, which has made it more difficult to attract sponsors, may have exacerbated the underlying financial fragility. Clubs that are in bankruptcy run the danger of not being questioned by prospective investors. Furthermore, taxes make up a sizable amount of the sector's cost base, which may indicate a culture of avoiding taxes and a greater kinship with illicit activity.

Money Laundering In The Global Football Industry

Step-By-Step Guide On How To Use Football Clubs To Launder Money



HOW FOOTBALL CLUBS ARE USED TO LAUNDER MONEY?



STEP 1

Identify a European football club in financial distress



STEP 2

Infiltrate the club, gaining trust by making short-term donations or investments



STEP 3

Buy the club, using it as a front for a network of opaque holding companies owned by offshore shell companies



STEP 4

Launder the money through over-valuing players on the transfer market, the purchase of TV rights through betting activities

Money Laundering In The Global Football Industry

New AML Package By The EU

As the world prepares for the 2024 UEFA European Football Championship, the European Parliament, on April 18, 2024, has passed a comprehensive set of new regulations widely known as the AML Package.



This new AML Package designed for the football industry coincides with the current Financial Fair Play (FFP) regulations, which are designed to keep teams from overspending. By guaranteeing that all financial transactions are transparent and traceable, the new AML regulations will probably support these initiatives. By lowering the likelihood that clubs would have serious financial difficulties or engage in dangerous financial practices, this synergy could contribute to the development of a more stable and sustainable financial environment in European football.



To combat money laundering and the funding of terrorism, clubs and agents will need to create strong regulations and controls and carry out extensive risk assessments of their operations. This entails working with FIUs, continuously monitoring business relationships, and conducting due diligence on customers. Notwithstanding the heterogeneous financial makeup of football teams, the European Union has established specific parameters for exemptions. Some of these strict regulations may not apply to clubs operating in lower divisions that can show a low risk of financial malpractice or those with an annual turnover of less than €5 million over the previous two years.



Given that the EU's legislation focuses solely on clubs in its member states, the effects would be seen globally because football is a global sport. Certain components of the regulations must also be adhered to by non-EU teams that trade with EU clubs, such as player transfers. Global collaboration and harmonization of regulatory guidelines across football leagues worldwide are necessary to guarantee a cohesive strategy in the fight against money laundering inside the industry. With the new AML package going into effect in 2029, clubs and agents will have plenty of time to get used to the new regulations.

Money Laundering In The Global Football Industry

PEPs & Corruption

CASE STUDY

As per the FATF 2009 report, a successful professional football team was acquired by a pseudo-businessman associated with local government officials, who then utilized the team to draw in politicians and other government officials at different levels. He was able to get in touch with local politicians who made decisions on state public works projects because of his football team and games, and he made use of these connections to make sure that he was given big public works assignments.



1. European Parliament. "Parliament Passes Comprehensive AML Package." Last modified April 18, 2024. <https://www.europarl.europa.eu/news/en/press-room/20240418IPR29605/parliament-passes-comprehensive-aml-package>.

FATF. 2009. "Money Laundering through the Football Sector." [fatf-gafi.org](https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/ML%20through%20the%20Football%20Sector.pdf.coredownload.pdf). <https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/ML%20through%20the%20Football%20Sector.pdf.coredownload.pdf>.

Money Laundering In The Global Football Industry

Unlicensed Agents & Money Laundering

CASE STUDY



A European FIU examined the financial activities of a person named X and his company A, which specialized in counseling and advising athletes, after receiving STRs from banks. The company's apparent activity and the unusually large sums of different foreign wire transactions that credited company A, individual X, and his wife's bank account all demonstrated that X was unmistakably a players' agent on a European scale. However, neither X nor his business A have the FIFA license needed to arrange player transfers. The financial movements seen on X's account, as well as the accounts of his wife and business, truly indicate the unlawful use of the player's agent, which is forbidden in the relevant country and carries a punishment of EUR 15,000 and a year in jail.



As per the FATF 2009 report, the FIFA rule had also been broken by the players and teams who hired this unlicensed agent. Subsequent investigation showed that a large number of foreign wire transfers that credited firm A's bank account came from both company B and person Y. Y, an authorized representative from an Eastern European nation, was well-known for having strong ties to the nation's organized crime. The wire transfers he directed for company A and company X could be considered money laundering schemes. There was uncertainty over the identification and organization of firm B's associates. X and Y were managers of firm B, and information gathered by the FIU showed that they were using it as a means of laundering criminal funds.



In terms of the ML aspects, the first is that the use of the funds obtained through the illicit practice of a regulated profession is also criminal. Second, given that X was well-known in his home nation for having strong ties to organized crime, a large number of foreign wire transfers that he directed may be regarded as money laundering transactions. Additionally, there were rumors of corruption behind player transfers to another European nation. Company B may have been utilized as a means of disguising the source of the transferred monies because X was involved in its management and it was also the source of international wire transfers.

Based on speculation about the illegal practice of players' agent professions and the laundering of illicit gains, the case was forwarded to the public prosecutor

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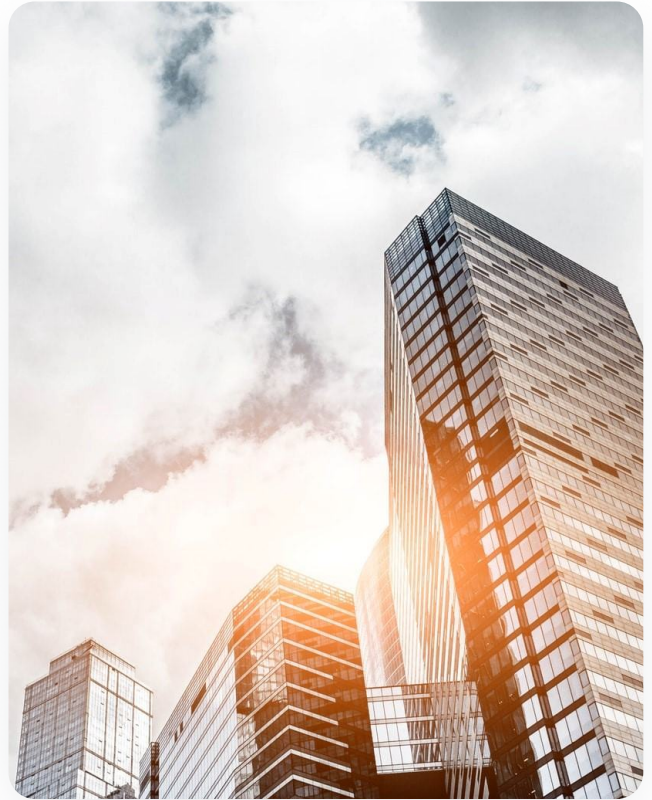
Action Plan For Financial Institutions



Good Governance & Transparency

The number of managers and intermediaries involved in international transfers has increased, along with the amount of money paid for each move.

New parties with questionable backgrounds have also been involved. Therefore, encouraging sound money management is essential. It is possible that structural steps may be taken to lessen the transfer system's appeal to money laundering, in addition to keeping an eye out for any potential abuses.



Transnational Corporation

Difficulties with international information sharing since the utilization of tax havens is a significant obstacle to the identification and investigation of money-laundering via the football industry. Information sharing and international cooperation are important components. In the battle against money laundering, considering the global reach of the football industry. Nations must cooperate to detect and stop the football industry's use of money laundering objectives.

Money Laundering In The Global Football Industry



Implementation Of Similar Regulations

Because football is an international sport, it is crucial to implement comparable laws to prevent favoring nations with the laxest laws. Recognizing the sports sector as a strong industry in this context is necessary, as it calls for good financial management, appropriate external accounts, financial transparency, and an efficient regulatory framework.



Investing In Awareness Campaigns

Although criminals employ inventive tactics to take advantage of the football industry, ignorance of the risks involved in money laundering related to sports may be a contributing factor in the issue. It happens frequently that certain important participants are unaware of their role in the fight against illegal operations. It is crucial to educate government agencies, the commercial sector, and financial institutions on the money laundering hazards connected to the football industry.

KEY TAKEAWAY

Raising Awareness Could End Up Being Rather Beneficial. Although It Would Take Resources For Training, Outreach, Or Other Collaborative Efforts, This Might Lead To Improved Information Sharing.