



Department of Business and Management

Chair of Financial Statement Analysis

ACCOUNTING FOR FOOTBALL PLAYERS UNDER
IAS/IFRS REGULATORY FRAMEWORK

An analysis of football clubs' financial statements

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ACADEMIC YEAR 2018/2019

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INTRODUCTION

In recent years, football has undergone a process of transformation from a mere sporting event to a real economic phenomenon of global importance. To date, the sector has become an object of interest for an ever-increasing number of investors, ready to put a large amount of economic resources into the system. The economic growth of the football movement attracts daily economic experts who, more than any other sport, intend to analyse the main characteristics and peculiarities that make it so special, distinguishing it from all other economic sectors.

One aspect of great interest certainly concerns the financial reporting activities carried out by football clubs, in particular by those listed on the stock exchange, which for this reason must meet specific disclosure requirements. The present report is part of the studies relating to this aspect of the football sector, in order to highlight the main accounting techniques that characterize the reporting activities of football clubs, with particular attention to what happens with regard to football players. They are in fact the main resource available to these clubs in the performance of their operating activities, i.e. participation in sporting competitions, and for this reason, in this regard, it is necessary to verify the application of a correct accounting method.

The work was carried out through an analysis of the financial statements of the companies that make up the analysis sample, in order to understand the accounting logic adopted and the reasons behind these choices.

The work has been divided into three chapters. The first chapter has a mainly introductory function, going on to examine the importance of the financial reporting process for these companies, especially in view of the rules governing its drafting. To this end, the focus will be on the main regulatory sources that regulate this activity and which, as will be seen, can be traced mainly to two

types: the IAS/IFRS international accounting standards and the relevant provisions drawn up by the main administrative body of European football, the UEFA.

In the second chapter, the focus of the analysis shifts to the accounting process relating to the registration and subsequent valuation of players in the financial statements of football clubs. In this regard, it is important to point out how the ownership of players is represented in the financial statements of clubs through the rights to the services of players, known as players' registration rights. That being said, the purpose of the analysis is therefore to identify the methods adopted by the companies that make up the sample for this purpose, taking into consideration the main regulatory provisions on the subject.

Finally, the third and final chapter will seek to highlight the main issues relating to the accounting practices currently adopted by listed football clubs. The methodology outlined by the IAS/IFRS international accounting standards, and confirmed by the provisions contained in UEFA Club Licensing and Financial Fair Play Regulations, leads to a clear underestimation of the company's assets, in particular with reference to certain types of acquisitions, the accounting for which appears to be a complex solution. In this regard, alternative methods will be proposed, assessing their impact on the financial statements of some of the companies that make up the sample of the analysis.

CHAPTER 1 – FOOTBALL CLUBS’ FINANCIAL STATEMENTS

1.1 INTRODUCTION

Football has managed to attract millions of spectators and practitioners over the last twenty years, mainly due to the simplicity of the rules that characterize the game, becoming an increasingly wide-ranging economic phenomenon. Football clubs have become full-fledged corporations that daily deal with issues like business organization, accounting records and sometimes even with the stock exchange listing and find in the fans a group of loyal customers, able to guarantee almost perpetual income¹.

We can therefore say that the general football movement has been involved in a transformation process from simple sport to an independent economic industry, just like those considered “traditional”. This vision is supported by a series of indications that highlight the business nature of football clubs, such as the status of capital companies, the recognized profit purpose and the system of controls surrounding those companies.

The European football market has now reached an impressive size, recording a total turnover of more than 25 billion euros for the season 2016/2017 and with an equally positive growth outlook. The success of the sector is undoubtedly driven by the clubs belonging to the most important European football leagues, which fall under the common definition of "Big Five", which hold an increasing share of the entire market. In the coming years, they are expected to strengthen their position as dominant economic superpowers in the sector, particularly due

¹ Jean-Christophe Cataliotti, *Il business nel pallone. Analisi dei modelli organizzativi e gestionali delle società di calcio*, Milano, Ugo Mursia Editore, 2015

to the entry into force of highly profitable agreements for the sale of television rights².

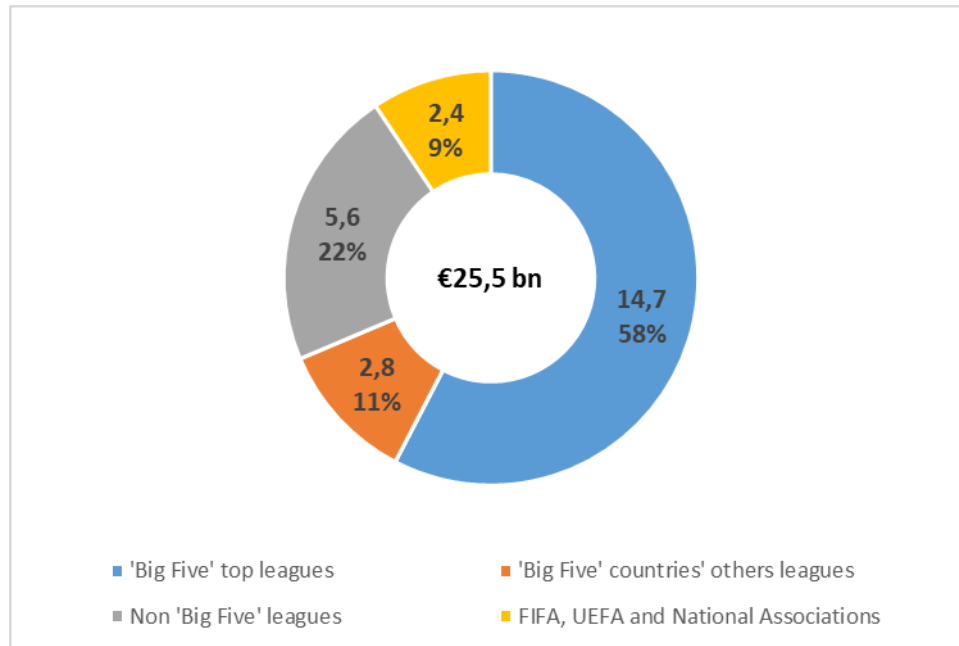


Figure 1- European football market³

Source: Deloitte Football Finance 2018

The enormous business that has been generated in relation to the operational activities of football clubs justifies the growing public attention towards such companies and, consequently, the need for them to guarantee an extremely efficient information system that could fulfil the interests of more than one party. As a whole, the information system is called upon to play the dual role of a means of communication to the outside world, as a source of information, and of control over the actions carried out by management, allowing rational and economic decisions to be taken. In this context, the financial statements

² Deloitte, Annual Review of Football Finance 2018, p. 8

³ In the chart, the European football market has been divided into four categories:

- "Big Five" top leagues, which includes the five main European leagues, namely English Premier League, Spanish La Liga, German Bundesliga, Italian Serie A and French Ligue 1;
- "Big Five" countries' others leagues, which includes the minor leagues of the countries listed in the above category (e.g. Ligue 2 French or the English Football League Championship);
- Non "Big Five" leagues, which includes all the major and minor football leagues of the remaining European countries;
- FIFA, UEFA and National Associations, which includes the market share generated by the administrative bodies.

represent the main tool available to the entrepreneur to assess the real impact of his decisions on the company's objectives and, at the same time, an irreplaceable document to interpret the performance of the management from the point of view of stakeholders.

1.2 ROLE OF FINANCIAL REPORTING

Annual financial reports are corporate communication tools aimed at individuals who have interests of various kinds towards the company, with the aim of providing information of how well management use the available resources and therefore take informed decisions, by both internal subjects and external parties. The highlighted importance of the budget, as an information tool, presupposes that it should be disclosed in a way where all investors have access to the same information at the same time. It involves the preparation of general purpose financial statements in accordance with approved financial reporting standards, providing information about the financial position, financial performance and cash flows of an entity, supplemented by accompanying narrative information⁴.

Financial reports were born as an instrument to keep internally the accounts of expenses and revenues and they have become over time a real global information tool, aimed mostly at external parties. Indeed, the financial statements fulfil their communicative function by constituting a tool for understanding the trend in the management by the public concerned and a tool for behaviour, since the information contained in them can guide management's choices internally⁵.

⁴ Stephen Morrow, *Football Club Financial Reporting: Time for a New Model?*, Sport, Business, Management: an International Journal, 2013, p. 4

⁵ Gabriele Gravina, *Il bilancio d'esercizio e l'analisi delle performance nelle società di calcio professionistiche: esperienza nazionale e internazionale*, Milano, Franco Angeli, 2011, pp. 28-30

In particular, the objective of financial reporting, as pointed out by the Conceptual Framework handbook⁶, is “to provide financial information that is useful to users in making decisions relating to providing resources to the entity”. The word user generally refers to both existing and potential investors, lenders and other types of creditors, which should rely on such information in order to assess whether to buy, sell or hold respectively equity and debt instruments. Furthermore, financial information regarding corporate management could affect the way current shareholders exercise their voting powers in the shareholder’s meeting⁷.

In accordance with the different models of corporate governance and the relationship between various parties, it can encourage different points of view and provide different information depending on the analysis of the interpretations prevailing in each class of stakeholders. The group of people interested in the financial information disclosed by football clubs, indeed, is not limited to those who have direct financial interests, namely shareholders and debtholders, as we have to consider a wider audience, identified in the broader definition of “stakeholder”. This term refers to those individuals that have, or claim, ownership, rights or interest in a corporation and its activities, past, present or future, among which governing bodies stand out by virtue of the control functions they perform. As for football clubs, this situation is enhanced due to the characteristic features of the industry. The main stakeholders of the football clubs will be briefly analysed below.

⁶ The Conceptual Framework for Financial Reporting is a guidebook issued by the IASB (International Accounting Standards Board) to assist preparers of financial reports to develop consistent accounting policies for specific transactions and, in general, to assist all parties to understand and interpret Standards.

⁷ IFRS – Conceptual Framework for Financial Reporting, 2018, p. 5

➤ Investors

The ownership structures prevalent in football clubs provides for a high level of concentration, as a few people own the most of the shares, along with a centralized management. In general, except for the sale of a controlling interest in a club, there is little evidence of an active market in the shares of football clubs. The financial performance of football clubs did not manage to make their own shares attractive from the investors' point of view, mostly tying the trading of such shares to non-financial motives, such as a sense of obligation within the supporters to provide financial provision to their belonging club. This led to a 'buy and hold' strategy, rendering the traditional function of financial statements as informing source, with regard to the investment decision-making, largely irrelevant.

By calling for attention to be paid to the issue of majority shareholders, historically their objectives tended to be characterised not in terms of profit maximisation, but rather utility maximisation, usually described in terms of maximising playing performance subject to solvency. This translates into attention to the financial statements documents focused on determining the budget to be invested in the football market, as highlighted by the fact that the most of the additional revenue in top-level football clubs is quickly captured by the players in the form of increased salaries⁸. Hence for the most part, rather than rational economic decision making what we find is economic irrationality: in pursuit of sporting success clubs compete against each other in an attempt to hire the best players available in the market⁹.

⁸ The European Club Footballing Landscape, Club Licensing Benchmarking Report Financial Year 2017, p. 71

⁹ Stephen Morrow, *Football Club Financial Reporting: Time for a New Model?*, Sport, Business, Management: an International Journal, 2013, pp. 5-7

➤ Lenders

Football clubs, by virtue of their defined nature of business, are subject to relations with external financiers, as are other economic entities. These lenders have over time implemented financial support measures for football clubs, necessary for the continuation of the company's activities, reaching in some cases levels of exposure such as to obtain a significant impact in the field of corporate governance. Hence, the great interest in the information contained in the financial statements of football clubs.

➤ Governing bodies

As mentioned before, the governing bodies play a fundamental control role for the general well-being of the football movement through a careful analysis of the financial information that football clubs are required to publish periodically. These bodies are mainly identified international football associations, such as FIFA and UEFA, which operate as a primary control source and national football associations (e.g. the FA in the United Kingdom or the FIGC in Italy). The system of rules and controls implemented by the national federations has always been autonomously legislated by the latter, but recently it has undergone a major reorganization at continental level following the introduction of the UEFA Club Licensing and Financial Fair Play Regulations framework that will be further analysed in greater detail. Actually, the beginning of the harmonisation process that has involved, at continental level, the national federations must be traced back to the introduction of the first rules on Club Licensing in 2004, as UEFA intended to provide an initial regulation stability of the football movement. With these first regulations UEFA has created a system in which member states act as licensors, determining whether or not a licence can be granted to a club¹⁰.

¹⁰ UEFA Club Licensing. Available at <https://www.uefa.com/insideuefa/protecting-the-game/club-licensing/index.html>

1.3 SAMPLE SELECTION

The evolution of football clubs from sports results-driven entities to a properly managed business made it necessary to adopt an adequate legal entity forms that would allow clubs to perform their business in line with economic needs. This has led to the definition of football clubs in the form of limited companies such as the S.p.A (“Società per azioni”) in Italy, the plc (“public limited company”) in the United Kingdom and the SA (“Société anonyme”) in France.

By analysing the current situation in terms of the regulatory framework for the financial communication of football clubs, it is necessary to outline a summary of the regulations enterprises have to comply with in order to provide intelligible tools to the users of the financial statements and to portray a truthful and reliable picture of the company’s general position. Specifically, we can operate a classification based on whether a club is quoted on the stock exchange and whether a club commonly participate in international competitions¹¹.

Combining the listed attributes, we can detect four different clusters of club, namely:

1. Public listed football companies participating in European competitions;
2. Non-listed football companies participating in European competitions;
3. Public listed football companies not participating in European competitions;
4. Non-listed football companies not participating in European competitions.

The sample that will be examined during our analysis will be made up of listed companies, by virtue of their necessary compliance with international accounting standards IAS/IFRS which will be detailed below, and specifically by companies belonging to the first cluster. Such football clubs have been

¹¹ Pietro Paolo Biancone, Alberto Solazzi, *Financial communication in professional football clubs*, *Economia Aziendale Online* Vol. 3, N.1, 2012, pp. 157-158. Available at <https://iris.unito.it/retrieve/handle/2318/119748/17457/736-5139-1-PB%5b1%5d.pdf>

identified as the most suitable for our study especially due to the importance, in quantitative terms, of players' registration rights, the main subject of the thesis, within their balance sheet. These are clubs that each year have sufficient resources to invest in the football market to improve the quality of their squad. For linguistic reasons, Amsterdamsche Football Club Ajax, better known as Ajax, has been excluded from the sample selected for the analysis. The companies that will make up the sample of our analysis are listed in the table below:

Football Club	Country	Legal form
A.S. Roma	Italy	S.p.A
Juventus F.C.	Italy	S.p.A
S.S. Lazio	Italy	S.p.A
Manchester United F.C.	United Kingdom	plc
Borussia Dortmund	Germany	GmbH & Co. KGaA
Olympique Lyonnais	France	SA

Table 1 - Sample selection

As mentioned above, football clubs have adopted different legal forms falling under the common definition of limited liability companies. The main particularity is the legal form chosen by Borussia Dortmund as it is a hybrid form that combines the advantages of the limited liability corporations with the limited partnership ones.

1.4 DISCLOSURE REQUIREMENTS

Football clubs are nowadays required to keep accounting books in a transparent and correct way, such as any other company all over the world. However, it should be noted that the attention to football clubs' financial reporting activities has increased considerably after the stock exchange listing "wave", which

involved several players in the industry, and the UEFA Club Licensing and Financial Fair Play Regulations framework introduction since 2010.

Football clubs have started going public since early 1980s, when Tottenham Hotspur became publicly listed on London Stock Exchange (1983). From that moment, many clubs in several countries adopted the same strategy with the idea of collecting financial resources and trigger the virtuous cycle as available funding allows clubs to acquire the best players that should lead to sporting successes and financial rewards, through direct prizes and a higher brand value. However, the listing of the companies on the stock exchange brings with it a series of more stringent disclosure requirements as determined in EU rules by the transparency directive (2004/109/EC) as investors need reliable and timely information about the business performance and the assets of the companies they invest in. The directive requires issuers of securities traded on regulated markets within the EU to make their activities transparent, by regularly publishing certain information, including yearly and half-yearly financial reports, in addition to continuous information concerning the possession of significant percentages of voting rights and other information which could affect the price of securities¹².

Moreover, under the EU's legislation, all listed EU companies must prepare their consolidated accounts in accordance with a single set of global standards - the International Financial Reporting Standards (IFRS) - developed by an independent accounting body, the International Accounting Standards Board (IASB). Listed companies, indeed, have to comply with Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of

¹² Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC. Available from: <http://eur-lex.europa.eu/>

international accounting standards¹³, which regulates the preparation of financial statements for the companies whose “securities are admitted to trading on a regulated market of any Member state”¹⁴. EU and IASB started working on international accounting standardization since 1970s with the purpose of harmonizing internationally the reporting procedure and disparities between the different national accounting systems. This has been a key piece of work in the context of the broad process of globalisation that has affected the entire world of economics, ensuring that the value of the budget largely transcends national borders, and creating the need to harmonise the annual accounts published in the various countries. In this way, it will be ensured a high degree of transparency and comparability of financial statements and hence an efficient functioning of the Community capital market and of the Internal Market. The international accounting standards, as explained by the *Conceptual Framework*, introduced several reporting criteria, which significantly affect certain aspects within the drafting of companies’ financial statements, with the aim of ensuring the two fundamental qualitative characteristic of relevance and faithful representation. It is therefore necessary to underline the importance of the following innovations:

- the fair value method, that provides for an asset valuation based on “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”¹⁵;

¹³ For the purpose of this Regulation, "international accounting standards" shall mean International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB).

¹⁴ Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. Available from: <http://eur-lex.europa.eu/>

¹⁵ *IFRS 13 — Fair Value Measurement*. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ifrs-13-fair-value-measurement/>

- the impairment test, which represents “the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount”, ensuring that “if this is the case, the asset is described as impaired and the Standard requires the entity to recognise an impairment loss”¹⁶;
- the complete set of financial statements, which should include a larger set of documents than before, as listed in the IAS 1.

Football clubs, especially, present some relevant features that deal with such criteria and that will be further detailed along the study¹⁷.

Disclosure requirements for football clubs have become even stricter after the introduction of the UEFA Club Licensing and Financial Fair Play Regulations. This consists in a set of rules, detailed in full in the UEFA Club Licensing and Financial Fair Play Regulations document and periodically updated on a three-year basis, built around two main areas: an obligation for clubs, over a period of time, to balance their books (first assessed in the 2013/14 season), by setting the break-even requirement, and an obligation for clubs to meet all their transfer and employee payment commitments at all times (first assessed in the summer of 2011).

Anyway, it is important to recall that Financial Fair Play is not an attempt to make clubs more equal or address other challenges faced by club football, but a financial control system designed to reduce the worst excesses of the game. Specifically, the regulations have been introduced in order to achieve the following fundamental principles and objectives:

- to improve the economic and financial capability of the clubs, increasing their transparency and credibility;

¹⁶ IAS 36 — *Impairment of Assets*. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-36-impairment-of-assets/>

¹⁷ Lorenzo Gelmini, *Le società di calcio professionistiche nella prospettiva dell'economia d'azienda: modelli di bilancio e valore economico*, Milano, Giuffrè, 2014, pp. 104-105

- to place the necessary importance on the protection of creditors and to ensure that clubs settle their liabilities with employees, social/tax authorities and other clubs punctually;
- to introduce more discipline and rationality in club football finances;
- to encourage clubs to operate on the basis of their own revenues;
- to encourage responsible spending for the long-term benefit of football;
- to protect the long-term viability and sustainability of European club football¹⁸.

The introduction of these rules by UEFA has led to the creation of a genuine secondary source of rules for the drawing up and publication of financial statements by football clubs, which complements the requirements of European standards and, consequently, international accounting standards IAS/IFRS. Specifically, section five of the manual, “financial criteria”, is of particular interest for the subject. National football association also contribute by providing an additional regulatory source through country – specific rules developed roughly independently by the maximum national bodies in the field of football. However, it should be noted that the autonomy of these associations has been significantly reduced as a result of the harmonisation process that began with the introduction of the UEFA rules.

1.5 FOOTBALL CLUBS’ FINANCIAL STATEMENTS

The drawing up of financial statements is governed, in the first place, by the accounting standard IAS 1, which set the minimum level of financial information required. As mentioned before, the accounting standard IAS 1 “prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity’s financial statements of previous

¹⁸ UEFA Financial Fair Play. Available at <https://www.uefa.com/insideuefa/protecting-the-game/club-licensing-and-financial-fair-play/index.html>

periods and with the financial statements of other entities”, by setting out “overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content”¹⁹.

According to the referred principle, a complete set of financial statements comprises:

- a. a statement of financial position as at the end of the period;
- b. a statement of profit or loss and other comprehensive income for the period;
- c. a statement of changes in equity for the period;
- d. a statement of cash flows for the period;
- e. notes, comprising significant accounting policies and other explanatory information.

This subject is also regulated, as a secondary matter, by the UEFA Club Licensing and Financial Fair Play Regulations, in which Articles 47 and 48, respectively for the annual and interim period financial statements, are of particular importance. UEFA generally confirms what is defined by the international accounting standards, both in terms of mandatory documentation and information content, which is detailed in the Annex VI section, although with some minor differences among which stands out the necessary presentation of the “player identification table”, which will be examined in greater detail in the section on Player Registration Rights. Furthermore, the UEFA rules also provide for accounting requirements of specific items in the Annex VII section such as the recognition of characteristics revenues and expenses of the football clubs or the registration of player transfers²⁰.

The UEFA provides illustrative templates for the drafting of balance sheet and profit and loss statement – i.e. points a. and b. of the above list –through the

¹⁹ IAS 1 — *Presentation of Financial Statements*. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-1-presentation-of-financial-statements/>

²⁰ UEFA Club Licensing and Financial Fair Play Regulations Edition 2018, pp. 68-77

UEFA CL/FFP IT Solution Toolkit, a guidance to help stakeholders understand the requirements for the provision of financial information. Such forms, developed in accordance with the guidelines proposed by accounting standard IAS 1 in the paragraphs related to the statement of financial position and the statement of profit and loss, are in no way binding in terms of their content. It should be borne in mind that international accounting standards only offer recommendations for the preparation of such documents which are in no way binding as explicitly specified in paragraphs 55 and 85 of the IAS 1²¹.

For a better comprehension of football clubs accounting policies we are going to briefly analyse the aforementioned documents by presenting below the illustrative version proposed by the UEFA. The study will focus on the items highlighted in orange, i.e. those most related to the activities of football clubs and in particular to the transfer of footballers.

²¹ *IAS 1 — Presentation of Financial Statements*. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-1-presentation-of-financial-statements/>

1.5.1 Balance Sheet

Turning to the analysis of the document, it is possible to make numerous observations.

The format of the financial statements proposed by UEFA has a structure similar to the traditional one as it distinguishes between current and non-current assets (and liabilities), in line with the provisions of IAS 1. In fact, the paragraph 60 of the standard establishes that “an entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position”²².

The thing that stands out most when analysing the documents is certainly the presence of some items closely related to the players of the club and, more specifically, to their transfer, namely:

- Intangible assets – players: accounting element representing the value of the players that constitutes the team. This element, as will be detailed below, is increased by the capitalization of the costs incurred in the acquisition of new players – including any additional charges – and decreased through the processes of amortisation and recognition of impairment losses, as well as in the event of disposal of the player himself.
- Account receivable/payable from player transfers: receivables and payables towards other football clubs fuelled by the purchase and disposal of players in the football transfer market. For both the first and the second, there is a distinction between current and non-current which takes place in relation to the expected date of payment, if more than or less than 12 months. This distinction is particularly important as football

²² IAS 1 — Presentation of Financial Statements. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-1-presentation-of-financial-statements/>

clubs usually set deferred payment periods, often longer than one year, in the context of agreements for the transfer of players.

Football players are the main resource in the hands of football clubs, without which such clubs would have no reason to exist and, for this reason, UEFA has correctly highlighted this singularity by adopting a balance sheet format with specific additional lines for these items. The choice seems to be consistent with the provisions of the international accounting standards on the subject of true and fair representation.

1.5.2 Profit & Loss

Moving on to the second document, we would like to highlight the main characteristics that can be observed after careful analysis:

- Operating revenues have a well-defined composition as they are broken down by macro-category. Football clubs usually divide their income between match-day revenues, broadcasting rights and commercial revenues (including both sponsorship and merchandising activities). At the moment, the distribution of revenues in the major European football clubs shows that the use of stadiums is not yet sufficiently profitable, as, on average, match day revenues only account for the 17% among the clubs included in the Deloitte Football Money League analysis²³.

²³ Deloitte proposes through the Football Money League a ranking of the top twenty European teams in relation to operating income. Available at <https://www2.deloitte.com/uk/en/pages/sports-business-group/articles/deloitte-football-money-league.html>

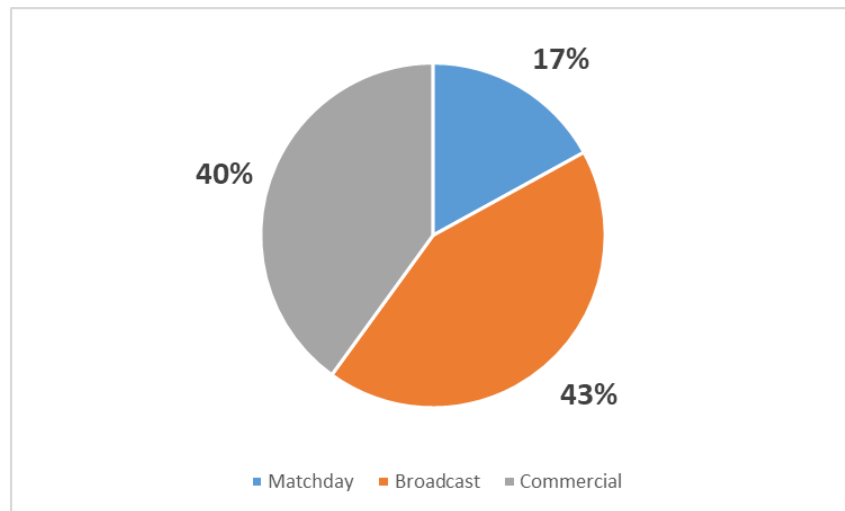


Figure 3 - Revenues composition Source: Deloitte Football Money League 2018

- Operating costs are mainly related to the salaries of players and other benefits expenses. The UEFA reported the wage-to-revenue ratio to be equal to 61.3% on average among European clubs in 2017, as the wages level grew by 6.7% since the previous year²⁴. The financial indicator is at the lowest level recorded in the last ten years, mainly due to the faster growth rate of operating revenues compared to wages, but despite this the general objective is to further improve the conditions in order to ensure greater stability of the system.
- Costs and revenues connected with the registration and disposal of players are excluded from the two categories mentioned above as the proposed form, in line with the practices effectively adopted by the football clubs, provides for a special section called “player trading”. This choice seems correct as expenses and income relating to player trading do not seem to be traceable to the operating component as they are strictly dependent on the specific choices made in defining the strategies to be adopted in the football market, which may change among the clubs and even from a season to another one. Specifically, this section identifies the gains and losses on disposal, related to the player registration rights, as

²⁴ The European Club Footballing Landscape, Club Licensing Benchmarking Report Financial Year 2017, p. 71

well as fees and income related to players' loans. The Player Trading section is placed below the Gross Margin calculation and contributes to the determination of the EBITDA.

CHAPTER 2 – PLAYERS’ REGISTRATION RIGHTS

2.1 INTRODUCTION

Football clubs substantially differ from corporations belonging to other sectors as the main activity performed is of a sporting nature and consists of participating in national, and eventually international, competitions and matches – alongside with alongside other complementary operational activities. The activity of participation of football clubs in such matches is made possible by the existence of a team composed of their respective players, which in fact justify the existence of the same football club. Without them, the football club would certainly not participate in competitions, nor will it justify the existence of other assets and carry out its activity (in other words, it would not justify its entire existence)²⁵.

The underlined importance of players in the operating cycle of football clubs is confirmed from an economic point of view. Football players become part of their respective clubs through different methods of acquisition, and, with their performances, determine whether a club is successful or not. Their importance has therefore generated over the years a continuous struggle between the teams to get the best players available, causing an exponential growth in the price - and in the wages - of the latter. The data collected by UEFA show a trend of very strong growth in the last four years with transfer activity of European clubs doubling from an estimated €3.2bn in 2014/15 to €6.4bn in 2017/18²⁶; specifically, as transfer volumes remained relatively stable in the period

²⁵ Victor-Bogdan Oprean, Tudor Oprisor, *Accounting for soccer players: capitalization paradigm vs. expenditure*, *Procedia Economics and Finance* 15 (2014) 1647 – 1654, p. 1650

²⁶ The summer transfer market session in 2017 was marked by the transfer of the player Neymar Jr. from FC Barcelona to Paris Saint-Germain FC for a total of 222 million euros. This event resulted in an economic bubble, leading to an overall increase in the price level of players.

considered, the transfer activity increase must necessarily be traced back to higher transfer prices²⁷.

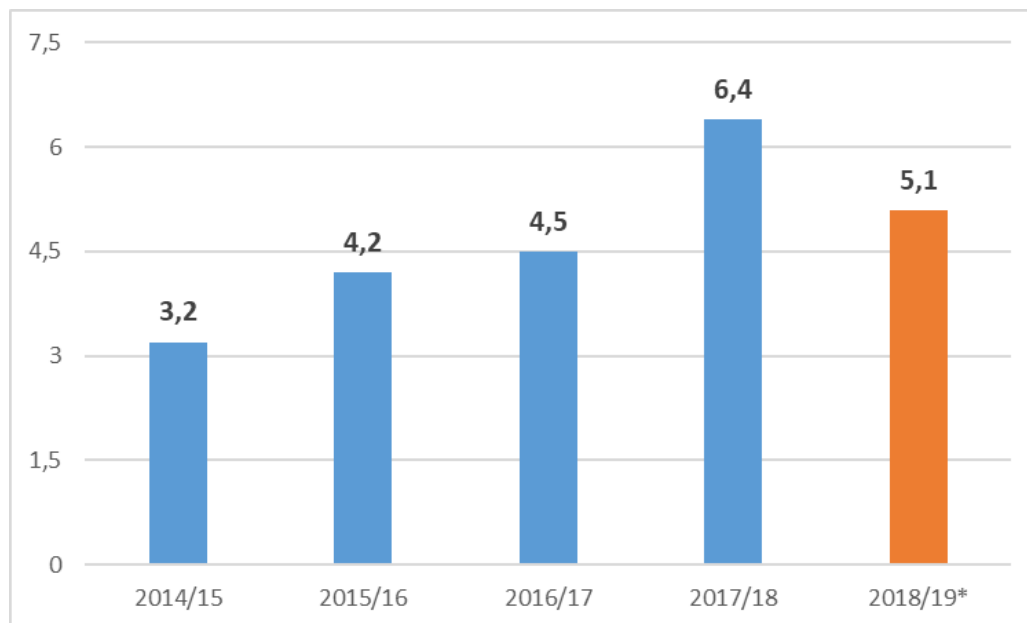


Figure 4 - Transfer Activity²⁸ Source: UEFA

The scale of investments into professional players is therefore comparable on amounts allocated to direct investments in industrial sector and it is precisely for this reason that the attention of scholars in recent years has focused on the issues surrounding this topic.

As far as the accounting aspect of this issue is concerned, it should be noted, however, that the object of interest for the analysis is not the player himself, but the related right that clubs could claim. The club, indeed, at the time of the contract's registration to the governing body, acquires the federative rights and license to use him in competitions. This right is commonly referred to in the financial statements of football clubs as "Players Registration Rights" and is essentially valid for a period equivalent to the duration of the contract signed between the player and the club.

²⁷ The European Club Footballing Landscape, Club Licensing Benchmarking Report Financial Year 2017, p. 80

²⁸ The data for the 2018/19 season do not include the movements of the winter transfer market session.

2.2 PLAYERS REGISTRATION RIGHTS

The aforementioned item can be considered as one of the most relevant in terms of operational and accounting impact for football clubs and, probably for this reason, it is now the subject of continuous discussions on the correct accounting methods. Through a careful study of the company's financial statements, it has been possible to observe how this element has absolute relevance within them as, on average, the rights represent 29% of the total assets in the football clubs' balance sheet. Specifically, the value is extremely high in most of the clubs that make up the sample of the analysis, reaching peaks of over 40% as in the case of Rome and Juventus, but also has two significant exceptions on the opposite side:

- in the case of SS Lazio, the value is 18% and the reason can be seen by analysing the company's business model, i.e. a strategy that does not envisage high investments in the acquisition of established players but, on the contrary, is based on the development of players who can be resold at a price higher than the acquisition price;
- in the case of Olympique Lyonnais, the value of 18% is soon explained by the presence within the balance sheet of the Groupama Stadium²⁹, which has a significant weight among the company's assets.

²⁹ Olympique Lyonnais, Registration Document – OL GROUPE 2017/18, p. XXV . Available at: www.investisseur.lyonnais.com

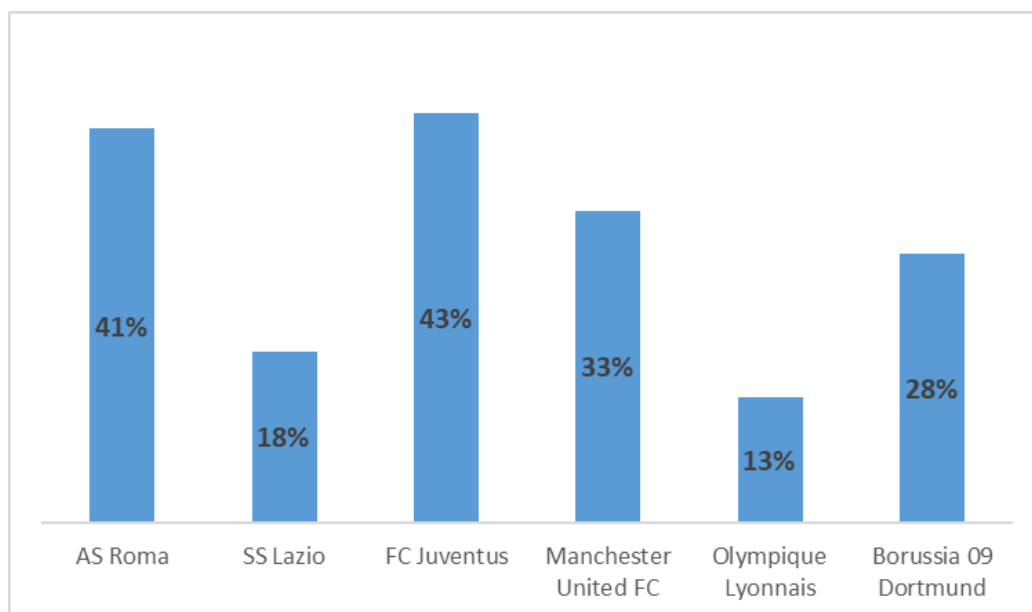


Figure 5 - Player Registration Rights weight Source: Football clubs' financial statements

As can be seen from the analysis carried out previously, the players' registration rights are now unanimously considered as intangible assets in European football clubs' financial statements, as there is extensive practice of capitalizing players' acquisition costs. However, the doctrine has not always been unanimous in this regard and this conclusion has only been reached recently following a long comparison between the different theories.

Specifically, the debate focused mainly on whether the rights should be considered as operating costs that would contribute to the determination of the net income for the period or as assets, which would be included in the balance sheet. The first approach has been widely applied in the UK, where the cost of acquiring such rights were considered as current expenses and reflected in profit and loss account. This choice seems justified by the principle of prudence in the determination of the values in the football club' financial statements, reducing the risk of detection of future income components related to this element and leading therefore to a higher stabilization of the results of the period. However, it should be noted that the recognition of rights as operating costs has found its main element of support, at least in the United Kingdom, in a policy of

containing the tax burden rather than in the exercise of administrative prudence³⁰.

Introduction of national accounting standard FRS 10 'Intangible assets and a goodwill' in December 1997 has significantly influenced the accounting behaviour of English football clubs, demanding from them to follow policy on capitalization of costs of players' registrations as intangible assets³¹ and the related consequences for subsequent valuations of the item, such as the amortisation process and periodic test to verify the potential occurrence of impairment losses. This was a first step towards an accounting approach centred on cost capitalisation, which was later confirmed by international accounting standards IAS/IFRS.

International accounting standards are also consistent with the classification of multi-year rights as intangible assets, as they are deemed to meet the requirements of IAS 38, namely identifiability, control and possibility to obtain future economic benefits from the resource. The identifiability condition is required as the intangible asset should be distinguished from goodwill and, in accordance with the accounting principle IAS38, an asset is identifiable if either it is separable from the entity or it arises from contractual or other legal rights; the item in question clearly fulfils both of the conditions described. With respect to the other requirements, future economic benefits are represented by the on-pitch performances of the player, which are the key factor to realize revenues from gate receipts, sponsorships, media rights and merchandising, while the control presents some critical issues. In fact, an entity has control of an asset if it has the power to derive future economic benefits from the resource in

³⁰ Lorenzo Gelmini, *Le società di calcio professionistiche nella prospettiva dell'economia d'azienda: modelli di bilancio e valore economico*, Milano, Giuffrè, 2014, pp. 124-125

³¹ L.I. Kulikova, A.V. Goshunova, *Human Capital Accounting in Professional Sport: Evidence from Youth Professional Football*, Mediterranean Journal of Social Sciences, Vol 5, 24 (2014)

question and to restrict the access of others to those benefits³². Players Registration Rights are generally guaranteed by the contract of employment that the club stipulates with the player, which can last from one to five years. However, according to FIFA regulation³³, the protected period for contracts between clubs and players has a duration that ranges from two to three years, depending on the age of the player. At the end of this time span, there is the possibility for the footballer to get a disengagement from the contract and to request the termination of his contract unilaterally for just cause. Therefore, although the football company acquires the right to exploit the performance for 5 years, the future economic benefits would cover only part of the recovery time provided for in the initial contract³⁴.

2.3 ACCOUNTING TREATMENT

The accounting practice adopted by the football club therefore requires the Player Registration Rights to be subject to the rules on intangible assets, regulated by international accounting standards through IAS 38. As mentioned above, football clubs cannot stop to the indications provided by international accounting standards, but are also required to take into account what is defined by the UEFA rules in the specific section dedicated to the preparation of financial statements documents (Annex VII).

During the next paragraphs, all the steps relating to the accounting of football players will be analysed in detail as follows:

- initial recognition and measurement after recognition;
- amortisation process;
- impairment test;

³² IAS 38 — *Intangible Assets*, pp. A1343-A1345. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-38-intangible-assets/>

³³ FIFA Regulations on the Status and Transfer of Players 2018, p. 25. Available at www.resources.fifa.com

³⁴ Roberto Maglio, Andrea Rey, *The impairment test for football players: the missing link between sports and financial performance?*, Palgrave Communications volume 3, 17055 (2017)

- player trading impact.

First, we start with the acquisition of the player and the process of recording the related players' registration rights in the financial statements. In this regard, it should be underlined that in this section the analysis will focus on the accounting of players' registration rights only in the case of the permanent transfer of a football player following an agreement with the club to which he currently belongs. In fact, clubs can permanently acquire football players by several ways, but all the other cases – such as signing a player without a contract or promotion of a young player to the first team – will be detailed in the third chapter as they are characterised by some critical issues related to the determination of the proper book value.

The amortisation strategy is then defined, as the license to use the player needs to be gradually written off according to the defined useful life, and the impairment test is performed in order to verify that the asset has not incurred in permanent losses of value.

Finally, it will be considered the impact of some operations regarding players' registration on the income for the period, in relation to the realisation of capital gains and losses in the case of permanent disposal of the player and the temporary transfer of players on loan – in both acquisition and disposal cases.

2.3.1 Initial recognition and measurement after recognition

The accounting principle IAS 38 establishes that “an intangible asset shall be recognized if” it fulfils two additional criteria, compared to what was previously defined in relation to the definition of intangible asset, as follows:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably³⁵.

³⁵ IAS 38 — *Intangible Assets*, pp. A1345-A1347. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-38-intangible-assets/>

However, it is necessary to underline that the acquisition of players' registration rights should only be effectively recognised when all conditions significant conditions for the transfer to take place have been satisfied, which means that there must be a legally binding agreement between the two clubs and between the acquiring club and the player³⁶. Specifically, this condition is identified: for operations with domestic clubs, on the basis of the issue of a visa of enforceability by the national league of reference; for operations with foreign clubs, on the basis of obtaining the international transfer from the federation of origin of the player³⁷.

The accounting of the asset must initially be based on the cost criteria, equal to that incurred for the purchase of the asset. The cost, it is specified, must take into account both the price of the asset subject to registration, namely the amount agreed between the football clubs for the transfer of the player (and related rights), and any additional costs attributable to the asset³⁸. These additional costs are usually represented in the football sector by the fees paid by the clubs to agents of players who have mediated the transfer of the same by virtue of a regular mandate and training expenses, consisting of Training compensation and Solidarity mechanism as established by FIFA³⁹, to be donated to the clubs that have contributed to the growth of the player. All forms of benefit of players, such as sign-on bonuses, should instead be considered as ordinary employee expenses and not be included in the calculation for the asset purchase cost⁴⁰.

Concerning the measurement after recognition, the accounting standard IAS 38 allows choosing between the cost model and the revaluation model after the

³⁶ UEFA Club Licensing and Financial Fair Play Regulations Edition 2018, pp. 69

³⁷ S.S. Lazio S.p.A., Bilancio al 30 Giugno 2018, pp. 37-38

³⁸ IAS 38 — *Intangible Assets*, p. A1347. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-38-intangible-assets/>

³⁹ FIFA Regulations on the Status and Transfer of Players 2018, p. 25. Available at www.resources.fifa.com

⁴⁰ UEFA Club Licensing and Financial Fair Play Regulations Edition 2018, pp. 69-70

initial recognition. The cost model requires that the asset should be carried at its cost, as initially identified, less any accumulated amortization and impairment losses. The revaluation model, on the other hand, requires the asset to be recorded according to its fair value at the date of revaluation, always net of the amortization amount and any impairment losses⁴¹.

The football clubs tend to adopt the cost methodology over the revaluation model for the initial recognition and subsequent evaluations. Furthermore, it should be remembered that the peculiarities of the football sector provide for extremely extended payment terms for the purchase and sale of football players, which justifies the practice of football clubs of discounting the purchase cost in the course of accounting for players' registration rights. If the acquisition cost is discounted, the difference between the amount recorded according to the cost model and the total payments is recognised as an interest expense with reference to the credit extension period⁴², unless it falls within the provision of IAS 23 (Borrowing Costs), which allows for the capitalisation of such expenses.

The reason behind the cost model adoption should be found in the specific characteristics of the football sector, which are not suitable for the application of the revaluation model.

The accounting standard IAS 38, in defining the revaluation model, states that “fair value shall be measured by reference to an active market”⁴³, therefore emphasizing its necessary existence for the determination of reliable values, referring in fact to the cost model in the case there is no active market for the specific asset class. However, the definition of an active market for the purchase and sale of football players presents some issues, since the football players’

⁴¹ IAS 38 — *Intangible Assets*, p. A1356. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-38-intangible-assets/>

⁴² IAS 38 — *Intangible Assets*, p. A1348. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-38-intangible-assets/>

⁴³ IAS 38 — *Intangible Assets*, pp. A1356-57. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-38-intangible-assets/>

transfer market does not seem to respect the requirements to identify an “active market” for intangible assets, namely: homogeneity of the elements exchanged, knowledge among the public of the price of the players involved in the sale and constant presence of supply and demand⁴⁴. While the second and third criteria seem to be fulfilled, although with some limitations as the football clubs are granted only two football market sessions, the same does not apply to the first requirement: football players, despite having similar characteristics, should definitely never be considered to be completely identical and therefore fungible goods. It is therefore difficult to express a definitive opinion on the existence or not of an “active market” and we postpone the discussion to the next chapter, in which the importance of this requirement will be highlighted.

2.3.2 Amortisation process

Once the registration of players' registration rights has been made, the book value must be gradually amortised according to the useful life.

The book value to be amortised is calculated by deducting its residual value, which is expected to be equal to zero, in accordance with the provisions of IAS 38⁴⁵. For players' registration rights, the hypothesis of a residual value of zero seems to be reliable, since in the event that the player remains until the end of the contract with the club owning the related rights, he would become a free agent, so that the club would not be able to claim any remuneration linked to the possible transfer of the player to the other club.

Moving on to the definition of the useful life, in the case of players' registration rights it coincides with the duration of the contract underwritten by the player with the club. According to FIFA regulations, the contract can have a maximum

⁴⁴ Paolo Lenzi, Claudio Sottoriva, *L'applicazione del financial fair play alle società di calcio professionistiche*, Roma, Aracne Editrice, 2013, p.129

⁴⁵ IAS 38 — *Intangible Assets*, pp. A1361-A1362. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-38-intangible-assets/>

duration of 5 years⁴⁶ and therefore the amortisation will never exceed this period of time, as observable from the provision of the IAS 38, which states that “the useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights”⁴⁷.

In the event that the duration of the player's contract is increased because of a renewal, the residual net book value - possibly increased in relation to eventual negotiation costs such as agent fees – should be divided along the extended period of the player’s contract⁴⁸. Likewise, the residual useful life will have to be reduced – or set at zero – in some particular cases such as the abandonment of competitive activities or the possibility of a serious accident which, as will be seen below, will be subject to evaluation during the impairment test phase.

Amortisation rates are calculated on the basis of the allocation criteria of the value to be depreciated over the defined useful life. This criteria should be established in such a way that it “shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity” or, alternatively, apply the straight-line method “if that pattern cannot be determined reliably”⁴⁹.

In general, the following solutions appear to be possible with regard to this issue:

- a. constant rates, i.e. straight-line method;
- b. variable rates;
- c. decreasing rates⁵⁰.

⁴⁶ FIFA Regulations on the Status and Transfer of Players 2018, p. 19. Available at www.resources.fifa.com

⁴⁷ IAS 38 — *Intangible Assets*, p. A1359. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-38-intangible-assets/>

⁴⁸ UEFA Club Licensing and Financial Fair Play Regulations Edition 2018, p. 70

⁴⁹ IAS 38 — *Intangible Assets*, p. A1360. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-38-intangible-assets/>

⁵⁰ Lorenzo Gelmini, *Le società di calcio professionistiche nella prospettiva dell'economia d'azienda: modelli di bilancio e valore economico*, Milano, Giuffrè, 2014, p. 142

As far as players' registration rights are concerned, it seems difficult to establish an amortisation plan with variable – or decreasing – quotas based upon on-pitch performance; if on the one hand, football clubs can expect mature players to perform better in the first years of the contract (and getting worse with the age), this assumption does not seem reliable for younger players who, on the contrary, improve over time. The choice of the football clubs fell, except for certain special cases, on the straight-line method, which can provide a “clear” assessment.

The amortisation ceases when the multi-year rights are fully amortised, or eventually sooner if the asset is derecognized following a disposal. A special case is represented by the possibility of a preliminary agreement for the disposal of a player for a price higher than the net book value of the players' registration rights. In the presence of such an agreement, in fact, the residual value of the intangible asset would reach an amount greater than the book value of the same and, as required by paragraph 103 of IAS 38, in that case “the asset's amortisation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount”⁵¹. In accordance with international accounting standards, companies must therefore suspend depreciation in the year in which the preliminary agreement is signed and must recognise a positive income component in the following year, represented by the difference between the residual value (agreed price) of the rights and the book value gross of the depreciation charge for the last period⁵².

2.3.3 Impairment test

Players' registration rights, as intangible assets, are subject to the discipline of the impairment test, introduced to ensure that the assets of a club are carried at

⁵¹ IAS 38 — *Intangible Assets*, p. A1362. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-38-intangible-assets/>

⁵² Lorenzo Gelmini, *Le società di calcio professionistiche nella prospettiva dell'economia d'azienda: modelli di bilancio e valore economico*, Milano, Giuffrè, 2014, pp. 140-141

no more than their recoverable amount, identifying any impairment losses in excess of the amount of the periodic depreciation already recognised through the amortisation process. In this way it is possible to verify that the book value of the asset does not exceed the value that can actually be obtained from its sale or use.

The impairment of assets is governed by IAS 36, which defines the recoverable amount as the higher of an asset's "fair value less costs of disposal"⁵³ and its value in use"⁵⁴, for the determination of which, however, some valuation complexities arise related to the particularities of players' registration rights. The identification of the fair value for the multi-year rights brings with it the already mentioned issues related to the existence or not of what is defined by the international accounting standards as an "active market".

Moving on to the definition of the value in use, it is calculated as the present value of the estimated future cash flows expected from the continuing usage of the asset and from its ultimate disposal. The determination of this value appears pretty complicated with respect to the players' registration rights since it is difficult to properly identify the cash-generating unit (CGU) of reference, defined by the accounting standard IAS 36 as "the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets"⁵⁵.

The cash-generating unit can be identified both in the individual players that make up the football team and in the broader definition of team as a whole. The first solution is consistent with the growing importance assumed by the football players, now real "stars" who are able to individually guide the revenues of the

⁵³ Cost of disposal have been defined as the incremental expense directly attributed to the disposal of an asset or cash-generating entity

⁵⁴ *IAS 36 — Impairment of Assets*, p. A1273. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-36-impairment-of-assets/>

⁵⁵ *IAS 36 — Impairment of Assets*, p. A1274. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-36-impairment-of-assets/>

club to which they belong, as shown by the data on sales of shirts with the name and number of the footballer. The second alternative refers to the entire team – and in some cases more broadly also to the stadium and other assets owned by the club – as a cash-generating unit, since it is believed that individual player could not be able to produce single-handedly cash flows. In any case, even the extended definition of CGU presents some critical issues because it would still not be expressive of the economy of the entire society as it is not possible to determine which income component – and the related cash flows – falls within the competence of the football club, or more generally of those who make up the CGU⁵⁶.

In the specific case of the football industry, impairment losses can be linked to particular events such as a serious injury suffered by the player in question, which could significantly compromise his expected future performance or even cause him to abandon his competitive activity. On the other hand, the poor use of a player, whether due to a loss of fitness or specific abilities, does not constitute a case in point for the recognition of such losses in value. Likewise, the recognition of write-ups is not allowed, in accordance with the prudence principle in accounting.

An alternative solution, still unexplored by the administrative bodies of the sector, could include a link with the sports performances – given the relation between sports and financial results of the football clubs – so that the value of an asset is reduced if the on-pitch yield is below expectations. This solution, however, presents some critical issues, first of all the identification of an objective measure of the level of expected performance.

In general terms, UEFA seems to have abandoned its favourable position to the line of thought that saw the individual players identified as cash generating units, as underlined by the elimination of the specific word "individually" from

⁵⁶ Roberto Maglio, Andrea Rey, *The impairment test for football players: the missing link between sports and financial performance?*, Palgrave Communications, 17055 (2017), pp. 4-5

the section dedicated to the identification of any impairment losses in the last edition of the UEFA Club Licensing and Financial Fair Play Regulations. In the previous editions, indeed, it was underlined how capitalised player values might be reviewed individually. Despite this, the examples of detection of impairment losses largely refer to cases involving individual players – as mentioned before –, thus maintaining a strong connection with the first line of thought⁵⁷.

2.3.4 Player trading impact

In the accounting process that concerns players' registration rights, it is necessary to underline the decisive impact that they have on the result for the period, as shown in the profit and loss account. In fact, in addition to periodically recording amortisation and impairment losses, football clubs also record capital gains and losses connected with the disposal of the multi-year rights themselves.

The disposal of a player during the session of football market well falls within the cases that involve an intangible asset to be derecognised. The date of disposal can be determined according to same provision expressed regarding the recognition of the asset (in the paragraph 2.3.1); the capital gain or loss is calculated as “the difference between the net disposal proceeds [...] and the carrying amount of the asset” and it is recorded in the profit and loss account⁵⁸. Capital gains from the disposal of players are really important since they represent an important source of income for football clubs: for some it

⁵⁷ UEFA Club Licensing and Financial Fair Play Regulations Edition 2018, p. 70

⁵⁸ IAS 38 — *Intangible Assets*, p. A1362. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-38-intangible-assets/>

represents a stable component of their revenues, for others a secondary source of income, to be used in case of need⁵⁹.

Capital gains and losses related to the disposal of players are not, however, the only income component that can be catalogued within the player trading section. In fact, we must add to these the income and expenses arising from the temporary transfer of players, in which case in fact there would not be any recognition in the balance sheet of the related multi-year rights.

The loan of players is a method of transfer widely used by football clubs as it brings with it considerable advantages: the lessor improves his economic and financial situation through the lease payment – and through the saving of player's salary – and makes more efficient use of the players' pool, allowing younger players to gain experience elsewhere as they would probably not have found sufficient space in the current team; the lessee acquires the registration rights at a lower cost than he would have incurred alternatively, being able to subsequently evaluate the possibility of a definitive purchase after having observed the impact of the player in the team⁶⁰.

The temporary transfer of a player from one football club to another therefore entails recognition of revenue and operating costs respectively for the parties listed. The team that holds the players' registration rights will also continue the amortisation process according to the defined useful life⁶¹; this choice seems logically consistent as the deterioration of the asset will not cease with the loan. Finally, it is necessary to dwell briefly on the possibility that the loan is characterized by the presence of certain clauses that allow - or make mandatory

⁵⁹ Examples of these practices can be found through an analysis of the Italian top league:

1. small football clubs such as Udinese Calcio base their business model on the development of young talent that can be resold at a higher price on the market;
2. larger clubs such as AS Roma incur extremely high costs to acquire established players, but in some cases these expenses are not balanced by operating revenues and it is necessary to make up for this negative difference through the sale of the same players.

⁶⁰ Lorenzo Gelmini, *Le società di calcio professionistiche nella prospettiva dell'economia d'azienda: modelli di bilancio e valore economico*, Milano, Giuffrè, 2014, pp. 134-135

⁶¹ UEFA Club Licensing and Financial Fair Play Regulations Edition 2018, p. 71

- the definitive acquisition of the rights. This practice is now widespread among football clubs, which basically prefer to postpone the time of acquisition for economic and financial reasons, protecting themselves in some cases with special clauses. In this respect, regulatory action by administrative bodies was necessary to clarify the accounting process in the specific cases that will be analysed below:

- unconditional obligation to buy: the loan is to be treated as a permanent transfer and accounted for as a consequence of this since there are no circumstances under which the agreement could be cancelled;
- option to buy: the transaction must be recorded as a loan by both clubs until the option is exercised, which cause the transfer to become definitive and therefore falling within IAS 38 provisions;
- conditional obligation to buy: this is the most critical issue since it requires judgement to determine whether the condition could be considered sufficient certainly or not to verify. In the first case, there would be a permanent transfer while the second would determine only a temporary transfer⁶².

2.4 EMPIRICAL ANALYSIS OF FOOTBALL CLUBS

The accounting of players' registration rights as tangible fixed assets is a process of fundamental importance for football clubs, given the aforementioned significance of these items in the accounting records of these societies.

This fact is highlighted in the case of those football clubs that make up the sample of our analysis, since these companies, being listed on regulated markets, have to comply with transparency and disclosure requirements in the preparation of financial statements.

⁶² UEFA Club Licensing and Financial Fair Play Regulations Edition 2018, p. 71-72

For this reason, we will now proceed to an empirical analysis regarding the accounting of these assets in the financial statements of these companies and the explanations that they provide through the explanatory notes.

With regard to the initial registration and subsequent evaluations, there is almost unanimous recourse to the cost model for the determination of the value of players' registration rights. In fact, both the Italian football clubs (AS Roma, FC Juventus and SS Lazio) and Borussia Dortmund and Olympique Lyonnais have decided to adopt this method because of the major problems relating to fair value measurement.

The value of multi-year rights is therefore defined, in line with international standards, by the cost of acquiring the football player, including any additional charges, and discounted at the market rate to take account of deferred payment terms beyond the current financial year. There are also some minor differences regarding the determination of the time of accounting recognition of the item, in some cases corresponding to the release of the transfer and in others with the date on which the company actually acquires control of the asset, the accounting treatment of additional costs – such as bonuses or agent fees – or the interest rate to be used for discounting the cost. Taking the specific case of AS Roma – and also FC Juventus – as an example, it is established that the remuneration of third parties is capitalised only in the absence of conditions precedent, while otherwise they are charged to the income statement on a case-by-case basis to the fulfilment of the said condition⁶³.

With regard to Manchester United FC, on the other hand, in the notes to the financial statements reference is made to fair value. In fact, it is stated that “costs associated with the acquisition of players’ [...] registrations are capitalized at the fair value of the consideration payable”⁶⁴, namely the present

⁶³ AS Roma, Relazione finanziaria annuale per l’esercizio chiuso al 30 Giugno 2018, pp. 71-72. Available at: www.asroma.com

⁶⁴ Manchester United, Manchester United Plc 2018 Annual Report, pp. F20-F21. Available at: www.ir.manutd.com

value of the cash or cash equivalents to be paid to the company to which the player belonged.

In terms of write-downs, the periodic deterioration calculated through the amortisation process is treated equally by the football clubs considered as the value of players' registration rights is amortised on a straight-line basis over the useful life defined by the duration of the contract signed between the player and the club; on the other hand, the process of impairment testing, carried out by clubs to verify that assets are not held at a higher value than the recoverable value, presents some substantial differences from company to company that, given the criticality of the activity, deserve to be analysed in detail. Specifically, the individual companies in their financial statements express as follows:

- the Italian teams base their assessment of the value of an asset on the presence of indicators of impairment, such as serious accidents or significant capital losses recorded by transactions carried out after the balance sheet date. Furthermore, FC Juventus also includes as a case in point for the impairment test the presence of "market conditions that effectively prevent the disposal of players who are no longer compatible with the technical project"⁶⁵. This is an important particularity as it explicitly refers to the "market" on which the actual existence has been discussed above. In general, on the basis of what has been declared, we can understand how for Italian football clubs the impairment test only concerns individual players;
- as for Manchester United Fc, the choice is partially different. While it excludes the possibility of calculating the value in use of a single football player, thus considering the CGU in its broadest sense, it is impossible to

⁶⁵ FC Juventus, Relazione finanziaria annuale al 30 giugno 2018, pp. 51-52. Available at: www.juventus.com

exclude the eventuality that the assessment of value concerns the individual player as in the case of a threatening injury⁶⁶;

- the person responsible for preparing the financial statements for Olympique Lyonnais dedicates ample space to the section relating to impairment testing, essentially determining a series of specific cases, distinguishing between players' registration rights held with the intent to sell, particular events and periodic checks. In the first category, the carrying value of the asset is equated with the sale price, whether estimated or actually established, thus verifying if there is a need to record write downs. In the case of specific events that have an impact on the useful life of the player, and therefore of the related right, such as the abandonment of competitive activity, the value should be amortised ahead of schedule. With regard to the periodic checks of value retention, the club states that they are carried out both considering the entire team as CGU and at the level of the individual player through the use of some specific criteria⁶⁷;
- finally, nothing in particular to report in relation to Borussia Dortmund as the editor merely establishes that "purchased intangible assets are measured at cost [...] or at the lower recoverable amount"⁶⁸, not referring therefore to specific practices regarding impairment testing.

⁶⁶ Manchester United FC, Manchester United Plc 2018 Annual Report, pp. F20-F21. Available at: www.ir.manutd.com

⁶⁷ Olympique Lyonnais, Registration Document – OL GROUPE 2017/18, pp. 125-126 . Available at: www.investisseur.olympiquelyonnais.com

⁶⁸ Borussia Dortmund, Annual Report 2017/2018 KGaA/Group, pp. 159-160. Available at: www.aktie.bvb.de

CHAPTER 3 – ISSUES RELATING TO COST MODEL APPLICATION

3.1 INTRODUCTION

The listed football clubs considered in our analysis therefore adopt the cost method in the vast majority of cases for the recognition of players' registration rights in the balance sheet. However, the application of this method presents some relevant issues related to its features, as explicitly recognised in the AS Roma financial statements. The editor of the report has in fact focused on the problem, stating that “the item does not include the values of players' registration rights acquired on a free transfer, or originating from the promotion of a player from the youth sector to the first team, while for other players, the book values of players' registration rights are significantly lower than the actual market value”⁶⁹ and in fact recognizing an obvious underestimation of the company's assets.

These are two issues that, in different ways, have to do with the adoption of the cost model as, specifically:

- with regard to the players acquired in the two previous cases (free agents and players from the youth team), there is a problem of evaluation as it is not possible to rely on the cost model in the absence of an explicit transfer fee, not provided for in the cases mentioned;
- with regard to the discrepancy between the market value and the book value of players' registration rights, the use of the cost model often results in valuations that are not consistent with current market values, unlike what would be possible to obtain through the application of fair value measurement.

⁶⁹ AS Roma, Relazione finanziaria annuale per l'esercizio chiuso al 30 Giugno 2018, p. 86. Available at: www.asroma.com

Given the problems already mentioned regarding a reliable measurement of fair value, UEFA has openly sided, through the rules that are issued every three years, towards the use of the cost model only. Specifically, the UEFA Regulations state that “the carrying value of an individual player must not be revalued upwards, even though management may believe market value is higher” and also that “costs relating to an applicant’s own youth sector must not be included in the balance sheet”⁷⁰.

This choice is certainly acceptable given the problems that have always plagued the financial reporting process of football clubs, but that does not seem to be entirely correct for listed companies. These companies are required to comply with stricter requirements in terms of transparency and reliability of the information disclosed, and a balance sheet that is affected to a large extent by the adoption of historical criteria that deviate from current market values does not seem appropriate.

3.2 SPECIAL CASES OF TRANSFER

Football clubs can acquire new players through many different ways, among which the classic transfers from one club to another stand out, but not only. There are other ways of acquiring players, such as signing players without a contract - the so-called free agents - or the promotion to the first team of players from youth academy, for which there is no explicit acquisition cost. These particular cases determine the occurrence of some issues in relation to the application of the cost model, since it relies entirely on what is actually the cost incurred for the purchase of a player – and the related rights –, including the transfer fee and any additional charges.

The absence of a specific transfer fee to be capitalized entails some problems in the recognition of players' registration rights. The objective of this section is

⁷⁰ UEFA Club Licensing and Financial Fair Play Regulations Edition 2018, pp. 69

therefore to analyse the accounting of players' registration rights in the football clubs that make up the sample, in relation to certain specific types of acquisitions that do not involve an explicit acquisition cost, and to try to identify possible alternative solutions that can meet the transparency requirements of listed companies. More specifically, the following cases will be examined in detail:

- players registered as free agents;
- players promoted from the youth academy;
- exchange of players;
- players acquired through the payment of a release clause.

3.2.1 Free agents

At the contract's expiry, a player is declared "free agent" and is able to negotiate his own contract with the club he prefers without the need for an agreement between the two clubs. More specifically, FIFA regulations establish that the player is free to conclude a contract with another club since the contract is due to expire within six months. In the case of the acquisition of a player whose contract has expired, the club do not need to pay any transfer fee⁷¹.

In reality, players have not always been granted this kind of freedom.

Previously, in fact the players were not granted complete freedom of movement because, even at the end of the contract, the club to which they belonged had the right to claim compensation for letting the player leave⁷².

The system changed radically following the judgment of the European Court of Justice of 15 December 1995, known as the Bosman ruling from the name of the player who took the legal action. The footballer Bosman was in fact prevented from signing with a new club at the end of his contract with the

⁷¹ FIFA Regulations on the Status and Transfer of Players 2018, p. 19. Available at www.resources.fifa.com

⁷² Daniel Schmidt, *The effects of the Bosman-case on the professional football leagues with special regard to the top-five leagues*, University of Twente, 2007. Available at: https://essay.utwente.nl/57990/1/scriptie_D_Schmidt.pdf

Belgian team RFC Liege, in the absence of an agreement between the companies on the amount of compensation. For this reason, he decided to appeal to the European Court of Justice because he considered that this procedure severely restricted the freedom of movement of persons.

The Court ruled in favour of the player, admitting the right of the players to move free of charge to another club at the expiration of the contract with the club to which they belong⁷³. The judgment has had several repercussions on the entire football system, first and foremost an increase in bargaining power over clubs due to the new regulations that allow players to move to another club free of charge when their contract expires, which essentially allows them to sell to the highest bidder (or preferred team) with no need of a previous agreement between the two clubs⁷⁴.

The existence of these "free transfers" therefore causes problems of evaluation with regard to the registration of players' registration rights, as in the absence of a transfer fee the cost model, which would lead to a book value approximately equal to zero, appears inapplicable. Therefore, some suggestions of alternative solutions are put forward in order to avoid omitting these elements from the company's assets.

As a general rule, international accounting standard IAS 38 require that we should not depart from the adoption of the cost model, which in this case would lead to the determination of a book value that is substantially equal to zero, for the initial recognition of intangible assets, without providing specific rules for certain exceptional cases, such as free acquisitions. However, it should be remembered that even free transfers can be characterized by the presence of

⁷³ Judgment of the Court of 15 December 1995. - Union royale belge des sociétés de football association ASBL v Jean-Marc Bosman, Royal club liégeois SA v Jean-Marc Bosman and others and Union des associations européennes de football (UEFA) v Jean-Marc Bosman

⁷⁴ Stefano Bastianon, *La sentenza Bosman vent'anni dopo. Aspetti giuridico-economici della sentenza che ha cambiato il calcio professionistico europeo*, Torino, Giappichelli Editore, 2015

additional costs, mainly due to the mediation activity carried out by FIFA agents with a regular mandate.

First let's analyse the practice observed in the case of FC Juventus. This company, which like AS Roma and SS Lazio offers details of the book value of players' registration rights with reference to individual players, adopts the cost model, capitalising only the additional costs related to the acquisition since there is no transfer fee.

An example of this practice is the recent acquisition of the footballer Emre Can, whose contract with the team Liverpool FC had expired. In this specific case, the book value of players' registration rights was reported being at €15.861.000⁷⁵ despite the fact that no price was paid for its acquisition from its former club⁷⁶.

	Dr.	Cr.
Players' registration rights	€ 15.861.000	
Trade payables		€ 15.861.000

Table 2 - Emre Can - Accounting n. 1

The high cost of this operation must be traced back to the particular status of the player who, being able to be signed essentially free of charge by the new club, was very much in demand on the market and could therefore request an extremely high sign-on bonus, basically creating an auction between clubs interested in signing him a contract.

On the one hand, this practice seems to be justified by the mentioned trend towards the payment of very high sign-on bonuses to the player and his agent, by virtue of the particular status of free agent which guarantees the player a very high level of contractual power against the football club. On the other hand, this

⁷⁵ FC Juventus, Relazione finanziaria annuale al 30 giugno 2018, p. 33. Available at: www.juventus.com

⁷⁶ Calcio e Finanza, Juventus, ufficiale l'acquisto di Emre Can, June 21, 2018. Available at: www.calcioefinanza.it

practice seems in any case inexpressive of the real value of the player who, under different contractual conditions, would be subject to a transfer certainly more expensive. For this reason it is necessary to find an alternative solution that is able to provide a reliable estimate of the value of players' registration rights connected to the player.

3.2.2 Players promoted from the youth team

Internally generated players represent a fundamental resource for the activity of the football clubs. A good youth sector, often referred as academy, makes it possible to have new players with excellent potential year after year, without having to spend large sums of money on the market to buy them from outside. An example that immediately comes to mind is certainly the case of FC Barcelona, well known for its youth sector, the "*cantera*", to which should be attributed much of the merit of the successes achieved at national and international level in recent years. In the same way, we consider worthy of mention the FC Ajax, a club that bases its business model on the development and future sale of players coming from its outstanding academy.

Players who are promoted from the youth sector to the first team, as well as free agents, generate critical issues regarding the accounting process.

In this regard, first of all, we must remember what the rules on the registration of young players establish. Although there is no single source of international legislation, observing what is happening in individual countries, it is possible to understand how football clubs have the opportunity to offer the first professional contract to young players who are at least 18 years old. An exception to this rule concerns players at least 16 years of age who have distinguished themselves by particular sporting merit, usually identified with a minimum number of appearances with the first team.

Young players who have not yet signed a professional contract cannot be listed as players' registration rights, as they do not fall under the definition of

intangible assets. As stated in the previous chapter, in fact, a resource to be defined as an asset must be able to be considered to all intents and purposes under the control of the company and from them we expect future economic benefits. Neither of these requirements is met in this case, since you do not have control over a player who is not tied by a contract⁷⁷.

On the contrary, once the players in the youth sector sign their first professional contract with the football club, players' registration rights arise because the conditions relating to the eligibility or otherwise of an item as an asset are met. However, it is clear that the company does not incur any direct cost for their acquisition and therefore the determination of the book value according to the cost criterion is very complex.

The most immediate solution, which has however been forbidden by UEFA as stated above, is undoubtedly the capitalisation of the academy's costs. This choice would be based on the consideration of the registration rights for players from the youth sector as internally generated intangible assets, to which the international accounting standards dedicate a large section of IAS 38.

Internally generated intangible assets shall be initially measured at cost, namely “all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating”⁷⁸.

At first glance, the economic logic allows to assimilate the costs incurred by clubs for the youth sector to the costs of research and development, especially in view of the uncertainty surrounding the future return on this investment. In fact, it is widely shared that, even in the best academies, not all players will be able to achieve sporting standards of excellence that will allow them to become a permanent part of the first team, or possibly be sold to other teams⁷⁹.

⁷⁷ Victor-Bogdan Oprean, Tudor Oprisor, *Accounting for soccer players: capitalization paradigm vs. expenditure*, *Procedia Economics and Finance* 15 (2014) 1647 – 1654, p. 1652

⁷⁸ IAS 38 — *Intangible Assets*, pp. A1353. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-38-intangible-assets/>

⁷⁹ Lorenzo Gelmini, *Le società di calcio professionistiche nella prospettiva dell'economia d'azienda: modelli di bilancio e valore economico*, Milano, Giuffrè, 2014, pp. 147-148

However, international accounting standards introduced a clear distinction between the research and development phases. This classification is particularly significant as the research phase alone cannot result in the recognition of intangible assets. On the other hand, intangible assets originating from the development phase may be recognised, but they meet a series of requirements relating to the future viability of the asset in question.

Taking into consideration the specific case of expenditure incurred in the youth sector, a first problem arises with regard to the distinction between the stages of research and development. This classification cannot be carried out peacefully and, consequently, the expenses must necessarily be classified as costs in the profit and loss statement, as explicitly provided for by the IAS accounting standards.

Secondly, it is extremely difficult for the football club, in compliance with the requirement of IAS 38 for the recognition of an asset in the development phase, to be able to estimate the expenses directly attributable to the individual asset. The management of costs relating to the youth sector is usually based on an aggregate interpretation for reasons of accounting prudence related to the difficulties in reconstructing the costs attributable to each element that is involved⁸⁰.

It is probably for the reasons listed above that UEFA categorically prevents the capitalisation of nursery costs as a methodology for determining the book value of players' registration rights relating to players from the youth sector.

3.2.3 Exchange of players

Let us now consider the case in which two football clubs decide to exchange two (or more) players in a football market operation.

⁸⁰ Lorenzo Gelmini, *Le società di calcio professionistiche nella prospettiva dell'economia d'azienda: modelli di bilancio e valore economico*, Milano, Giuffrè, 2014, pp. 148-150

The exchange of players' registration rights is an attractive method of transfer as it allows a renewal of the players' pool against a low financial outlay, leveraging the different technical needs of the clubs⁸¹.

With regard to accounting practice for this type of transaction, it is clear that the greatest complexities must be related to the absence, or insignificance, of an explicit transfer fee, which makes it difficult to rely on the cost model and needing therefore more specifications.

In this regard, IAS 38 dedicates a whole section to the case of exchange between assets, stating that the value of the asset acquired must be measured at fair value provided that two conditions are met: the commercial substance of the transaction and the possibility of reliably measuring the fair value of both assets (acquired and sold). In addition, with regard to the first requirement, it is specified that the commercial substance of the transaction is identified by a substantial difference in the cash flows expected from the two assets respectively⁸².

In the case of football clubs, it is clear that neither of the two requirements can be met as it is not possible to estimate with reasonable certainty the cash flows expected from an asset nor to have a reliable measurement of fair value. For this reason, in the case of an exchange between players' registration rights, the adoption of international accounting standards forces clubs to enter the new asset in the balance sheet for a value equal to the carrying amount of the asset given up. In addition, this value must be increased, or reduced, if the transaction provides for the exchange of an amount of money as cash compensation for the higher value of an asset with respect of the other one. Nothing is specified regarding the distribution of the value in the event that the transferring club receives two players in exchange for only one.

⁸¹ Lorenzo Gelmini, *Le società di calcio professionistiche nella prospettiva dell'economia d'azienda: modelli di bilancio e valore economico*, Milano, Giuffrè, 2014, p. 135

⁸² IAS 38 — *Intangible Assets*, pp. A1350. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-38-intangible-assets/>

This type of accounting methodology leaves little room for manoeuvre to clubs which, in fact, often prefer to classify what are fully-fledged exchange transactions as individual transactions unrelated to each other. In this way, companies can act on the registration value of players' registration rights, putting themselves in the position of being able to account for significant capital gains, which we know are vital to the economic equilibrium of football clubs.

3.2.4 Players acquired through the payment of a release clause

Finally, let's consider the case of players who are acquired through the payment of a release clause.

The use of the cost model for the initial recognition seems to be adequate, as it is able to offer a reliable evaluation of the assets. In fact, in the absence of an active market, as defined by international accounting standards, that allows to determine a fair value for players' registration rights, it can be legitimately assumed that the transfer price of a player, at the basis of the cost model, could identify a consistent market value. This is because this value is determined following regular negotiations between two companies that act according to market economic logic.

However, it may happen that the transfer price is not established as a result of mutual agreement between the clubs, making that reasoning inapplicable. This is the case of the acquisition of players through the payment of the so-called release clause.

In fact, in the contracts that players enter into with football clubs, there are often special clauses that allow the player to terminate the contract unilaterally, subject to payment of a pre-established sum. Players often use this provision as an escape route if there are problems with the current club, whether of a technical or economic nature, being able to disengage from the latter with relative simplicity.

It therefore happens that a club interested in acquiring a player whose contract with the club to which it belongs contains a release clause, can do it by paying directly the pre-established amount, without having to interface with the club that holds the players' rights.

The famous cases of the players Gonzalo Higuaín and Miralem Pjanic, acquired by FC Juventus in the summer of 2016, by the clubs SSC Napoli and AS Roma respectively, through the payment of the release clauses in the contracts that the two had with their respective clubs, are certainly worth mentioning. FC

Juventus thus acquired two excellent players without having to deal with the teams that held the rights at the time and, in particular with regard to Miralem Pjanic, did so for a price well below what was objectively recognized as the economic value of the player, which confirms what was said earlier regarding the relationship between the transfer price and the market value in the case of acquisitions through the payment of the release clause.

Analysing the issue from an accounting point of view, nothing can be objected to regarding the methodology to be used for the first recognition as IAS 38 establishes that the book value of an intangible asset can be initially measured only and exclusively at cost.

With regard to the subsequent evaluations, the use of the revaluation model is excluded due to the peculiarities of the football market, and therefore it is required to proceed with the application of the cost method. The use of this method can generate a very large deviation from what is the real market value of the player and, therefore, we discuss possible alternatives.

3.3 APPLICATION OF THE *INCOME APPROACH*

The cost model has therefore proved unsuitable for those specific cases in which there is no payment of an explicit transfer fee or, as in the case of the acquisition of a player through the payment of the release clause, this transfer fee is not determined according to the general economic logic of the market.

A more reliable assessment of the value of players' registration rights could be achieved at a later stage by moving to the revaluation model. The use of this method was substantially excluded in the previous chapter since, according to the accounting standard IAS 38, the fair value of an intangible asset should be determined by referring to an active market, which is impossible in the case of the football sector. The aim is therefore to provide an alternative approach that leads to a reliable determination of fair value.

A possible solution consists in applying the income approach, a real estate valuation method that can also be used in the case of intellectual property. According to this approach, the market value of property can be measured by the present value of the net economic benefit to be received over the asset's useful life⁸³.

Specifically, the income approach is based on the discounting of direct cash flows, i.e. the cash flows directly attributable to the asset in question. This definition basically requires that cash flows can be measured directly, but, as we know, in the case of football clubs it is extremely difficult to allocate individual cash flows in relation to the assets from which they come.

However, this solution can be arrived at through an inverse reasoning: in fact, it can be legitimately assumed that the cash flows generated by a resource (player) are at least equal to the flows of wages and salaries allocated to it. Following this reasoning, the market value of a player can be determined through the income approach and is equal to the current value of the expected remuneration⁸⁴.

Increases and decreases in the carrying amount of intangible assets due to revaluations are governed by IAS 38, which states that:

⁸³ Alina Saaranto, *A Review of the Methods for Valuing Intellectual Property Rights*, Aalto University, 2016, p. 8. Available at: http://sal.aalto.fi/publications/pdf-files/esaa16_public.pdf

⁸⁴ Aloïs Kanyinda et al., *Human capital: assessing the financial value of football players on the basis of real options theory*, Investment Management and Financial Innovations, Volume 9, Issue 4, 2012, pp. 27-28. Available at: www.businessperspective.org

- the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation or in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised;
- the decrease shall be recognised in profit or loss or in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset (in such case it would reduce the amount accumulated in equity under the heading of revaluation surplus).

With regard to the frequency of revaluations, IAS 38 merely states that this depends on the volatility of the asset in question. In the specific case of football clubs, the revaluation would be simultaneous with initial recognition as the carrying amount would be profoundly different from the fair value obtained by discounting remuneration flows.

In the simulation we will refer again to the case of the transfer of Emre Can to FC Juventus. The duration of the contract and the amount of the salary, gross of taxes and contributions, have been derived from estimates made by the specialised site “Calcio e Finanza”⁸⁵. As regards the discount rate, it was used the Weighted Average Cost of Capital (WACC), which for Juventus Football Club S.p.A, according to estimates provided by the GuruFocus site, is equal to 12.27%.⁸⁶.

⁸⁵ Calcio e Finanza, Juventus, effetto CR7 sul monte ingaggi: +30% a 203 milioni, September 4, 2018. Available at: www.calcioefinanza.it

⁸⁶ In this regard, it should be noted that the estimates for the WACC were extracted from the GuruFocus website (<https://www.gurufocus.com/term/wacc/JVTSF/WACC-/Juventus-Football-Club-SpA>) on June 3, 2019. The use of rates for the previous year would certainly have ensured greater accuracy of the values.

Player name	Emre Can
Gross wage	€ 9.250.000
Contract length (years)	4
Discount rate (WACC)	12,27%
Present Value	€ 27.940.000

Table 3 - Emre Can - Wages Present Value

The result obtained determines a valuation of the player equal to € 27.940.000. This value is consistent with the transaction prices observed on the market: players who, due to their role, technical characteristics and age, can be considered similar to Emre Can, such as Tiemoue Bakayoko, have all been traded for figures close to EUR 30 million during last years.

Moving on to the details of the accounting recording, it is possible to observe how, following the adoption of the revaluation model, the value of the registration rights of the player Emre Can would be equal to the value defined by the discounting of future remuneration flows and, therefore, the part exceeding the carrying amount of the asset – equal to the consideration payable – referring to the accessories costs would be allocated to other comprehensive income as a revaluation and accumulated in equity under the heading of revaluation surplus. Underneath is the table representing accounting recognition process.

	Dr.	Cr.
Players' registration rights	€ 12.079.000	
Revaluation surplus		€ 12.079.000

Table 4 - Emre Can - Accounting n.2

An extremely positive aspect of this method is certainly the possibility of updating the value of players' registration rights following the contractual renewals signed between a player and his club. It often happens, in fact, that

following excellent performances in the field, the economic value of a player can increase and that, as a consequence, it requires the company to make a contractual adjustment with an increase in the salary received. The use of the income approach would make it possible to capture the change in the economic value of the player through the relative change in remuneration and therefore show it in the balance sheet of the company. The same of course also applies to players who in recent years have signed increasingly less remunerative contracts because they are no longer able to guarantee the same standards in the level of sports performance.

Let's take for example the case of Paulo Dybala, striker of FC Juventus. The player was purchased for consideration by the club in the summer window of the football market in 2015. As can be seen from the table below, due to the amortisation process, the book value of the players' registration rights relating to the player at the balance sheet date in June 2017 has been periodically reduced⁸⁷.

Player name	Paulo Dybala
Historical cost	€ 41.439.000
Accumulated amortization	€ 13.680.000
Net book value	€ 27.759.000

Table 5 - Dybala - Net Book Value

Following the excellent performances during the 2016/2017 football season, the player's contract was renewed as of July 2017 with a duration of five years. Using the methodology provided by the income approach, we can observe that the fair value of the player is much higher than the net book value matured following registration at cost and the related amortisation process. For the application of the methodology, it should be noted that the data relating to

⁸⁷ FC Juventus, Relazione finanziaria annuale al 30 giugno 2018, p. 98. Available at: www.juventus.com

remuneration were again provided by the "Calcio e Finanza" website⁸⁸, while as regards the interest rate it was decided to use the same as previously adopted.

Player name	Paulo Dybala
Gross wage	€ 12.950.000
Contract length (years)	5
Discount rate (WACC)	12,27%
Present Value	€ 46.371.000

Table 6 – Dybala - Wages Present Value

This valuation is in any case lower than the real transfer price of the player as reported by specialized sources, but it is certainly more current than the book value established according to the application of the cost model. Anyway, this higher value should be reflected in the balance sheet by means of the following accounting entry.

	Dr.	Cr.
Players' registration rights	€ 18.612.000	
Revaluation surplus		€ 18.612.000

Table 7 - Dybala - Accounting n. 1

However, it should be pointed out that in the specific case of free agents it often happens that the salary received by players who are acquired through a free transfer is often higher than what happens with players of similar value, but acquired through the payment of a fee. As already stated in relation to the high additional charges that characterize this type of operation, the same can be said for the wages: the player exploits to his advantage the absence of a transfer fee, and therefore the greater attractiveness on the market, to obtain a higher salary.

⁸⁸ Calcio e Finanza, Stipendi calciatori Juventus 2017-2018: monte ingaggi su del 16%, Higuain il più pagato, September 7, 2017. Available at: www.calcioefinanza.it

Football clubs, on their side, by saving money on the cost of acquisition, can afford to pay higher wages⁸⁹.

A first solution hypothesised in order to eliminate this discrepancy could be to normalise the annual remuneration, effectively eliminating the additional component that the free agent players manage to obtain⁹⁰. To implement this operation would be necessary to identify what is the average salary of players similar to the player in question. Every day the fans of this sport discuss the value of the players, comparing each other. However, if from an abstract point of view this solution seems to be able to be applied, in practice it is substantially impossible to implement given the peculiarities of the football industry that substantially prevent you from finding a group of players who can be defined with certainty goods substituted for each other.

3.4 UNDERESTIMATION OF COMPANY'S ASSETS

The second order of problems, as mentioned above, concerns the discrepancy between the market value and the book value of players' registration rights. It is therefore an extension of the problems highlighted up to now that concerned particular cases.

The dizzying economic growth of the football movement, which today allows us to consider football as an independent economic sector, clashes with the backwardness of the accounting methods applied in the registration of players' registration rights, the main asset available to football clubs. This is certainly a particular case, which goes completely against the trend of the idea of a balance sheet that, starting from the introduction of the concept of fair value, presents

⁸⁹ Lorenzo Gelmini, *Le società di calcio professionistiche nella prospettiva dell'economia d'azienda: modelli di bilancio e valore economico*, Milano, Giuffrè, 2014, p. 133

⁹⁰ Victor-Bogdan Oprean, Tudor Oprisor, *Accounting for soccer players: capitalization paradigm vs. expenditure*, *Procedia Economics and Finance* 15 (2014) 1647 – 1654, p. 1653

increasingly actual, and therefore reliable, values, in line with the current value attributed to the company by the financial market⁹¹.

The reasons behind this marked difference between the book values and the market values of the players' registration rights can be traced back to two main arguments: the difficulties related with the adoption of the fair value measurement, due to the absence of a real market, and the application of the amortisation process, in compliance with the provision laid down by international accounting standards.

Specifically, with regard to the first point, it has already been stated that the income approach can be an excellent method to determine a reliable fair value for the assets, but it remains extremely linked to the frequency with which the salary of a player is adjusted to his performance, and therefore to its economic value. In this regard, it should be noted that the two-year or three-yearly frequency with which, on average, football clubs renew contracts for their players cannot meet the requirement of increasingly current market values.

With regard to the second point then, it is necessary to underline that the book value of intangible assets, as well as tangible assets, is subject to periodic depreciation, known as amortisation, over their useful life, which in the case of players' registration rights is made to coincide with the duration of the contract in force between the player and the club to which they belong.

This accounting practice, in the case of players' registration rights, has some positive aspects as well as, however, other negative aspects. As we know, when the contract with a club expires, the player acquires the status of free agent, thus becoming free to sign a new contract with any other club without the need to pay a transfer fee to the club to which he belongs. This aspect has also had a significant influence on the negotiations for players with only one year of

⁹¹ Antonella Portalupi, *Nuovi orizzonti di bilancio: differenze e analogie IFRS/OIC tra presente e futuro*, IPSOA Quotidiano, X Forum Bilancio, 13 febbraio 2019

contract left, as clubs wishing to acquire their rights can leverage the possibility of acquiring them free of charge in the following year, often managing to pay a much lower price than that which would have been paid in the case of different contractual conditions. It is therefore clear that when the contract comes to an end, the value of the rights must necessarily fall to zero at the time of expiry.

On the other hand, as already stated in the appropriate paragraph, players, unlike more common assets such as plant and machinery, often see their economic value increase, and not decrease, over time on their on-pitch performance. This is especially the case for younger players who are often bought by clubs at relatively low prices, as they are not yet established as established players in the world football scene, and whose value has enormous potential to increase over time.

The inability of the rules established by the international accounting standards to grasp these peculiarities that distinguish players' registration rights, together with the other special cases analysed in the previous paragraphs, has led to a profound underestimation of the value of the company's assets in the case of football clubs.

A possible solution to this problem can be traced back to the application of fair value measurement, by entrusting third-party companies with the definition of the market value of the players, and therefore of the related players' registration rights. The adoption of this type of assessment would in fact make it possible to reduce, or cancel out, the clear underestimation of the value of the football clubs' assets.

It has always been said that the characteristics of the football sector prevent the configuration of an "active market", according to the definition given by the international accounting standards, which would allow the fair value measurement for players' registration rights. In this regard, it should be remembered that players are unique assets, extremely different from each other, making it impossible to identify some that can be defined as "substitutes" for

others. Therefore, for the reasons listed above, the doctrine would effectively prevent to identify a reliable fair value for players' registration rights simply by referring to transactions involving "similar" players.

This is the context in which the activities carried out by numerous clubs are included, with the aim to offer an objective evaluation of the value of the players and therefore of the relative transfer price. To date, in fact, there are numerous companies that estimate the value of players on the basis of a precise statistical analysis that takes into account several variables.

Among the various providers, the evaluations offered by the German platform Transfermarkt, the values proposed by CIES Football Observatory or the work done by Playratings stand out. These are obviously assessments that differ from each other, since they are based on the adoption of different models that take into account different parameters and economic factors.

Below is a brief example of how the adoption of this methodology would impact the value of players' registration rights in the financial statements of AS Roma and FC Juventus, which, as mentioned above, provide details of the value of the individual rights in the annual financial reports.

More specifically, the table below shows the difference between the overall book value of the item players' registration rights, as shown in official company documents, and its “market value”, calculated through the valuation offered by the Transfermarkt platform.

Team	Net book value 30.06.18	Transfermarkt value 30.06.18	Delta
AS Roma	€ 237.920.000	€ 446.825.000	€ 208.905.000
FC Juventus	€ 265.344.000	€ 585.500.000	€ 320.156.000

Table 8 - PRR Book Value vs Market Value

As you can see, the accounting method currently adopted by football clubs in compliance with international accounting standards, namely the cost model, determines balance sheet values that are extremely underestimated compared to the real market values, as proposed by Transfermarkt platform. If we compare the balance sheet values with the valuations offered by the Transfermarkt portal, we can see that there are enormous differences that, in the case of FC Juventus, even exceed 300 million euros.

For a better understanding, we propose some examples of the individual players' registration rights for some players of AS Roma and FC Juventus. In this regard, those cases were examined in which there is a wide “delta” between the net book value and the valuation is proposed by Transfermarkt, in order to highlight the problem of the analysis.

Player name	Team	Net book value 30.06.18	Transfermarkt value 30.06.18	Delta
ALISSON Becker	AS Roma	€ 4.980.000	€ 60.000.000	€ 55.020.000
DYBALA Paulo	FC Juventus	€ 22.207.000	€ 110.000.000	€ 87.793.000
FLORENZI Alessandro	AS Roma	€ 250.000	€ 30.000.000	€ 29.750.000
KHEDIRA Sami	FC Juventus	€ 325.000	€ 26.000.000	€ 25.675.000
PJANIC Miralem	FC Juventus	€ 19.666.000	€ 65.000.000	€ 45.334.000
RUGANI Daniele	FC Juventus	€ 1.444.000	€ 22.000.000	€ 20.556.000

Table 9 - PRR Book Value vs Market Value (detail)

Focusing on the specific case of Alisson Becker, a Brazilian player acquired by AS Roma in July 2016 for the sum of € 8,300,000 (including additional charges)⁹², we can see how the application of the valuations offered by third parties would impact on the accounting process.

Date	Item	Dr.	Cr.
30/06/16	Players' registration rights (Alisson)	€ 8.300	
	Trade payables		€ 8.300

Table 10 - Alisson - Accounting n.1

At the end of each financial year, or at 30 June, the value of the players' registration rights of the player Alisson would have decreased according to the amortisation plan and revalued according to the estimates proposed by Transfermarkt. It should be remembered that any increase in value following a revaluation shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus or in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. In addition, the amortisation plan will be modified following any revaluation so that at the end of the contract, and therefore at the end of its useful life, the residual book value is still equal to zero⁹³.

On 30 June 2017, at the close of the financial year, the book value of the registration rights of the player Alisson was written down due to the amortisation process, reaching a net book value of € 6,640,000. However, given that the economic value of the player proposed by Transfermarkt is € 7,000.00, the asset should be revalued until it reaches this value.

⁹² AS Roma, Relazione finanziaria annuale per l'esercizio chiuso al 30 Giugno 2018, p. 85. Available at: www.asroma.com

⁹³ IAS 38 — *Intangible Assets*, pp. A1361-A1362. Available at: <https://www.ifrs.org/issued-standards/list-of-standards/ias-38-intangible-assets/>

Date	Item	Dr.	Cr.
30/06/17	Amortisation	€ 1.660	
	Accumulated amortisation		€ 1.660
	Players' registration rights	€ 360	
	Revaluation (P&L)		€ 360

Table 11 – Alisson - Accounting n.2

The same process takes place on 30 June of the following year. In particular, due to the excellent performance of the player - and AS Roma in general - during the season, the value indicated by Transfermarkt has grown disproportionately, reaching € 60,000,000. As a result of this large change in the economic value of the player, the value of the right must also be increased. However, in compliance with the provisions of IAS 38, the revaluation exceeding the initial book value of the player must be recorded in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

Date	Item	Dr.	Cr.
30/06/18	Amortisation	€ 1.750	
	Accumulated amortisation		€ 1.750
	Players' registration rights	€ 54.750	
	Revaluation (P&L)		€ 3.050
	Revaluation surplus		€ 51.700

Table 12 - Alisson - Accounting n.3

Finally, we analyse the accounting process for the disposal of players' registration rights following the definitive transfer of the player Alisson from AS Roma to Liverpool FC. The player was sold in July 2018 for € 62,500,000

(plus some bonuses linked to the achievement of personal and team results)⁹⁴, a figure therefore slightly higher than the value outlined by Transfermarkt. As a result of the sale of the rights, AS Roma will record a capital gain, in addition to the shift of the revaluation surplus from other comprehensive income to profit or loss.

Date	Item	Dr.	Cr.
30/07/18	Amortisation	€ 1.667	
	Accumulated amortisation		€ 1.667
	Trade receivables	€ 62.500	
	Revaluation surplus	€ 51.700	
	Accumulated amortisation	€ 5.077	
	Players' registration rights		€ 63.410
	Revaluation (P&L)		€ 55.867

Table 13 – Alisson - Accounting n.4

The application of this methodology is certainly not immediate, indeed it presents some issues.

First of all, the purpose of valuations proposed by these companies is not to forecast the price at which a player would be transferred, and therefore the estimated realizable value. In fact, these are objective valuations that aim to estimate the real economic value of the asset, without taking into consideration all those aspects that contribute to the determination of the transfer price such as the economic power of a club, the age of the player or the remaining years of contract of the player in question.

In this respect, it is common for observable transfer prices in the market to deviate from the estimates proposed by Transfermarkt because of the factors

⁹⁴ La Gazzetta Dello Sport, Roma, Alisson è del Liverpool: 62,5 milioni più 10 di bonus, July 19, 2018. Available at: www.gazzetta.it

mentioned above; nevertheless these valuations still remain the best proxy for players' registration rights market values.

Secondly, the application of this methodology would run counter to the provisions of international accounting standards. IAS 38 states that measurement at fair value, in the order of the revaluation model, must be made with reference to an active market. The main doubt therefore concerns the configurability, or otherwise, of the work carried out by third parties as an "active market". These valuations are certainly not representative of a market, but are closer to the estimated realisable value of the asset than if the cost model were used.

The use of these valuations would definitely lead to a greater reliability of the values reported in the financial statements of football clubs, although with a higher degree of volatility due to the continuous changes in the book value of players' registration rights, which certainly has very positive consequences in terms of information. However, the application would require first of all an official recognition by the administrative bodies that manage and control the football system as a whole and that at the moment it does not seem possible given UEFA's rigidity in relying on the cost model for the determination of balance sheet values for players' registration rights.

CONCLUSION

The analysis carried out showed that the accounting practice adopted by listed football clubs, with reference to the initial registration and subsequent evaluations of players' registration rights as intangible assets, determines the emergence of some issues. In fact, it has been demonstrated that the application of the dictates of international accounting standards, in particular those set out in IAS 36 and IAS 38, together with UEFA's provisions on Club Licensing and Financial Fair Play, leads to a clear underestimation of the company's assets for football clubs.

As stated above, the registration of players' registration rights must necessarily take place according to the cost model, i.e. the book value must be equal to the cost incurred for the acquisition of the player, including any additional charges such as intermediation expenses. The value of the asset is then depreciated over its useful life, equal to the duration of the contract signed with the company to which it belongs, through the depreciation process and written down in the event of special events. This approach is supported by both the IAS/IFRS international accounting standards and the UEFA rules on Club Licensing and Financial Fair Play given the recognised inapplicability of fair value measurement because of the differences between each player, which substantially prevent us from considering each other as substitutes in full. However, the analysis carried out in the course of the study has highlighted several negative aspects related to the use of the cost model, since it appears to be ineffective both with regard to the initial recognition (in some particular cases and for subsequent evaluations. The adoption of this model in fact determines balance sheet values that are often out of date – or in some cases where there is no explicit transfer fee is even unable to establish a value – and that, therefore, are not able to represent the real value of the players' registration

rights that the company holds. This is certainly in conflict with the evolution of budgeting policies aimed at ensuring what is known as "fair value financial reporting", i.e. the construction of financial statements whose values can reflect the real logic of the market.

For this reason, the analysis has led to the identification of possible methods that could solve the problem related to the inapplicability of fair value measurement in the absence of what is defined by international accounting standards as "active market".

The main solution to this problem has been identified in the adoption of the income approach, a method for the valuation of assets that is based on the direct cash flows that are expected from the asset. Unfortunately, it must be stressed that football clubs are not able to allocate cash flows to the individual players who make up the team and for this reason it is necessary to use an alternative measurement consisting of the salary that the player in question is entitled to receive as established by the contract in place with the football club. In any case, it is an excellent proxy that, despite some limitations, is certainly able to provide more reliable and current values than what was done with the use of the cost model.

The second possible alternative analysed in the course of the paper tries to overcome the few limitations related to the application of the income approach. This solution, as we have seen, consists in the use of evaluations offered by third-party companies, aimed at identifying the real economic value of professional players. However, if on the one hand the values calculated in this way represent an even more reliable estimate, the application of this solution appears extremely complex by virtue of the principle of prudence that governs the preparation of the financial statements of the clubs. This principle would be fundamentally violated by the application of such an alternative, especially in relation to the degree of volatility that the financial statements of football clubs would assume.

Given the complexity associated with the use of methodologies that relate on-pitch performance with the value of players' registration rights, the solution represented by the application of the income approach is the best available as it is able to respond optimally to the considerable needs in terms of transparency and truthfulness of data relating to the financial statements of listed companies.

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SUMMARY

Football has managed to attract millions of spectators and practitioners over the last twenty years, mainly due to the simplicity of the rules that characterize the game, becoming an increasingly wide-ranging economic phenomenon. Football clubs have become full-fledged corporations that daily deal with issues like business organization, accounting records and sometimes even with the stock exchange listing and find in the fans a group of loyal customers, able to guarantee almost perpetual income.

The enormous business that has been generated in relation to the operational activities of football clubs justifies the growing public attention towards such companies and, consequently, the need for them to guarantee an extremely efficient information system that could fulfil the interests of more than one party. As a whole, the information system is called upon to play the dual role of a means of communication to the outside world, as a source of information, and of control over the actions carried out by management, allowing rational and economic decisions to be taken.

Annual financial reports are corporate communication tools aimed at individuals who have interests of various kinds towards the company, with the aim of providing information of how well management use the available resources and therefore take informed decisions, by both internal subjects and external parties. The highlighted importance of the budget, as an information tool, presupposes that it should be disclosed in a way where all investors have access to the same information at the same time. It involves the preparation of general purpose financial statements in accordance with approved financial reporting standards, providing information about the financial position, financial performance and cash flows of an entity, supplemented by accompanying narrative information.

Football clubs are nowadays required to keep accounting books in a transparent and correct way, such as any other company all over the world. However, it should be noted that the attention to football clubs' financial reporting activities has increased considerably after the stock exchange listing "wave", which involved several players in the industry, and the UEFA Club Licensing and Financial Fair Play Regulations framework introduction since 2010.

Indeed, the listing of the companies on the stock exchange brings with it a series of more stringent disclosure requirements as determined in EU rules by the transparency directive (2004/109/EC) as investors need reliable and timely information about the business performance and the assets of the companies they invest in. Moreover, under the EU's legislation, all listed EU companies must prepare their consolidated accounts in accordance with a single set of global standards - the International Financial Reporting Standards (IFRS) - developed by an independent accounting body, the International Accounting Standards Board (IASB).

Disclosure requirements for football clubs have become even stricter after the introduction of the UEFA Club Licensing and Financial Fair Play Regulations. This consists in a set of rules, detailed in full in the UEFA Club Licensing and Financial Fair Play Regulations document and periodically updated on a three-year basis, built around two main areas: an obligation for clubs, over a period of time, to balance their books (first assessed in the 2013/14 season), by setting the break-even requirement, and an obligation for clubs to meet all their transfer and employee payment commitments at all times (first assessed in the summer of 2011). The need to carry out controls in respect of these two areas has in fact required special attention from UEFA to the financial statements of football clubs.

The drawing up of financial statements is governed, in the first place, by the accounting standard IAS 1, which set the minimum level of financial information required, mainly including: a statement of financial position as at

the end of the period, a statement of profit or loss and other comprehensive income for the period and notes, comprising significant accounting policies and other explanatory information.

The UEFA, for its part, provides illustrative templates for the drafting of balance sheet and profit and loss statement through the UEFA CL/FFP IT Solution Toolkit, a guidance to help stakeholders understand the requirements for the provision of financial information. In particular, in the layouts proposed by UEFA, some characteristic elements related to the activities of football clubs and in particular to the transfer of footballers are highlighted:

Intangible assets – players: accounting element representing the value of the players that constitutes the team;

Account receivable/payable from player transfers: receivables and payables towards other football clubs fuelled by the purchase and disposal of players in the football transfer market;

Operating revenues: positive income elements classified by macro-category.

Football clubs usually divide their income between match-day revenues, broadcasting rights and commercial revenues (including both sponsorship and merchandising activities);

Operating costs are mainly related to the salaries of players and other benefits expenses;

Player trading section: costs and revenues connected with the registration and disposal of players. It contributes to the determination of EBITDA.

Football clubs substantially differ from corporations belonging to other sectors as the main activity performed is of a sporting nature and consists of participating in national, and eventually international, competitions and matches – alongside with alongside other complementary operational activities. The activity of participation of football clubs in such matches is made possible by the existence of a team composed of their respective players, which in fact justify the existence of the same football club.

As far as the accounting aspect of this issue is concerned, it should be noted, however, that the object of interest for the analysis is not the player himself, but the related right that clubs could claim. The club, indeed, at the time of the contract's registration to the governing body, acquires the federative rights and license to use him in competitions. This right is commonly referred to in the financial statements of football clubs as "Players' Registration Rights" and is essentially valid for a period equivalent to the duration of the contract signed between the player and the club.

The aforementioned item can be considered as one of the most relevant in terms of operational and accounting impact for football clubs and, probably for this reason, it is now the subject of continuous discussions on the correct accounting methods. Through a careful study of the company's financial statements, it has been possible to observe how this element has absolute relevance within them as, on average, the rights represent 29% of the total assets in the football clubs' balance sheet.

In this regard, it should be noted that nowadays the players' registration rights are unanimously considered as intangible assets in European football clubs' financial statements, as there is extensive practice of capitalizing players' acquisition costs, but the doctrine has not always been unanimous in this regard and this conclusion has only been reached recently following a long comparison between the different theories. The turning point came with the introduction of national accounting standard FRS 10 'Intangible assets and a goodwill' in December 1997, which has significantly influenced the accounting behaviour of English football clubs, demanding from them to follow policy on capitalization of costs of players' registrations as intangible assets and the related consequences for subsequent valuations of the item, such as the amortisation process and periodic test to verify the potential occurrence of impairment losses. The accounting practice adopted by the football club therefore requires the players' registration rights to be subject to the rules on intangible assets,

regulated by international accounting standards through IAS 38 (and secondly by UEFA Regulations).

First, we start with the acquisition of the player and the process of recording the related players' registration rights in the financial statements. The accounting of the asset must initially be based on the cost criteria, equal to that incurred for the purchase of the asset. The cost, it is specified, must take into account both the price of the asset subject to registration, namely the amount agreed between the football clubs for the transfer of the player (and related rights), and any additional costs attributable to the asset.

Concerning the measurement after recognition, the accounting standard IAS 38 allows choosing between the cost model and the revaluation model after the initial recognition. The cost model requires that the asset should be carried at its cost, as initially identified, less any accumulated amortization and impairment losses; the revaluation model, on the other hand, requires the asset to be recorded according to its fair value at the date of revaluation, always net of the amortization amount and any impairment losses.

In particular, fair value measurement appears difficult to apply in this context since accounting standard IAS 38, in defining the revaluation model, states that “fair value shall be measured by reference to an active market”, therefore emphasizing its necessary existence for the determination of reliable values.

However, the definition of an active market for the purchase and sale of football players presents some issues since football players, despite having similar characteristics, should definitely never be considered to be completely identical and therefore fungible goods.

Once the registration of players' registration rights has been made, the book value must be gradually amortised according to the useful life.

The book value to be amortised is calculated by deducting its residual value, which is expected to be equal to zero, in accordance with the provisions of IAS 38. For players' registration rights, the hypothesis of a residual value of zero

seems to be reliable, since in the event that the player remains until the end of the contract with the club owning the related rights, he would become a free agent, so that the club would not be able to claim any remuneration linked to the possible transfer of the player to the other club.

Moving on to the definition of the useful life, in the case of players' registration rights it coincides with the duration of the contract underwritten by the player with the club. According to FIFA regulations, the contract can have a maximum duration of 5 years and therefore the amortisation will never exceed this period of time, as observable from the provision of the IAS 38, which states that "the useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights".

In the event that the duration of the player's contract is increased because of a renewal, the residual net book value - possibly increased in relation to eventual negotiation costs such as agent fees – should be divided along the extended period of the player's contract.

Amortisation rates are calculated on the basis of the allocation criteria of the value to be depreciated over the defined useful life. As far as players' registration rights are concerned, it seems difficult to establish an amortisation plan with variable – or decreasing – quotas based upon on-pitch performance; if on the one hand, football clubs can expect mature players to perform better in the first years of the contract (and getting worse with the age), this assumption does not seem reliable for younger players who, on the contrary, improve over time. The choice of the football clubs fell, except for certain special cases, on the straight-line method, which can provide a "clear" assessment.

Finally, players' registration rights, as intangible assets, are subject to the discipline of the impairment test, introduced to ensure that the assets of a club are carried at no more than their recoverable amount, identifying any impairment losses in excess of the amount of the periodic depreciation already recognised through the amortisation process. The impairment of assets is

governed by IAS 36, which defines the recoverable amount as the higher of an asset's "fair value less costs of disposal and its value in use".

In the specific case of the football industry, impairment losses can be linked to particular events such as a serious injury suffered by the player in question, which could significantly compromise his expected future performance or even cause him to abandon his competitive activity. On the other hand, the poor use of a player, whether due to a loss of fitness or specific abilities, does not constitute a case in point for the recognition of such losses in value. Likewise, the recognition of write-ups is not allowed, in accordance with the prudence principle in accounting.

Turning to the analysis of the accounting practices adopted by the sampled companies, it can be seen that almost all of them use the cost model. This choice is linked to the impossibility of recording the fair value in the absence of an active market. Some differences may instead be found in the performance of the impairment test given the possibility for the clubs to carry out the evaluation both with reference to individual players and to the entire value of players' registration rights.

Given the problems already mentioned regarding a reliable measurement of fair value, UEFA has openly sided, through the rules that are issued every three years, towards the use of the cost model only. This choice is certainly acceptable given the problems that have always plagued the financial reporting process of football clubs, but that does not seem to be entirely correct for listed companies, since the use of the cost model entails the emergence of some issues that collide with their disclosure and transparency requirements.

Football clubs can acquire new players through many different ways, among which the classic transfers from one club to another stand out, but not only. There are other ways of acquiring players, such as signing players without a contract - the so-called free agents - or the promotion to the first team of players from youth academy, for which there is no explicit acquisition cost.

The cost model application does not seem to be the best choice in these cases and a more reliable assessment by moving to the revaluation model. The use of this method was substantially excluded in the previous chapter since, according to the accounting standard IAS 38, the fair value of an intangible asset should be determined by referring to an active market, which is impossible in the case of the football sector. The aim is therefore to provide an alternative approach that leads to a reliable determination of fair value.

A possible solution consists in applying the income approach, a real estate valuation method that can also be used in the case of intellectual property. According to this approach, the market value of property can be measured by the present value of the net economic benefit to be received over the asset's useful life. For football players' case, it can be legitimately assumed that the cash flows generated by a resource are at least equal to the flows of wages and salaries allocated to it, so the market value of a player can be determined through the income approach and is equal to the current value of the expected remuneration.

The application of the income approach for the player Emre Can results in a value equal to € 27.940.000, so the book value of the asset should be revalued in order to reach the calculated amount. According to IAS 38 provisions, the revaluation should be recorded in the other comprehensive income and accumulated in equity under the heading of revaluation surplus.

An extremely positive aspect of this method is certainly the possibility of updating the value of players' registration rights following the contractual renewals signed between a player and his club. It often happens, in fact, that following excellent performances in the field, the economic value of a player can increase and that, as a consequence, it requires the company to make a contractual adjustment with an increase in the salary received. The use of the income approach would make it possible to capture the change in the economic value of the player through the relative change in remuneration and therefore

show it in the balance sheet of the company. The same of course also applies to players who in recent years have signed increasingly less remunerative contracts because they are no longer able to guarantee the same standards in the level of sports performance.

However, the application of the income approach remains closely linked to the frequency with which players' contracts are renewed to take account of the level of performance that the player can guarantee. Moreover, it is necessary to underline that the book value of intangible assets, as well as tangible assets, is subject to periodic depreciation, known as amortisation, over their useful life, which in the case of players' registration rights is made to coincide with the duration of the contract in force between the player and the club to which they belong. This accounting practice, in the case of players' registration rights, presents some issues since players, unlike more common assets such as plant and machinery, often see their economic value increase, and not decrease, over time on their on-pitch performance. This is especially the case for younger players who are often bought by clubs at relatively low prices, as they are not yet established as established players in the world football scene, and whose value has enormous potential to increase over time.

The inability of the rules established by the international accounting standards to grasp these peculiarities that distinguish players' registration rights, together with the other special cases analysed in the previous paragraphs, has led to a profound underestimation of the value of the company's assets in the case of football clubs.

A possible solution to this problem can be traced back to the application of fair value measurement, by entrusting third-party companies with the definition of the market value of the players, and therefore of the related players' registration rights. To date, in fact, there are numerous companies that estimate the value of players on the basis of a precise statistical analysis that takes into account several variables and the adoption of this type of assessment would make it

possible to reduce, or cancel out, the clear underestimation of the value of the football clubs' assets.

The table below shows the difference between the overall book value of the item players' registration rights, as shown in official company documents, and its “market value”, calculated through the valuation offered by the Transfermarkt platform. In this way it is possible to observe how the adoption of evaluations proposed by third parties would impact on the accounting records of listed football clubs.

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As recognisable, the accounting method currently adopted by football clubs in compliance with international accounting standards, namely the cost model, determines balance sheet values that are extremely underestimated compared to the real market values, as proposed by Transfermarkt platform. If we compare the balance sheet values with the valuations offered by the Transfermarkt portal, we can see that there are enormous differences that, in the case of FC Juventus, even exceed 300 million euros.

The application of this methodology is certainly not immediate, indeed it presents some issues.

First of all, the purpose of valuations proposed by these companies is not to forecast the price at which a player would be transferred, and therefore the estimated realizable value. In fact, these are objective valuations that aim to estimate the real economic value of the asset, without taking into consideration all those aspects that contribute to the determination of the transfer price such as

the economic power of a club, the age of the player or the remaining years of contract of the player in question.

The use of these valuations would definitely lead to a greater reliability of the values reported in the financial statements of football clubs, although with a higher degree of volatility due to the continuous changes in the book value of players' registration rights and, moreover, it would require official recognition by the administrative bodies of world, and especially European, football.