Legal Newsletter

ACCOUNTING FOR FOOTBALL PLAYERS AND FINANCIAL FAIR PLAY

Abstract

The football industry is a fascinating industry with many peculiarities and the accounting treatment of football players is no exception. In this article, we will briefly examine relevant accounting standards, the accounting treatment specified in the UEFA Club Licensing and Financial Fair Play Regulations and will briefly examine the impact on the financial statements and FFP Indicators.

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Introduction

In most industries, in accounting terms, employees are treated purely as an expense with remuneration going through the profit and loss account. In the football industry, however, players are not only employees, but are also viewed as assets of the club. Their contract with their club guarantees that they have a value to the club for a period of time (defined by their contract) and this contract ensures that the club can use the players to generate income both on and off the pitch. Most accounting guidelines reflect this reality and advise that players should also be treated as assets.

Accounting Standards

In every country, it is normal to find an accounting body which monitors the accounting industry in that country and is instrumental in maintaining professional standards. Part of the role is to give guidance over the presentation of financial statements and issue "Standards" advising how different financial transactions should be treated. At an international level, there is the International Accounting Standards Board (IASB). The IASB has been set up to "bring transparency, accountability and efficiency to financial markets around the world"[1] by aiming to deliver a strong framework for preparing financial statements, adherence to which allows users to have confidence in the resulting financial statements as being reliable and of high quality. National guidelines may require companies to adopt IFRS under specific circumstances, for example, when consolidated financial statements must be prepared for entities listed on a regulated market.

1 https://www.ifrs.org/groups/international-accounting-standards-board/

Accounting for Football Players

As this newsletter has a readership comprised of people from various jurisdictions, this article will consider the relevant International Accounting Standard ("IAS") rather than a national standard. IAS 38 governs the treatment of Intangible Assets and it defines an intangible asset as "an identifiable non-monetary asset without physical substance" and furthermore it states "Such an asset is identifiable when it is separable, or when it arises **from contractual or other legal rights**"[2] (emphasis added). In addition, it must be probable that the asset will generate future economic benefits and that the cost of the intangible asset can be reliably measured.

Therefore, when a club "purchases" a player, it is actually paying for the transfer for the player's registration to itself, conferring a legal right. The future economic benefits will be the gate receipts, TV and media revenues, sponsorship and advertising and monies from player-related products and licenses associated from owning that right. The period of ownership of the registration of the player is of course governed by the length of the contract, and the measurement of the cost of the asset is the transfer fee paid (plus any directly attributable costs).

Thus, when the registration of a player is purchased, in accounting terms, and following the prescribed action of IAS 38 outlined above, the cost is capitalised on the balance sheet as an intangible asset. Any agents/intermediary fees which are directly attributable to the purchase of the player can also be capitalised. As with any other depreciating asset, the cost of the player is "amortised" over the "useful life of the asset" which for a club is the agreed contract length. This means that a percentage of the cost of the player is set against the balance sheet (asset) value and put to the profit and loss account as an expense each year. The percentage deducted is usually the same proportion each year so, for example, one quarter of the amount would be deducted per year to reflect a 4-year contract, or one third of the amount for a 3-year contract etc. At the end of the contract, the value of the player in the books of the club will be nil.

Most accounting bodies prohibit the recognition of internally generated intangible assets (too much of an opportunity for companies to indulge in "creative accounting" with the obvious difficulty of measuring the asset value in a true and fair way). In footballing terms, this mean that footballers who have been trained in a club academy and become a professional at that club (with no transfer fee having been paid), are recorded in the books of the club with a nil asset value. If a player signs a new contract at their club after the expiry of their first contract (or signs as the old contract is expiring), their value will be nil or close to nil. For example, if the player re-signed when there was only a small value left in the books of the club, in theory that small remaining value could be written off over the length of the new contract. In practice however, most clubs would just write that small remaining value off and show the asset value of the player at nil.

If a player is transferred to another club before the end of their contract, normal rules governing the treatment of intangible assets would apply, with any residual amount relating

2 https://www.ifrs.org/issued-standards/list-of-standards/ias-38-intangible-assets/

to the recorded asset value of the player being removed from the balance sheet, and the resulting gain or loss on disposal of the player registration being recognised in the profit and loss account / income statement.

UEFA Club Licensing and Financial Fair Play (the "Regulations")

The UEFA Club Licensing and Financial Fair Play Regulations set out the "*minimum sporting, infrastructure, personnel and administrative, legal and **financial** criteria to be fulfilled by a club in order to be granted a licence by its licensor as part of the admission procedure to enter the UEFA club competitions*"[3] (emphasis added). These Regulations set out rules and guidance to quite a detailed level, specifically in Annex VI[4] and Annex VII[5], in terms of acceptable accounting practices and policies which may be used. In the Regulations, UEFA make clear that they understand that there may be differences in the various accounting regimes in place in the countries of the member associations. However, there clearly must be a level of harmony in the preparation of financial information for the application of the UEFA licence to allow meaningful interpretation of the application. Principle 1 of Annex VI states "*Notwithstanding the requirements of national accounting practice, the International Financial Reporting Standards or the International Financial Reporting Standard for Small and Medium-sized Entities, the financial criteria of these regulations require licence applicants/licensees to present a specific minimum level of financial information….*"[6]. Thus, in practice, the club must prepare its financial statements on the basis of the prevailing national standards to fulfil national law/requirements, and if those standards are not in line with the requirements stipulated in the Regulations, the club must prepare supplementary information in line with the Regulations' accounting requirements, in essence re-stating the financial statements.

Accounting treatment of players as detailed in the Regulations[7]

Annex VII C is titled "Accounting for the permanent transfer of a Player's Registration" and this Annex dictates that when a player's registration is acquired, it should be treated as an intangible asset. The recognition of the acquisition should occur when the transfer is effectively unconditional and furthermore, only direct costs of acquisition should be capitalised. No upwards revaluation is permitted, even if management believe that the market value of the player is higher, and no recognition of value on the balance sheet is permitted for players from the club's youth sector i.e. no recognition of internally generated value is permitted. The value

3 UEFA Club Licensing and Financial Fair Play Regulations Edition 2018 Part 1. General Provisions, Article 1. Scope of Application, 2.c.
4 UEFA Club Licensing and Financial Fair Play Regulations Edition 2018 Annex VI Minimum disclosure requirements for the financial statements
5 UEFA Club Licensing and Financial Fair Play Regulations Edition 2018 Annex VII Basis for the preparation of financial statements
6 UEFA Club Licensing and Financial Fair Play Regulations Edition 2018 Annex VI Minimum disclosure requirements for the financial statements, A (Principle), 1
7 UEFA Club Licensing and Financial Fair Play Regulations Edition 2018 Annex VII Basis for the Preparation of Financial Statements C

of a player's registration should be amortised from the date of acquisition to the date of deregistration, or until the value of the player is fully amortised on the balance sheet. Moreover, the amortisation should be calculated on an equal basis over the useful life of the asset, "*the systematic allocation of the cost of the asset as an expense over the period of the player's contract*"[8].

Thus, the prescribed treatment in this Annex is in line with the IAS 38 as examined above and can be considered to be in line with best practice in the accountancy profession.

<u>The impact of the accounting treatment of Football Players and Financial Fair Play ("FFP")</u>

To begin this discussion, it is helpful to have a very brief recap of the main FFP indicators in the Regulations. The Club Licensing Financial Criteria (held within the Regulations Part II) have the following requirements:

- Article 49 states that as at 31 March, there should be no overdue payables towards football clubs
- Article 50 states that as at 31 March there should be no overdue payables in respect of employees
- Article 50bis states that as at 31 March there should be no overdue payables towards social or tax authorities.

The above items would all be represented by a creditor balance in the books of the club. However, the inclusion of these items is not to guard against the impact on the balances *per se*, but instead to prioritise and protect other clubs and key stakeholders.

- Article 52 states that future financial information should be submitted by the club to demonstrate its ability to continue if it has breached either of the following indicators
  - Going concern (the ability of an entity to continue in operations for the coming year/period)
  - Negative Equity (when total liabilities as recorded on the balance sheet are greater than total assets)

The inclusion of Article 52 reflects the desire of UEFA to ensure the ability of licence applicants to continue should they be experiencing financial difficulties.

Within the Regulations, Part III "Club Monitoring" section, the financial criteria required as part of the monitoring process undertaken throughout the licence period are stipulated:

- The break-even requirement (Art 58 – Art 64) stipulates that, over a specified 3-year period, relevant income less relevant expenses per year (essentially an adjusted profit and loss account /income statement) must result in a surplus. A small deficit of EUR5mio will be tolerated, and a deficit of up to EUR 30mio will be tolerated if

8 UEFA Club Licensing and Financial Fair Play Regulations Edition 2018 Annex VII Basis for the Preparation of Financial Statements C,3 (d)

this is covered by shareholders/related parties but as a contribution to equity or as a gift, rather than a loan.[9]

The inclusion of this requirement is to ensure clubs continue to act in a prudent way and have continued sensible decision making, even if (comparatively) small losses will be tolerated.

Impact of the acquisition of a new player on the financial statements

To aid understanding of this it is helpful to have an illustration. Player P goes from Club A to Club B for EUR10mio to be paid EUR5mio now upon signing, and EUR5mio in 2 instalments in one year and two years-time. The contract is for three years.

At the time of registration, there is no net change on the balance sheet of Club B, as the value of the asset (Player P) is offset by the liabilities and the decrease in the bank account. At the end of the first year, however, any overdue payments for Player P could be caught by the three-month rule (depending on the agreed payment terms). EUR3.33mio would also be amortised for Player P reducing the balance sheet value by EUR3.33mio and recognising the same amount as an expense on the profit and loss account. The reduction of the balance sheet could potentially bring Club B into negative equity. If Club B didn't have enough current assets (bank balances and amounts due in to the club within one year) to pay the future instalments, they may be considered to have "going concern" issues. The impact of the additional expense of EUR3.33mio on the profit and loss account could bring Club B into a loss-making position and may impact the break-even requirement.

Management of the Impact of FFP indicators

Clearly all clubs are in completely different financial circumstances at any one time, and their prevailing financial circumstance should inform their approach to the acquisition of new players. If a club is concerned that they are close to breaching a specific financial indicator, they may try to manage the timing of events around a player acquisition so as to manage the impact on their financial records.

For example, there has been speculation that clubs may try to register a player on a temporary basis prior to registering the same player on a permanent basis in the next financial reporting period to assist with their FFP indicators. Registering a player on a temporary basis would mean that in the records of the "borrowing" club, the profit and loss account would record the loan fee as an expense item and the balance sheet would show a corresponding decrease in the bank balance or an increase in creditors. There would also be the payment of wages to consider, as an additional expense through the profit and loss account. However, overall the impact would be less for break-even purposes if the loan fee was less than the hypothetical amortised portion of any fee paid for a permanent transfer (which is likely). To guard against such potential manipulations, again UEFA have set out quite prescriptive accounting

9 UEFA Club Licensing and Financial Fair Play Regulations Edition 2018, Article 61 par 2.

treatments for temporary transfers in the Regulations. They set out four different scenarios[10]. Accounting treatment for a temporary transfer:

1. with no obligation/option to buy the player
2. with an unconditional obligation to buy the player
3. with an option to buy
4. with a conditional obligation to buy

What is clear from the Regulations, is that as soon as the conditions are such that the transfer is permanent (interestingly, even if at that moment the registration of the player is only temporary in terms of the ITC/domestic transfer registration) the purchasing/borrowing club has an obligation to recognise the acquisition of that player in its financial records. Thus, if the agreement is a loan with an unconditional obligation to buy permanently at the end of the season, the financial records should recognise the transfer as permanent from the outset. Again, the registration should be recognised as permanent in the financial records the moment an option is exercised, or indeed under point 4 when a stipulated condition is "virtually certain", the transfer should be recognised as permanent.

Conclusion

From the above discussion it can be seen that football players are undoubtedly assets of a club and the registration of a player should be recorded in the financial records of a club as an intangible asset. This is the treatment prescribed by most accounting bodies and it is the method that the UEFA Regulations stipulate. The overall aims of the introduction of the UEFA Regulations were to improve the financial stability of clubs and the competitive balance between clubs. By giving very prescriptive technical guidelines for both permanent and temporary transfers of players, UEFA have tried to ensure that the information collected as part of the UEFA licensing procedure is transparent, useful and standardised. The accounting treatment of players also has a large impact on the FFP indicators, due to the large asset value the players' registrations represent. These indicators are the key financial tools employed by UEFA to measure and monitor the financial practices of clubs, and which have been identified as the markers of financial stability. However, as is common with most industries, the introduction of financial measurement criteria can impact and modify the behaviour of users (in this case, clubs) to obtain certain favourable outcomes. To ensure the overall aims of the Regulations are met, UEFA must monitor all licence applications carefully and offer guidance and improvements to the system where possible.

10 UEFA Club Licensing and Financial Fair Play Regulations Edition 2018 Annex VII Basis for the preparation of financial statements D Accounting requirements for the temporary transfer of a player's registration