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Financial communication in professional football clubs

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Abstract

Nowadays football is not a simple show but also business with revenues of the football market amounting to 12,6 thousand million euros in the European Union in 2005 and 2006 only. Despite the importance of this market, very little research has critically examined the financial communication of football teams as enterprises in this market. As such, this paper critically discusses the valuation and the application of the impairment test of intangibles assets of football teams. Specifically, this study looks at players' registrations, which are recorded as a specific item among the intangibles of the statement of financial position of professional football enterprises. Indeed, the players' registrations represent the main item of football teams balance sheets.

As such, this paper critically analyses the application of the rules defined by IAS/IFRS, with the objective to find a correct treatment of enrolment and valuation of players' registrations in financial statements. Currently, IAS/IFRS are applied only to listed companies. However, IAS/IFRS could be useful for unlisted companies in this case given that IAS 38 defines rules for valuation of intangible assets such as players' registration.

This study follows an empirical approach by taking into account professional football teams listed in the "the STOXX Europe Football Index" (this index includes twentyfour teams from different member states of the European Union and is as such considered to be representative of the European football industry) and Professional football clubs participating in the 2009/2010 Serie A and Serie B, Italian championships, both held and organized by Federazione Italiana Giuoco Calcio (F.I.G.C.).

This work extends the literature on the treatment of player's registrations in financial statements and provides accountants with detailed information on the application and interpretation of accounting standards for a correct recognition and valuation of player's registrations.

Keywords: multiannual rights to exploit the performance of professional footballers, impairment test, Ias/Ifirs, financial statements.

1 – Foreword

Intangible assets are today one of the main productive factors that allow companies to accomplish competitive advantage and hence create value¹. In some industries intangibles translate to a success factor, as in the cases of biotechnologies, pharmaceuticals, software houses and sports. This article fits into a whole

research approach to one industry that stands out for a very high degree of investments in intangibles: more specifically, its purpose is to analyse a key factor in the financial communication of professional football clubs².

The considered subject is specifically focused on an intangible asset entry and the subsequent detection of its impairment. This financial statements item, recognized among the intangible assets in the financial

¹ Di Cagno N., Adamo S., Giaccari F., Lineamenti di Economia Aziendale. Corso di Lezioni, Cacucci, Bari 2009.

² Fort R., Quirk J., Owner Objectives and Competitive Balance, Journal of Sport Economics, vol. 5, n. 1, 2004.

statements of professional football clubs, is named “multiannual rights to exploit the performance of professional footballers”. The above rights to exploit the performance of footballers are entry in terms of assets recognized in the financial statements of football clubs. This account includes the expenses incurred to a football club for the rights to exploit the professional performance of a player; such right is the result of a contractual agreement having been executed between the club and the footballer³.

Multiannual rights to exploit the performance of players should be recognized as intangible assets. In that their value corresponds to an advantage for the club being the holder of the rights, as opposed to the other clubs, meant to last in time and hence provider of future economic benefits⁴.

The benefit accrued with the acquisition of each right is represented by the athletic performance of the footballer, which stands as the key factor for satisfactory sports outcomes, such as to allow revenues incurred by ticket sales, award of television broadcast rights and other items, such as sponsorships, merchandising and advertising proceeds. The agreement between a footballer and a club is the legal entitlement to recognize in the financial statements this intangible asset, which is based on a “contract”, that is, the professional performance of a footballer.

As regards financial communication, football clubs must comply with a very articulate legislation, having to do with different status of listed company, taking part in international competitions or “non qualified” club in terms of stock markets and sports competition at national level. More specifically the relevant regulatory elements have to do with the initial and later appraisal of such multiannual rights to exploit the performance of footballers.

In order to support the theoretical approach we devised a survey on the compliance with the rules and the empirical disclosure of football clubs, both listed in the European regulated markets and participating in the professional championship held by Federazione Italiana Giuoco Calcio, namely Serie A and Serie B. The sample was divided into two groups:

- Professional football clubs listed in the “STOXX Europe Football Index”. The index groups all clubs that are listed in Stock Markets either in Western or Eastern Europe, Turkey or any other Country being the member of the en-

larged European Union. This index gives an accurate snapshot of the football industry in Europe and may be considered to group all football clubs listed in enlarged European markets which are basically twenty-four, divided by different Member states of the European Union;

- Professional football clubs participating in the 2009/2010 Serie A (the sample did not include the listed companies⁵) and Serie B championships, both held and organized by Federazione Italiana Giuoco Calcio (F.I.G.C.).

This paper has the purpose of providing a contribution to the debate on the application of the international accounting standards to companies partaking to specific industries, highlighting the application issues in said businesses by analyzing operative best practices.

2 – The key financials of the analyzed companies

The considered football clubs are those with professional status⁶, which at European level are as many as 528⁷.

Financial communication of football clubs is a crucial reading key for the broader category of enterprises, used to communicating its performance to the public in terms of competition results.

Football clubs operate in the sports industry meant in the broader sense of the word; a 2006 study presented by the European Union showed that the sport market generated added value by 407 billion Euros in 2004, corresponding to 3.7% of EU’s GDP, and employed 15 million people, that is 5.4% of EU’s

³ Fiori G., *La valutazione dei diritti pluriennali alle prestazioni degli sportivi professionisti: una possibile metodologia*, Rivista Italiana di Ragioneria ed Economia Aziendale, Roma, 2003.

⁴ Mancin M., *Il bilancio delle società sportive professionistiche – Normativa civilistica, principi contabili nazionali e internazionali (Ias/Ifrs)*, Cedam, Padova, 2009.

⁵ In the range of football clubs participating in the 2009/2010 Serie A championship, Juventus F.c. S.p.A., A.s. Roma S.p.A. and S.s. Lazio S.p.A. are not included among the listed companies, as they are part of the “STOXX Europe Football Index”.

⁶ In national leagues the term “club” stands for any associations of similar structures that, regardless of the adopted legal form, are involved in the practise of football. More specifically, professional football clubs are members of Lega Nazionale Professionisti or Lega Professionisti Serie C and hire professional footballers. The term “professional” means football players who practise this sport for money consideration on a full time basis, and registered with clubs that are members of Lega Nazionale Professionisti or Lega Professionisti Serie C.

⁷ Marotta G., *Società professionistiche e sfruttamento degli assets*, Corso di formazione in Diritto Sportivo, presso il Palazzo di Giustizia di Torino, 2009.

manpower⁸. Within this market professional football holds particular importance, in that professional football teams are among the best known to the public. Such popularity is reflected in the economic figures computed in the football system; during the 2005/2006 season, the football system generated revenues by 12.6 billion Euros at European level⁹. The economic size of this industry is so relevant that it is worthy of a deeper analysis. From an historical standpoint the companies operating in the football business benefited enormously from the boost caused by new sports event broadcasting opportunities provided by pay television channels. The Broadcasting act dates back to the beginning of the nineties, which paved the way to the liberalization of television channels and the birth of cable and satellite TV. The new broadcasters born after the change in the regulations and the new technologies detected football as one of the main entertainment phenomena¹⁰, which was considered not only as a spectator's content, but also as a tool to increase customer loyalty.

Thus the football fans of all teams were given a possibility to watch the football games without having to go to the stadium, broadening the possibility of entertainment to a larger audience that, for geographical or cultural reasons, did not feed into the category of participants to live sports events. The economic twist to this evolution may be detected also by analyzing the change in the total revenues of football clubs between the Nineties and the later years¹¹.

It all started in England and spread to the other European countries, where football is one of the most

popular sports. Thanks to this big change football clubs were pushed to moving from the analysis of sports outcomes to effective financial management.

From an entity driven by sports results, quite a natural fact for enterprises of this kind, there was a shift towards a managerial approach linked with the ability to communicate the financial performance to all stakeholders.

For the purpose of analysing the economic, financial, equity balance it is important to focus of the extent of the revenues incurred by the operation segments:

1. TV broadcasting rights;
2. Sponsors;
3. Merchandising;
4. Stadia;
5. Sale of tickets and season passes¹².

The extent of revenues is tightly bound to sporting performances and the players on the team's side.

The television broadcasting rights are the consideration paid to football clubs for awarding the concession to broadcast the sports events.

Sponsorships allow to obtain revenue by means of a mutual exchange of visibility; sponsors are divided into:

- Main ("official"), a company whose name or brand appears on the team's official football jersey;
- Technical, that is the company that provides the team with technical gear (e.g., balls, tracksuits, jerseys, etc.);
- Institutional and/or official supplier, companies that use a football club's brand to advertise and promote their products and services.

Merchandising to football clubs is the revenue incurred by the sale of products bearing the name or the brand of the very club (e.g. shirts, caps, tracksuits, wallets, etc.).

The exploitation of stadia accounts as a further source of income through the concession and use of the same for concerts, other sports events or more simply for ancillary activities to sporting management, such as bars and catering. Finally, the proceeds from the sale of tickets and season is the historical source of income for football clubs, which over the last few years experienced a dramatic decrease due to the enhanced visibility of television programmes¹³.

⁸ D. Dimitrov C., Helmenstein A., Kleissner B., Moser J., Schindler: *Die makroökonomischen Effekte des Sports in Europa*, Studie im Auftrag des Bundeskanzleramts, Sektion Sport, Wien, 2006.

⁹ Deloitte, *Football Money League*, 2009.

¹⁰ The early studies on football clubs date back to W.C. Neale, *The Peculiar Economics of Professional Sports*, A contribution to the theory of the firm in sporting competition and in market competition, *Quart. J. Econ.*, vol. 78, n.1, 1964, 1-14.

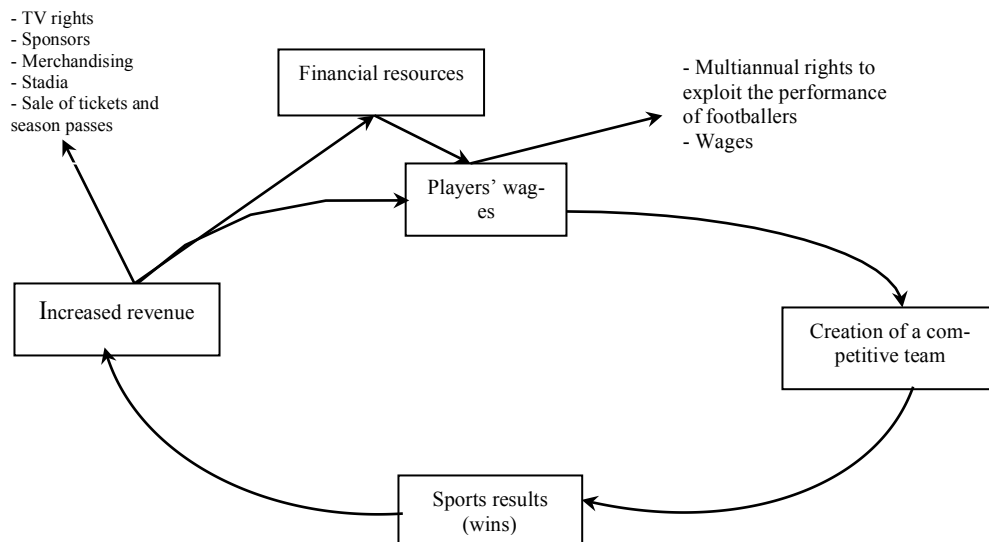
"The sporting firms produce an indivisible product from the separate processes of two or more firms [...] But the product itself is a peculiar mixture: it comes divisible in parts, each of which can be and is sold separately, but it also a joint and multiple yet indivisible product".

¹¹ In 1992 the consideration paid to English Premier League teams for the award of broadcasting rights summed up to 191 million Pounds (according to the 1991 average exchange rate, a little more than 273 million Euros); over the 2007-2010 period TV broadcasting rights swelled the coffers of British clubs with 1,700 million Pounds (according to the 2007-2009 average exchange rate, 2,180 million Euros).

¹² Lago U., Baroncelli A. e Szymanski S., *Il business del calcio – Successi sportive e rovesci finanziari*, Egea, Milano, 2004.

¹³ It is a known fact that participation in sports events in stadia varies depending on the culture and tradition of different supporting groups and hence the extent of the revenues incurred by that activity in the short term is not affected by the team's sporting performance.

Figure 1 – Virtuous circle between sports and economic performance



Source: our interpretation after Lago U., Baroncelli A. and Szymanski S., *Il business del calcio*.

As the total revenues of football clubs went up in size, there was a swelling of management costs; the cost items may be summarized as follows according to the classification of Co.visoc.¹⁴:

1. Salaries and wages: consideration to players;
2. Depreciation on multiannual right to exploit the performance of footballers;
3. Other depreciations: on intangible assets;
4. Other production costs: cost of service, namely:
 - Independent services of varying nature, provided in outsourcing to the football clubs;
 - Charges on proceeds, share of revenue to be paid to other clubs depending of the matches played;
 - Food, accommodation and transport costs related to player management;
 - Match organization, match-related management (e.g. security services, ticket printing, etc.);
 - Other charges, facility maintenance costs, playground lease costs, costs for staff other than footballers, tax, etc.;

The main cost items are the first two, salaries, wages and depreciation on multiannual right to exploit the performance of footballers. The wages and salaries item is comprised of recruitment costs, bonuses, indemnities at the end of the career, paid to the footballer for the provision of his professional service. Over the last few years this cost has accounted for the main

item in the profit and loss account of football clubs and witnessed the highest increase after the European Court ruling on free movement of footballers, also known as the Bosman ruling¹⁵. The depreciation entry and the depreciation on multiannual right to exploit the performance of footballers stands for the depreciation share recognized for the financial year with regard to the investment targeted at exploiting the performance of a footballer.

The increase in footballer wages was a direct consequence of the correlation, extensively detected in literature, between the collection of financial resources by football clubs and their sports accomplishments¹⁶.

¹⁵ On 15 December 1995 the European Court of Justice issued a ruling according to which the footballer transfer system from one team to another was a limitation of free movement of workers pursuant to Section 39 of the Treaty of Rome. The Bosman ruling provides for national football leagues of EU and UEFA Member States not to set a limit to foreign footballers in a team, since this could discriminate European Union citizens.

The ruling allowed all European Union footballers to be transferred free of charge at the expiry of their contract, in case the transfer should occur between a member club of a European Union federation to another club of another federation, always in the European Union.

¹⁶ Lago U., Baroncelli A. e Szymanski S., *Il business del calcio – Successi sportivi e rovesci finanziari*, Egea, Milano, 2004. Montanari F., Silvestri G., *Le determinanti della retribuzione tra risultati e caratteris-*

¹⁴ Lago U., Baroncelli A. e Szymanski S., *Il business del calcio – Successi sportive e rovesci finanziari*, Egea, Milano, 2004.

Such correlation may be summarized in the figure 1. The final proof of the metamorphosis of football from a sport to a profit-driven business was the listing of many teams in the stock markets that took place in the Nineties¹⁷.

The choice of going public is due to two main reasons:

1. Collecting cash on the market allowed football clubs to make new investments, more specifically, to sign new players to widen the squad and accomplish important results, that consequently bring higher revenues and higher financial income;
2. Improving the club's management, which is accountable from its performance before its shareholders and hence it is bound to equip itself with suitable management supervision tools and guarantee proper administration and transparent strategic choices;

It should also be brought to attention that the transformation of football clubs from sports result-driven entities to a properly managed business, not only for listed teams but also non-listed clubs, calls for proper financial communication to be available not only to internal parties (shareholders), but also the outside of the enterprise, the so-called "stakeholders" (such as suppliers, creditors, the Government, employees, etc.) for them to have access to the key information on the club's trends.

3 – Rules on the financial communication of football clubs

The evolution of football clubs from sports result-driven entities to a properly managed business made it necessary to adopt an adequate legal entity that allowed clubs to perform their business economically. The legal entity adopted by professional football clubs was that of Capital companies.

Though the business model of sports clubs is particularly engrained in the specific type of business activity, there is no specific financial statement discipline, with the exception of a few recommendations affecting specific categories (clubs participating in international competitions). Financial communication of football clubs follows different rules depending on the following situations taking place¹⁸:

- Listed clubs;
- Participation in international competitions.

By analyzing 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 norms enterprises have to comply with in order to provide intelligible tools to the users of the financial statements, to portray a truthful and reliable picture of the company's general position. Said rules relate to different business forms, 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.

In the first category we may find those football clubs that are listed in regulated markets (Olympique Lyonnaise, Juventus) and take part in European competitions (Champions League and Europa League). The public listed companies are twenty-four, more specifically they are located in nine Countries (Denmark, France, Germany, England, Italy, Holland, Portugal, Sweden and Turkey). The second category is comprised of non-listed football clubs (e.g. Real Madrid, Barcelona) or clubs that were de-listed (e.g. Chelsea, Manchester United) and take part in European competitions (Champions League and Europa League). The third category sees listed football clubs (e.g. Watford, Parken) and do not take part in European competitions (Champions League and Europa League). The last category is comprised of non-listed football clubs (e.g. Palermo, Aston Villa) that do not take part in European competitions (Champions League and Europa League).

From a regulatory standpoint listed companies must follow the Ias/Ifrs accounting standards, just as any other company listed in the regulated markets of EU Member States.

The clubs that do not compete in European tournaments must follow the UEFA standards¹⁹ (Union of European Football Association), the administrative, organizational and supervisory body of European football that regulates some of the financial communication issues required to obtain the UEFA license to access European competitions.

tiche individuali: il caso del campionato di serie A, *Rivista di diritto e di economia dello sport*, 2007.

¹⁷ In Italy the listed clubs are S.S.Lazio, A.S. Roma and Juventus F.C. The very first club to go public was Tottenham Hotspurs in October 1983.

¹⁸ Some authors believe that the legislator on outstanding businesses operating in specific economic sectors, such as football clubs, should provide for a special regulation. Please refer to Bianchi L. A., Cor-

radi D., *Il bilancio delle società di calcio*, Egea, Milano, 2004, Mancin M., *Il bilancio delle società sportive professionistiche. Normativa civilistica, principi contabili nazionali e internazionali (IAS/IFRS)*, Cedam, Padova, 2009.

¹⁹ UEFA, *UEFA club licensing system manual – Version 2.2.* (translation by Federazione Giuoco Calcio), 3 November 2009.

Finally, the remaining clubs the standards are set by national laws and, if necessary, integrated with the recommendations of the national football leagues (in Italy, for instance, the F.I.G.C.). The above scenario may be summarized in the figure 2.

This article deals with multiannual rights to exploit the performance of footballers in the light of Ias/Ifrs international accounting standards, since they essentially overlap to national disciplines pursuant to the legislations to implement the fourth Community directive on financial statements.

Figure 2 – Financial statement rules

Source: own analysis

	REGULATION		RULES	
	Ias/Ifrs	Domestic GAAP	UEFA	National league
Listed club /European competitions	x		x	x
Non-listed club/European competitions		x	x	x
Listed club/no European competitions	x			x
Non listed clubs/no European competition		x		x

From a regulatory standpoint the rules to draft a financial statement are detected in two levels of sources. The first source for drafting a financial statement are the Community regulations on the international accounting standards, the second is related to national legislations, the third to the rules set out by the UEFA in its “UEFA club licensing system manual and the fourth consists of the accounting rules and recommendations issued by the National football association.

There emerges a need to set exemplary behaviours to be followed when drafting the financial statement of a football club, in order to harmonize financial communication and make it more effective.

4 – Multiannual right to exploit the performance of footballers

Multiannual rights to exploit the performance of footballers may be defined as the “tie between the athlete and the club, which may be construed as an atypical intangible asset, a sort of asset that gives the rights to exploit the performance for a set amount of time and that is sold by one club to another in case the footballer is transferred”²⁰.

This chapter is focused on analyzing the communication rules of football clubs in terms of the account-

ing issues of multiannual rights to exploit the performance of footballers:

1. Recognition of the cost of acquisition for the intangible asset;
2. Depreciation of multiannual rights to exploit the performance of footballers;
3. Transfer of a footballer, bound by contract to a football club.

Football clubs may purchase the rights to exploit the performance of a footballer according to the following procedures:

- By entering into an agreement directly with the footballer, upon the expiry of a similar agreement between the same and another club;
- By entering into an agreement directly with the footballer taken from the youth team of another club;
- By entering into a transfer agreement to acquire the rights from another football club.

In the first case the agreement implies for the club the payment of a consideration to the footballer that shall have to be recognized in the income statement for the relevant financial year.

In the second and third case the club purchasing the rights to exploit the performance of the footballer, pays a sum to the club of origin that the same player. This price is, for the paying club, the burden ensuing the preference granted by the club of origin for the purchasing club to negotiate with the footballer; in the case of the receiving end, it represents the consideration for allowing the counterpart to enjoy that preference. As regards the transfer from one club to another of an ongoing agreement with a footballer, it is worth mentioning that it produces two effects:

1. In the first place it gives the right to the transferee to take, in its relation with the footballer, the position of transferor, as well as the ensuing obligation to pay the convened price to the transferor;
2. In the second case there is a subjective change in the relation with the footballer, which takes shape with the execution of a new agreement that will cause the footballer to exercise his/her rights and shall have to comply with his obligations only to the transferee, the new contractual party.

By complying with the obligation to pay a price to the transferor, the transferee acquires the right to replace the transferor in the relation with the footballer.

On the contrary, the rights to exploit the performance of the footballer will be purchased by the transferee by complying with the obligations that arise from the direct relation with that footballer, ensuing the execution of a new agreement.

This intricate manoeuvre incurs costs for the transferee, whose benefits will be produced throughout the relation between the transferee and the footballer.

²⁰ Fiori G., La valutazione dei diritti pluriennali alle prestazioni degli sportivi professionisti: una possibile metodologia, *Rivista Italiana di Ragioneria ed Economia Aziendale*, Roma, 2003.

The right to exploit the performance of professional footballers outlines, for the club acquiring the right, a multiannual asset equity entry of intangible nature. The economic move taking shape with the transfer of a contract for the exploitation of the performance of footballers is complex in nature and is structured as follows:

- a. The advantage ensuing the position of transferor club in the relation with the footballer;
- b. The acquisition of the rights to exploit the performance of the footballer as the effect of the contract to be entered into with the footballer as consequence of the above transfer.

Point a) has an economic value determined by the price paid for the instance to take place. This price is correlative to the legal position taken by the transferee for the time of effectiveness of the contract transfer²¹.

Following is the regulation for the acquisition of multiannual rights to exploit the performance of footballers pursuant to Ias-Ifrs and the domestic GAAP according to the principles below:

- Multiannual rights to exploit the performance of footballers according to the Ias/Ifrs international accounting standards;
- Multiannual rights to exploit the performance of footballers according to domestic GAAP;
- Impairment test of multiannual rights to exploit the performance of footballers;
- Depreciation on multiannual rights to exploit the performance of footballers.

4.1 - Multiannual rights to exploit the performance of footballers according to Ias/Ifrs international accounting standards

4.1.1 - Foreword

With the issue of European Regulation n. 1606/2002 international accounting standards were introduced as binding rules for drafting the consolidated financial statement (as of 2005) and for the separate financial statement (as of 2006). These new rules pursue the goal of providing better financial disclosures that it would be possible only through national regulations. The international accounting standards are applied by listed football clubs but could be subsequently used also by other football clubs, in that the market they operate in is fully globalized. It is becoming more and more necessary to be able to attract new capital and common accounting rules help prospect investors to make choices on what club to allocate their financial resources in. Within the scope of this review it is key to analyze how IAS/IFRS rules apply to the football

business, more specifically how multiannual rights to exploit the performance of footballers should be regarded, since they stand for, as previously mentioned, the most important entry in the financial statements of football clubs²².

As regards accounting standards, namely Ias/Ifrs, for said rights to be recognized they must feature the characteristics provided for by Ias 38, that is:

- Identifiability;
- Control;
- Existence of future economic benefits.

The lack of even one of the above requirements implies the recognition in profit and loss for the financial year in which it was paid.

The first requirement is fulfilled when, alternatively, the intangible asset:

- is separable, is capable of being separated or divided from the entity and sold, assigned, as in farming, leased or exchanged, either individually or together with the contract, asset or liability that relates;
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or other rights or obligations.

Identifiability is the criterion that allows to tell apart the intangible assets assigned to the so-called goodwill; the latter is defined as the amount paid for the acquisition of future economic benefits generated by a bundle of intangible assets which that may not be identified or detected separately and for which the transferee is willing to pay the price within the scope of a business combination operation.

Control is in place when the company is in a position to obtain the future economic benefits generated by the asset and to restrict the access of other subjects to the same benefits.

Usually the considered requirement takes its origin from the legal rights guaranteed by the Law (for instance, multiannual rights to exploit the performance of footballers); the lack of such rights makes it more difficult to prove control.

Nevertheless, the presence of a legal protection is not deemed essential to prove the above requirement, since it is believed that a company is capable of acquire control of future economic benefits with alternative means, such as, its experience in the market or the specific proprietary technical competences; in this case, too, the same must be protected by legal rights (copyrights, restrictions to trade agreements, legal obligations of employees to comply with the confidentiality clauses, etc).

²¹ F.I.G.C., Premessa - Raccomandazione contabile n. 1 – Diritti pluriennali alle prestazioni sportive dei calciatori, Roma

²² Lago U., Baroncelli A. e Szymanski S., *Il business del calcio – Successi sportive e rovesci finanziari*, Egea, Milano, 2004.

IAS 1 (Presentation of the financial statement) provides, when drafting the balance sheet and in presence of intangible assets, the recognition of a dedicated account. The possibility of detecting such assets is subordinate to the fulfilment of the following requirements²³:

1. Compliance with the definition of intangible asset;
2. Likelihood of future economic benefits attributable to the considered;
3. Ability to reliably quantify the cost of the asset.

As regards the charges paid after the initial recognition, they do not cause an increase of future economic benefits incurred by the asset, but they preserve the achieved level.

Within the intangible assets that may be recognized in the Ias financial statement asset, the Iasb provides for the classification of intangibles, described in the following table.

Figure 3 – Classification of “specific intangibles” according to the IFRS 3 principle

A Marketing-related intangible assets
B Client-related intangible assets
C Art content-related intangible assets
D Contract-based intangible assets
E Technology-based intangible assets

According to the IFRS 3 – business combination – multiannual rights to exploit the performance of footballers must be regarded as intangible assets with identifiability of their own. An intangible asset may be identified if it fulfils the separability or the legal-contractual criteria.

The separability criterion provides that an acquired intangible asset may be separated or divided from the purchased assets and sold, transferred, licensed, leased or traded either individually or together with the contract of the identifiable asset or liability.

An intangible asset that the purchaser has the right to sell, license or trade for any sort of compensation fulfils the separability criterion even though the purchaser does not mean to sell, licence or trade the asset.

An intangible asset fulfils the separability criterion if the market provides examples of transactions for similar or equivalent assets, even though said transactions are fairly uncommon and regardless of the fact that the purchaser be involved in such types of transactions.

Multiannual rights to exploit the performance of footballers must be considered as intangible assets based on agreements; as a consequence this entry, too, falls into the scope of application of Ias 38 and the re-

lated Ias 36, with regards to the evaluation of impairments.

The international accounting standard 36 (Impairments) regulates the process to determine the impairment of goodwill, intangible assets, tangible assets, some financial assets and cash generating units (C.G.U. – Cash generating unit) (par. 1).

Such process is meant to prevent companies from recognizing assets at a higher value than the recoverable amount in their consolidated, separate of individual financial statements.

4.1.2 – Acquisition of multiannual rights

In analyzing the possible scenarios for the acquisition of multiannual rights to exploit the performance of footballers, two feasible situations may be detected:

- Execution of an agreement with a footballer, having a contractual relation in force with another football club. The indemnity due to the transferor football club is paid in money;
- Execution of an agreement with a footballer, having a contractual relation in force with another football club. The indemnity due to the transferor football club is paid partly in money and partly with the transfer of the rights to exploit the performance of another footballer.

In the first case the carrying value of multiannual rights to be recognized in the financial statement among intangible assets, as provided in Ias 38, is equal to the amount of money paid for the acquisition of the professional performance, increased by the costs that are directly attributable at the arrangement of the asset for the intended use.

In the second scenario the carrying value of multiannual rights to be accounted for in the financial statement among the intangible assets is equal to the sum of the money paid for the acquisition of the professional performance and the value attributed to the multiannual performance of the other footballer offered for the trade.

The value must be increased by the costs that are directly attributable at the arrangement of the asset for the intended use²⁴.

²³ IAS 38 paragraph 18.

²⁴ Among the requirements to obtain a licence to compete in European tournaments, the UEFA provides accounting standards regarding the recognition of this entry; as a matter of fact it provides that for the accounting of the multiannual rights to exploit the performance of a footballer item (...) said rights must be accounted for at the historic cost of acquisition, comprising any additional charges directly attributed (this clause excludes those players who were brought up in a club's youth teams) that may not be reassessed.

For properly accounting the multiannual rights to exploit the performance of footballers the company must assess the length of its useful life.

Multiannual rights to exploit the performance of footballers are intangible assets with a defined life and their useful life corresponds to the term of the agreement²⁵ which allows the football club to use it; hence the depreciation process is based on a value division criterion for this entry through the term of the agreement.

The depreciation method used in this process must reflect the ways the future economic benefits shall be employed by the company. Should the company not be in the position to determine such correlation, it is then necessary to resort to the straight-line method.

The depreciation relevant to single periods must be recognized in profit and loss.

In addition to the straight-line method, the depreciation value for an asset may be broken down systematically by means of²⁶:

- a. Gradually accelerated depreciation;
- b. Depreciation per product unit.

The depreciation method used for a specific asset is selected according to the expected method to allocate the economic benefits and is applied consistently financial year after financial year, unless there is a change in the expected methods to allocate the benefits obtained from the asset.

Football clubs, according to the recommendations of the International Accounting standard 38, may proceed with the depreciation with the accelerated method (the product method is not applicable since it is provided for series or order industrial production), especially with regard to the acquisition of multi year rights to exploit the performance of a footballer at the end of his career, which may be depreciated with the accelerated method over the first contractual years given the higher possibilities to use the rights to the professional performance.

The applied and generally agreed-upon accounting practice for football clubs makes use of a straight-line accounting method, determined according to the term of the agreement.

In case of a renewed agreement with a footballer, the depreciation plan on the multiannual rights may be changed provided that the residual value is not zero and if an agreement is reached between the football club and the footballer for the renewal of the agreement. In this instance the residual value should be depreciated in a straight-line method depending on the new term of the agreement.

The depreciation process for multiannual rights to exploit the performance of footballers must become enforceable the moment the asset is available for use and shall cease the moment the same is either transferred or classified as available for sale, pursuant to IFRS 5 (Non current assets held for sale and discontinued)²⁷.

For the proper detection of multiannual rights to exploit the performance of footballers, it is therefore necessary to define the time of enforceability of the transfer and the purchase of the right, and consequently the moment such right may be recognized as an asset in the balance sheet. Two hypotheses may thus be identified:

1. Transfer/purchase of the multiannual right to exploit the performance of a footballer between different football clubs in the same Football Association.
2. Transfer/purchase of the right to/from clubs registered with foreign associations.

In the first case the recognition in the financial statement of the financial effects of the agreement depends on the fact that in the financial year the financial statement refers to, such effects have taken place thanks to the issue of a declaration of enforceability (...). In lack of the execution of an agreement at the beginning of its enforceability, the time to recognize it in the financial statement is the registration with the competent Association, which has to be performed within a set deadline.

The timeframe taken as discriminating factor is the date of registration since, if the will of the parties is stated at execution (with the statement of agreement from the transferred footballer) it only through the registration that the agreement becomes enforceable.

The existence in a club of an executed agreement which has not been registered yet, is merely a source of obligations and rights that are not yet current, with

²⁵ According to the provisions of the F.I.F.A. (Federation International de Football Association) the worldwide football regulatory body, the maximum term for the agreement involving a professional footballer is five years. Any possible renewals may not exceed a term of five years, bearing in mind of the residual term of the agreement being renewed.

²⁶ Nevertheless the accounting standard provides that rarely is there evidence supporting lower accelerated depreciation method as opposed to the one resulting from the application of the straight-line method.

²⁷ UEFA's club licensing system manual sets out the rules to compute the depreciation of multiannual rights to exploit the performance of footballers. It states that the depreciation must be computed in a constant extent depending on the term of the agreements entered into with each and every professional footballer. The enforceability of the depreciation takes place when the footballer is registered in the club. The accounting of the depreciation must occur individually for every right.

the ensuing need to recognize it among the memorandum accounts.

The time of accounting in the financial statement is the date of execution of the agreement provided that it is granted the declaration of enforceability issued by Lega Nazionale Professionisti and that the very agreement provides that the date of enforceability coincides with the date of execution. In lack of such clause in the agreement at the beginning of its enforceability, this takes place at the date of registration of the agreement itself with the Association, retroactive to the date of the declaration of enforceability (...).

In the second instance “the moment in time of the accounting in the financial statement in case of transfer of an agreement to a foreign club is the date of registration of the same with the Association, provided that the agreement does not set out the clause of subsequent enforceability from that date.

Nevertheless, bearing in mind of the well-established practice according to which the effectiveness of such agreements depends on the issue of the international certificate of transfer from the National Association, the moment in time of the recognition in the financial statement is believed to be the date of issue of said certificate.

As long as it is set forth in the agreement, the parties may provide the enforceability to occur in a previous, though no earlier than the agreement date, or later time than the “transfer”²⁸.

An accounting issue, which is dealt with yearly by football clubs, is that relating to negotiations (purchase/transfer) with regard to the performance of footballers²⁹.

The football club that decides to transfer the performance of a footballer must, as provided in IFRS 5 (non current assets and discontinued operations), disclose such asset separately since, as it was already highlighted, it fulfils all features to be accounted among the intangible assets.

Such reclassification is possible given that multi-annual rights to exploit the performance of footballers are:

- Assets immediately available for sale in their current state;
- The Likelihood of transfer is high.

At the time of transfer of the intangible asset, the football club must account it in the income statement

in the earnings item for non current assets held for sale (after taxes).

The earnings are determined by the difference from the price of transfer of the multiannual rights to exploit the performance of footballers and its residual value.

In the balance sheet the club excludes the intangible asset referred to the transferred footballer and the relevant depreciation provision.

The additional disclosures that the sports club must provide at drafting of the financial statements with regard to intangible assets (hence also the multi-annual rights to exploit the performance of a footballer) may be traced back to the following categories (IAS 38 par. 118):

- a. Disclosure of the useful life, depreciation and reconciliation of the values;
- b. Disclosure on the impairment test;
- c. Changes in estimates;
- d. Other relevant disclosures.

The additional disclosures must be provided for each class of intangible assets. Hence, in the light of the accounting method, the multiannual rights to exploit the performance of footballers may be considered an asset class³⁰.

As to the disclosure of useful life, depreciation and reconciliation of values, the football club must specify:

1. The defined useful life, the duration of the same as well as the depreciation rates used;
2. The depreciation methods used;
3. The gross carrying amount and any accumulated depreciation (together with losses for accumulated impairments) at the beginning and at the end of the each year;
4. The line item in income statement that include the depreciation of the intangible assets.

In addition the club must provide a “reconciliation” of the carrying value at the beginning and at the end of the financial year, and highlight the following:

1. Increases during the period;
2. Assets classified as held for sale, hence the rights attributable to footballers about to be transferred, in compliance with IFRS 5;
3. Impairment losses recognized in profit and loss during the period;
4. Reversals of previous impairment losses;
5. The amount of amortization recognized during the period;
6. Other changes in the carrying amount during exercise.

In case the company resorted to depreciation in compliance with the provisions of the reference stand-

²⁸ F.I.G.C., Premessa - Raccomandazione contabile n. 1 – Diritti pluriennali alle prestazioni sportive dei calciatori, Roma

²⁹ Negotiations take place in specific periods, usually during the summer session (1 July to 31 August) and in the winter session (1 January to 31 January), also known as *calciomercato*

³⁰ Paragraph 119 of IAS 38 defines “asset class” as a group of assets of similar nature and use within the company’s operation.

ard, it should also provide the disclosures required by this International Accounting Standard (IAS 36).

Among the other relevant disclosures it is finally necessary to describe the content, carrying value and residual depreciation time for every intangible asset that holds any significance to the entity's financial statements.

4.2 - Multiannual rights to exploit the performance of footballers according to the domestic GAAP³¹

“The outstanding feature of intangible assets is the lack of any tangible component, hence the definition “intangible”. They are comprised of costs that do not deplete their use over one single period of time, but show their economic benefits over a timeframe encompassing more financial years³²”.

Fixed assets are those assets that have repeated utility in time, that is, they partake in the performance of the company's business over several administration years and affect the operating income by means of the cost related to their use, which is determined through the depreciation accounting method. Such accounting method must be systematic and the share of every single financial year must be directly related to the residual opportunity of use.

As it is clearly provided in the Accounting Recommendation n. 1 (multiannual rights to exploit the performance of Federazione Giuoco Calcio Italiana footballers) the rights to exploit the performance of a professional footballer are, to the company that acquires such right, an equity asset of multiannual nature, since they fulfil the abovementioned requirements.

Against the transfer of the agreement the transferee club has paid an agreed consideration to the transferor club; such price is directly related to the legal status that the transferee club obtains for the entire time the agreement is enforceable. Such right is an item bound to last more than one financial year and as such, it must be included among the intangible assets, in that it corresponds to the value of a vantage position bound to last in time.

The payable price must be recognized as a specific item among the intangible assets in the balance sheet, and may be assimilated to the transfer and equivalent rights. The value to be reported among the intangible assets corresponds to the amount of money paid by the transferee club to the transferor club, with

³¹ This paper considers the Italian national accounting standards

³² Principio contabile n. 24 predisposto dal Consiglio Nazionale dei Dottori Commercialisti e dal Consiglio Nazionale dei Ragionieri, modificato dall'OIC, Giuffrè Editore, Milano, 2005

the addition of the other directly attributable charges. Being the use of the rights limited in time, pursuant to Art. 2426 of the Italian Civil Code, it must be depreciated systematically at every financial year with regard to the residual possibility of use.

The financial year the depreciation starts at is the season of registration of the footballer with the club. The recommended depreciation method for the rights to exploit the performance of footballers is the straight-line method³³ for the entire term of the agreement³⁴. Depreciation must be carried out individually for every right. In case the right was not entirely depreciated the relevant depreciation plan may undergo changes following the renewal of the agreement between the club and the footballer. The value upon which depreciation should be computed is then the net carrying value of the right at the date of agreement renewal. The depreciation plan shall last as long as the agreement.

When the rights are sold the club, during the financial year of the transfer, must recognize the following accounting operations:

- Detection of the depreciation for the period of availability of the footballer's performance for the financial year;
- Crediting on the multiannual rights account of the carrying value for the transferred rights and the charge to the corresponding depreciation/accumulated depreciation provision, that is the part of depreciation relating to transferred rights;
- Crediting on the financial account (Lega C/transfers – for national transfers, - credit to foreign clubs for international transfers) of the price for the transferred rights;
- Accounting in profit and loss of the difference, if any, between the residual value and the agreed price, which stands for the undergone loss (capital loss) or the achieved earnings (capital gains)³⁵”.

The allocation of the proceeds or charges due after the transfer of the rights is accounted in profit and loss among the extraordinary proceeds and charges, since the “economic and technical subject (ordinary administration) of football clubs is comprised of forming, preparing and managing a football team, organiz-

³³ Dezzani F., “La Juventus”: una società che non ha utilizzato la legge salva-calcio, Impresa Commerciale Industriale, n. 10, Ipsa, Milano, 2003.

³⁴ The term of an agreement pursuant to Law n. 91 dated 23 March 1981, and the N.O.I.F. (norme organizzative interne della Federazione Italiana Giuoco Calcio) may not exceed a time of five years.

³⁵ F.I.G.C., Raccomandazione contabile n. 1 – Diritti pluriennali alle prestazioni sportive dei calciatori, Roma

ing tournaments, events and challenges in compliance with the rules and directives set forth by the F.I.G.C. The sale of rights to exploit the performance of footballers falls into the extraordinary administration operations³⁶, as provided by the Accounting Standard n. 12 “Structure and patterns of the financial statement”, issued by the Consiglio Nazionale dei Dottori Commercialisti and by the Consiglio Nazionale dei Ragionieri and amended by the OIC “capital gains and losses due to facts for which the source of the gains or loss is not dependent of ordinary administration” and as it was clarified by the Ministry Memorandum issued with Legislative Decree n. 127 dated 9 April 1991, “the adjective extraordinary, with regard to gains and losses, does not refer to the exceptional nature of the event but to the fact that the source of the gains or loss is dependent on ordinary administration.”

The notes must contain the following information:

- The method used to determine the value of the rights;
- The depreciation method adopted;
- The movements of the rights during the financial year, stating the subdivision of footballers by categories, Italian athletes, foreign athletes and footballers in minor teams, the total cost of rights, acquisitions, transfers from one entry to another, alienations carried out, accumulated depreciation and operating depreciation, accumulated and operating write-offs;
- The commitments entered into with other football clubs for the transfer and/or acquisition of rights, as well as any other commitments that may produce effects in the financial years to come, which should be recognized in the memorandum account;
- The amount of rights that are not yet being depreciated and those relating to football players who are momentarily not employed because of injuries and/or other reasons, together with the amounts of any possible depreciation caused.

4.3 – Impairment test on multiannual rights to exploit the performance of footballers

The International Accounting Standard 36 (Asset impairments) regulates the process used to determine the impairments on goodwill, of intangible assets, tangible assets, some financial assets and cash generating units (C.G.U. – Cash generating unit).

Such process is meant to prevent companies from recognizing assets at a higher value than the recovera-

ble amount in their consolidated, separate of individual financial statements.

The evaluation process provided by the accounting standard must be used to verify the impairments of:

- A single asset, when it generates autonomous financial flows (e.g. licensed brand);
- A unit that generates financial flows (or C.G.U. Cash Generating Unit), when the self-standing financial flows may be attributed to a number of assets.

In case one or more asset of a cash-generating unit are recognized at a higher carrying value than the recoverable amount, the accounting standard prescribes the obligation to recognize a loss due to impairments.

By “recoverable amount” (par. 6), the IAS designate the higher value of:

- The net fair value, that is the amount obtained by the club if it should transfer the asset, after any disposal costs;
- The value in use, determined as the current value of the financial flows expected for the future, computed according to the budgets and the plans put in place by the company, which are obtained with the continuous use of the asset.

According to the Accounting Standard 36 (par. 7) football clubs must resort to an “impairment test” in order to assess the presence of impairment in the following moments:

- Yearly (e.g.: at every financial statement date) for:
 - i. Intangible asset with undefined useful life;
 - ii. Intangible assets that are not yet available for use;
 - iii. Goodwill;
- in presence of indications of potential impairments of an asset (indications to be assessed at the date of their detection, also during the financial year, for instance, the multiannual rights to exploit the performance of footballers).

From what has been highlighted before, multiannual rights to exploit the performance of footballers are recognized in the financial statement as intangible assets and hence, every year, in order to perform the proper economic assessment of the investment made by the shareholders, it is also necessary to verify the existence of potential impairment of the rights themselves. The club must consider the information provided both from internal and external sources.

The conditions that may indicate impairments may be the following (par. 12):

- Internal sources of information;
- External sources of information.

The internal sources of information for the purpose of detecting any potential impairment for a football club may be the following:

³⁶ F.I.G.C., Raccomandazione contabile n. 1 – Diritti pluriennali alle prestazioni sportive dei calciatori, Roma.

- Injury suffered by the footballer;
- Resignation from professional activity;
- Early termination of the agreement.

The external sources of information may be detected as follows:

- Change in the reference framework (e.g. relegation to a lower category, sanctions due to football offences);
- Significant decrease in the market value of a footballer after sporting performances below the expectations.

In case of either external or internal information with regard to possible impairments on the multiannual rights to exploit the performance of footballers, the football club must proceed to testing the impairment. Such test is based on the comparison between the carrying value of the assets and the recoverable value of the same. The possible scenarios are the following:

- a. recoverable value > carrying value;
- b. recoverable value < carrying value.

In case the recoverable amount should exceed its carrying value, the asset must not be written down.

In the instance b), on the contrary, the carrying value is higher than the recoverable amount and the asset must be written down by detecting the impairment.

The first issue for the management of football teams is to assess whether cash-generating unit is made of:

- Individual footballers;
- Or the football team.

The importance of detecting the cash-generating units rests on two reasons, the first having to do with the economic extent of the football business, in that the more popular footballers can single-handedly increase the revenues from the sale of broadcasting rights, tickets and merchandising bearing the team's crest (suffices to mention the case of the transfer of footballer Cristiano Ronaldo from Manchester to Real Madrid; on the day of the official presentation 3.000 jersey bearing Ronaldo's number were sold) and the second regarding the agreements entered into by the club and the footballers that regulate the management and exploitation of the footballer's (such proceeds are unusually highlighted in the Notes, when the club presents the amount of the different types of revenues achieved during the financial year).

From what has been stated so far, it may be fair to say that the rights to multiannual performance of certain footballers may be regarded as assets capable of generating self-standing financial flows and as such must be subject to impairment tests as self-standing assets.

If the footballer in a football club should decide to quit the professional activity with an agreement still in force or should undergo a severe injury that would compromise the future of his career, that is, terminate the contract in agreement with the club, the latter shall

recognize in the income statement the amount depreciation equal to the residual carrying value, not yet depreciated, and the writing off of the value recognized in the balance sheet.

If the market value of a footballer should decrease dramatically as the result of poor performances, way below the expected level, or if a footballer should injure himself for which the recovery time is not easily and reliably foreseeable, the club should proceed to assessing the value in use by discounting the expected cash flows and if this should turn out to be lower than the residual carrying value, it should recognize a liability in the income statement and decrease the balance sheet value accordingly.

The most interesting case, though, arises from the difficulty of generating enough financial benefits in the future to cover for the outflows because of a change in the reference framework, such as (for teams) at the top of the table, the failure to qualify to the Champions League (according to the estimates the revenues of the UEFA, divided by the number of teams participating in the cup for the 2009/2010 season, amount to € 1,090,000,000³⁷) or the relegation to a minor league due to performance of football offences.

Following such changes the football team has fewer revenues, though if they want to retain the virtuous circle portrayed in Figure 1, they must accomplish sporting results, by forming or deploying a competitive line-up, which requires high recruitment costs.

From this analysis there ensues the possibility that the value in use of the cash-generating unit of the main team may have undergone a decrease in value and as a consequence the club should write down the liability due to the impairment of the asset and for the specific case being examined, it should also write down the multiannual rights to exploit the performance of footballers³⁸.

As a consequence, in order to properly evaluate the total value of multiannual rights to exploit the performance of footballers, the football team should resort to impairment tests both to single players and the

³⁷ Pagliara M., *Champions, roba da ricchi - Ora vale più di un miliardo*, *Gazzetta dello Sport*, 15 settembre 2009.

³⁸ UEFA's club licensing system manual prescribes that "multiannual rights to exploit the performance of footballers must be assessed every year ("test for impairment") and if the effective value of one or more of them should turn out to be lastingly lower than the value recognized in the financial statement, such lower value shall have to be reported and the writing down value recognized in the income statement" and it makes reference to the methods prescribed by the accounting standard used by football clubs for drafting their financial statements.

team as a whole, bearing in mind of the possibility that individual footballers may not lose value individually but as a team, for instance after poor sporting results, which again is a type of impairment.

The recoverable value is defined as: “the higher between fair value after costs and value in use of an asset”³⁹.

The fair value is the amount that may be obtained – after disposal costs – from the sale of an asset between two conscious and willing parties.

The value in use⁴⁰ is the current value of future financial flows that are expected to be achieved with the permanent use and the disposal of the asset at the end of the useful life. Fair value represents the market value (or “external” value), while the value in use is an “internal” value, in that it rests on the economic flows produced by employing the assets in the company’s production processes. According to a part of the doctrine, for the purpose of applying the impairment test to football teams, it should not be allowed to resort to fair value in determining the recoverable value. Such position finds particularly fertile grounds in the two assumptions below:

- The lack of homogeneity required by International Accounting Standards, in that multiannual rights to exploit the performance of footballers in their own nature are non-perfectly comparable assets⁴¹;

³⁹ The provisions of the accounting standard refer to the term “assets”, though they equally apply to a single asset as a cash-generating unit, or CGU.

⁴⁰ The accounting standard prescribes to consider the following elements in the value estimate for the use of an intangible asset:

- Estimate of the future cash flows the company expects from the asset;
- Expectations in terms of possible changes in the amount or at the time the cash flows expected in the future actually take shape;
- Discount rate excluding risks;
- The price in the light of the uncertainty regarding the benefits expected in the future for those specific assets;
- Other factors, such as liquidity.

⁴¹ For further details, please see Mancin M., *Il bilancio delle società sportive professionistiche. Normativa civilistica, principi contabili nazionali e internazionali (IAS/IFRS)*, Cedam, Padova, 2009, Frau A., *Prima adozione degli Ias-Ifrs nelle società di calcio quotate in borsa*, *Rivista Italiana di Ragioneria ed Economia Aziendale*, luglio – agosto 2007, Regoliosi C., *Gli effetti degli Ias/Ifrs sui bilanci delle società calcistiche quotate*, *Rivista dei Dottori Commercialisti*, n. 5, 2006, Tribunale di Napoli, Sezione VII, civile - Presidente De Rosa, *Relatore Salvato*, sentenza dell’8 giugno 1994, depositata il 10 giugno 1994, Rusconi g., *Il*

- The UEFA itself underlines how it would be impossible to single out an active market for the multiannual rights to exploit the performance of footballers.

According to the authors of this paper as defined in the Accounting Standards 36, the principle of “fair value after the costs of sale” is made applicable by means of the definition of a hierarchy of the sources used for its determination. Consequently, the computation methods for the fair value, for the purpose of the impairment test, are:

- The price resulting from a binding sale agreement;
- The price in an active market;
- The amount determined according to the best information available.

According to such definitions it is possible to determine the fair value of the rights to exploit the performance of a footballer in that in the reference market, that is the so-called transfer market or *calcio-mercato*, such value may be assessed based on the available information and the possible bids received by the team holding the rights to exploit the performance.

The value in use, then, is the current value of the financial flows expected for the future, which are assumed to be generated with the permanent use and by the disposal of the CGU at the end of its useful life. For the purpose of determining the value in use, the accounting standard 36, at paragraph 30, provides that the assessment of the CGU be performed through a financial method, while the following elements must be brought into consideration:

- The estimate of future cash flows generated by the CGU⁴²;

bilancio d’esercizio nell’economia delle società di calcio, Cacucci, Bari, 1990

⁴² Accounting standard 36 defines the method to determine the value in use in much detail, providing the following:

- The projections of the financial flows must rest on reasonable and sustainable assumptions such as to represent the best possible estimate carried out by the company management;
- The projections of the financial flows must rest on the most recent budgets/forecasts approved by the company management and cannot regard a longer period than five years;
- The projections of the financial flows that stretch beyond the period covered by the most recent budgets/forecasts must be estimated by extrapolating them from the budgets/forecasts, making sure to use a steady or decreasing growth rate for the following years.

- The estimate on the possible change or time distribution of the cash flows;
- The value of money over time, represented by the interest rate in the “risk-free” market;
- A risk bonus;
- Other factors (lack of liquidity risk, etc.).

In determining the financial flows to compute the value in use, the following elements must be held into careful consideration:

- The income flows generated by the transfer of assets or by the provision of CGU-related services;
- The flows of monetary costs relating to the production and sale of goods and services, including the costs which may be directly attributable or distributed according to a reasonable and consistent criterion⁴³;
- The flows of a possible disposal at the end of the useful life of the CGU.

The considered financial flows must be assessed at the current conditions; such flows must not include the inbound or outbound financial flows that may be generated by future restructuring for which the entity has not committed itself yet or by the improvement and optimization of the company’s performance. In addition, the flows relating to interest and tax should not be considered, either⁴⁴. With the introduction of the rules of International Accounting Standards this issue takes very interesting shades, namely, the assessment and recognition of any losses in the rights to exploit the performance of footballers as intangible assets.

The accounting standard provides the inclusion of the following types of information in the Notes to the financial statement:

- a. Information on value losses and, if any, recovery;
- b. Information on the estimates used to assess the recoverable amounts of the cash-generating units.

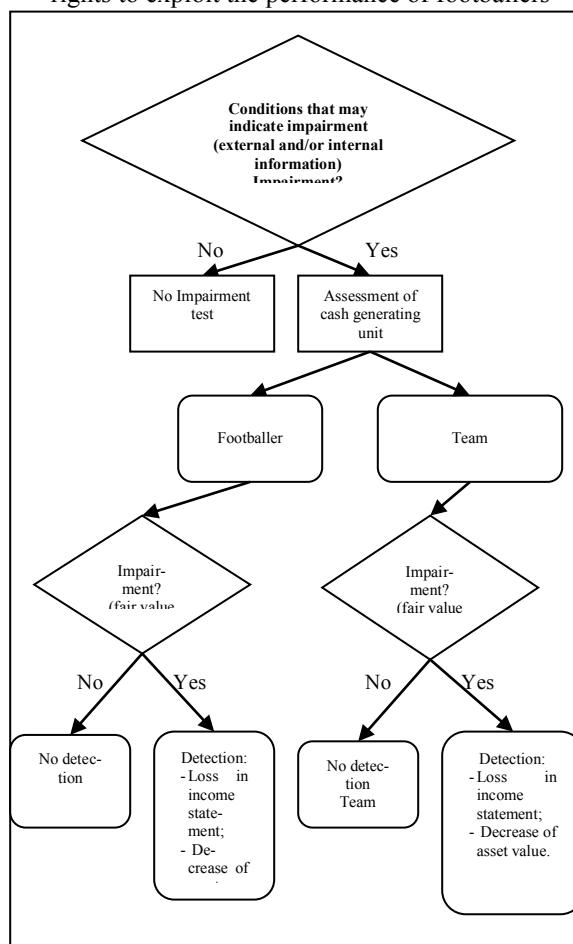
As regards the information of value losses and recovery in the Notes to the financial statement, the

⁴³ The estimate of future cash flows include outbound cash flows needed to keep a certain level of economic benefits which are expected to be generated from the asset in its current status. If a CGU should be comprised of assets with different estimated useful lives, all equally useful for the operation of the unit, the replacement of the shorter-living assets is deemed as part of the ordinary maintenance of the company.

⁴⁴ Flows regarding interests should not be held into account, since the performed assessment regards the determination of the recoverable value from an asset, without including how the asset is funded. As regards taxes, the standard provides for the flows to be expressed before tax, as well as the discounting rate.

football club must provide information (par. 126) relating to the amount of losses by impairment accounted in the income statement for the considered financial year and a remark on the entry (entries) in which the income statement for the losses (by impairment) are recognized⁴⁵;

Figure 4 – Impairment test process on multiannual rights to exploit the performance of footballers



For every specific asset or cash-generating unit (or CGU), the club must report any significant loss or impairment accounted or written off for the administration year, as well as the following information (par. 130):

- a. The facts and circumstances that led to the recognition or the detection of the impairment loss;
- b. The amount of the accounted or recognized impairment loss;
- c. The nature of the asset per single item;

⁴⁵ The IAS financial statement is not a rigid structure but, pursuant to the regulation of IAS 1, a minimum mandatory content with the possibility of defining, with regard to the income statement, intermediate results, provided they are significant.

- d. Per cash-generating unit (or CGU):
 - The description of the cash-generating unit;
 - The amount of impairment loss accounted or recognized per asset class;
- e. Whether the recoverable value of an asset (cash-generating unit) is the fair value after cost of sale or value in use;
- f. Whether the recoverable value is equivalent to the fair value after the cost of sale, the base used to quantify the fair value after the cost of sale;
- g. Whether the recoverable value is the value in use, the interest rate (rates) applied to perform discounting on financial flows for the current estimate and for the previous estimates, if any, of the value in use.

The company must provide the aggregate facts and main circumstances that led to the accounting of an impairment loss or value recovery for the same impairment loss as well as the non-significant value recovery for the financial year.

4.4 - Writing down of multiannual rights to exploit the performance of footballers

“For the purpose of detecting the correct value of the rights to exploit sports performances in the financial statement, every club must estimate its football player equity at current market value and compare this amount with the value in use of the same. If the higher of the above values should turn out to be lower than the net carrying value, there will be a recognition of impairment⁴⁶”.

The accounting standard n. 24 (intangible assets) prescribes that “over the useful life of an asset certain conditions of use of the very operation of the company may undergo relevant changes; as a consequence the residual possibility of use of the intangible assets must be subject to regular assessment in time.

If a lasting impairment of the conditions of future use should be recognized, it should be reported in the financial statement by means of writing down”.

In addition, with regard to possible impairments of the rights to exploit the performance of footballers, in its recommendation n. 1 the Federazione Italiana Giuoco Calcio maintains that “there can be a case in which, as the expiry of an agreement draws closer, a footballer may decide to quit the competitive profession. In such case the club, in compliance with the abovementioned general rule on the residual possibility of use, must recognize the whole non-depreciated

portion of the cost as asset depreciation for the financial year, given the lack of the ability of the footballer to generate future economic benefits.

If a footballer should, after a severe injury, be forced to give up the professional activity, the net carrying value of the right should be recognized accordingly in the income statement (writing down of the asset). In the light of such cost, the company accounts the recognized rights (proceeds) from the insurance compensation.

The determination of the residual value of the right to exploit the performance of a footballer must be held into account by football clubs not only for the instance described above, but also in case there could be uncertainty as to the likelihood of recovering of the right's value. As a matter of fact, the accounting standard 24 highlights that the norms provided in the Italian Civil Code regulate two sides about writing down:

- It should not be meant as a durably lower value, at the date of the financial statement, with regard to the purchase price after depreciation, the value regarding the market value, but chiefly the functional value, that holds the asset in the company for the very continuation of it. The right expression, then, should be value in use, that is, the value the club recovers with use. The recovery of such value is achieved through the depreciation process, hence it is fair to believe that an asset has undergone an impairment loss in case it is not capable of providing suitable coverage to the cost relating to future depreciations by producing revenue;
- The impairment loss of an asset must be durable; hence it must derive from a cause that makes it impossible, as mentioned before, for the asset to recover the depreciation-related cost. It should be highlighted, though, that such causes must be extraordinary and severe in nature.

In the Notes the company must provide the following information:

- Accumulated write downs and those recognized for the financial year;
- The reasons and amounts of the write down recognized for impairment losses;
- The relevant assumptions made for the purpose of determining the impairment, with reference to the contribution of the asset to the economic performance, its foreseeable useful life and, where applicable and as significant as it may be, the market value;
- An indication as to the differences from any other previous write downs;
- An indication as to the effects of the write down on the performance in the financial year before and after tax.

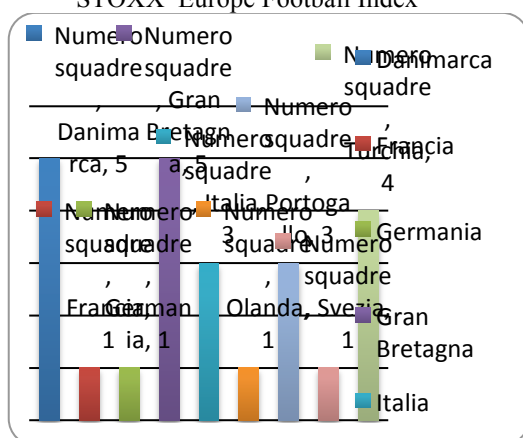
⁴⁶ Mancin M., *La svalutazione del patrimonio calciatori nel bilancio delle società di calcio professionistiche: effetti e distorsioni derivanti dall'applicazione delle norme contenute nel decreto "salva- calcio" n. 282/2002 convertito in legge, Impresa Commerciale Industriale*, n. 2, Ipsoa, Milano, 2003

5 – Multiannual rights to exploit the performance of professional footballers: an empirical analysis

The empirical analysis has considered the professional football clubs listed on the Stock Exchange, that are grouped in an index called "STOXX Europe Football Index"⁴⁷. This Index groups all the football clubs listed on the Stock Exchange markets in Europe or in Eastern Europe, in Turkey or in the Countries of enlarged European Union. This index represents in a careful way the reality of European football industry and we consider it representative of this reality because it groups all football clubs listed on Stock Exchange markets of the enlarged Europe. Actually listed clubs are twenty-four⁴⁸ divided among the different Countries member of the European Union.

In the Figure 5 we see the distribution of football clubs divided in countries and Stock Exchange quotation.

Figure 5 – Subdivision in different countries clubs of STOXX Europe Football Index



Source: own elaboration on Stoxx Europe Football index data

The sample⁴⁹ studied to analyse the application of rules fixed by the IAS 36 - Impairment of assets, is composed by twelve Clubs of a weight corresponding to 47,30%⁵⁰ of the football companies listed at the date of 30th July 2010. We have also analysed football companies participating in 2009/2010 Serie A⁵¹ and Serie B⁵² championship.

⁴⁹ The sample consists of only twelve of the twenty-four listed companies, because they are the only ones which have put at disposal the financial statement in the section of the investor relation on the companies web site or they have answered to our request by e mail post. The analysed companies are: .S. Roma (I), Borussia Dortmund (D), Celtic (UK), Futebol Clube do Porto (P), Juventus F.C. (I), Millwall Hldg (UK), Olympique Lyonnais (F), Preston North End (UK), S.S. Lazio (I), Sport Lisboa e Benfica (P), Tottenham Hotspur (UK), e Watford (UK).

⁵⁰ The weight of every single club is calculated as the relation between the capitalization of all listed clubs and the capitalization of single one. The total weight of the sample is determined as relation between the amount of the weight of every single club and the total weight of the index. On 30th July 2010 (elenco) have a total weight corresponding to 26,70% of the index.

⁵¹ The sample consists of 17 companies (Atalanta Bergamasca s.p.a., Associazione Sportiva Bari s.p.a., Bologna Football Club 1909 s.p.a., Cagliari Calcio s.p.a., Calcio Catania s.p.a., Associazione Calcio Chievo Verona s.r.l., ACF Fiorentina s.p.a., Genoa Cricket and Football Club s.p.a., Football Club Internazionale Milano s.p.a., Associazione Sportiva Livorno Calcio s.r.l., Associazione Calcio Milan s.p.a., Società Sportiva Calcio Napoli s.p.a., Unione Sportiva Città di Palermo s.p.a., Parma Football Club s.p.a., Unione Calcio Sampdoria s.p.a., Associazione Calcio Siena s.p.a., Udinese Calcio s.p.a.), even if the clubs present have been 20, because A.S. Roma s.p.a., Juventus F.C. s.p.a. e S.S. Lazio s.p.a. have been included in the sample of the listed clubs.

⁵² The analysed sample includes all the twenty-four clubs participating in the serie B championship (Unione Calcio AlbinoLefte s.r.l., Associazione Calcio Ancona s.p.a, Ascoli Calcio 1898 s.p.a., Brescia Calcio s.p.a., Associazione Calcio Cesena s.p.a., Associazione Sportiva Cittadella s.r.l., Football Club Crotone s.r.l., Empoli Football Club s.p.a., Frosinone Calcio s.r.l., Gallipoli Calcio s.r.l., Unione Sportiva Grosseto Football Club s.r.l., Unione Sportiva Lecce s.p.a., Associazione Calcio Mantova s.r.l., Modena Football Club s.p.a., Calcio Padova s.p.a., Piacenza Football Club s.p.a., Reggina Calcio s.p.a., Salernitana Calcio 1919 s.p.a., Unione Sportiva Sassuolo Calcio s.r.l., Torino Football Club s.p.a., Unione Sportiva Triestina Calcio s.p.a., Vicenza Calcio s.p.a.). At the present date is not at Camera di Commercio disposal the fi-

⁴⁷ The index has been created by STOXX Ltd, that belongs to Deutch Borse AG and Six Group AG-

⁴⁸ Listed football companies are: A.S. Roma (I), Aik Football (S), Aalborg Boldspilklub (DK), Afc Ajax (NL), Aarhus Elite (DK), Besiktas (TR), Borussia Dortmund (D), Brondby If B (DK), Celtic (UK), Fenerbahce Sportif Hizmet (TR), Futebol Clube do Porto (P), Galatasaray (TR), Juventus F.C. (I), Millwall Hldg (UK), Olympique Lyonnais (F), Parken Sport & Entertainment (DK), Preston North End (UK), S.S. Lazio (I), Silkeborg (DK), Sport Lisboa e Benfica (P), Sporting (P), Trabzonspor Sportif Yatir (TR), Tottenham Hotspur (UK), e Watford (UK)-

Figure 6 – Weight of Multiannual rights to exploit the performance of professional footballers on the total assets of the listed clubs

Company/Year	2007	2008	2009
Borussia Dortmund	4,33%	6,00%	8,46%
Celtic	14,89%	13,93%	14,16%
Futebol Club do Porto	28,95%	31,91%	31,54%
Juventus	20,47%	28,24%	27,35%
Lazio	16,21%	20,53%	76,83%
Millwall	0,21%	1,73%	2,32%
Olimpique Lyonnaise	18,44%	26,93%	23,98%
Preston	0,00%	15,04%	9,05%
A.S. Roma	33,36%	31,81%	41,29%
Sport Lisboa e Benfica	24,04%	44,72%	49,93%
Tottenham	38,54%	28,74%	44,07%
Media	19,27%	23,11%	28,46%

Source: own elaboration on financial statements data 2007, 2008, 2009

Figure 7 – Weight of multiannual rights to exploit the performance of professional footballers on the total assets of the serie A Clubs

Company/Year	2007	2008	2009
Atalanta Bergamasca s.p.a.	34,01%	35,19%	39,73%
Associazione Sportiva Bari s.p.a.	28,77%	34,13%	44,08%
Bologna Football Club 1909 s.p.a.	37,75%	50,61%	71,18%
Cagliari Calcio s.p.a.	14,90%	14,15%	14,39%
Calcio Catania s.p.a.	30,53%	46,10%	45,89%
Associazione Calcio Chievo Verona s.r.l.	24,93%	19,21%	24,96%
ACF Fiorentina s.p.a.	54,08%	59,48%	41,83%
Genoa Cricket and Football Club s.p.a.	43,13%	52,55%	49,64%
Football Club Internazionale Milano s.p.a.	25,91%	23,74%	36,49%
Associazione Sportiva Livorno Calcio s.r.l.	27,63%	48,37%	41,26%
Associazione Calcio Milan s.p.a.	31,54%	27,08%	24,84%
Società Sportiva Calcio Napoli s.p.a.	26,72%	52,19%	46,34%
Unione Sportiva Città di Palermo s.p.a.	47,66%	34,65%	45,17%
Parma Football Club s.p.a.	17,86%	34,65%	32,78%
Unione Calcio Sampdoria s.p.a.	30,80%	32,89%	39,30%
Associazione Calcio Sie-	13,28%	37,49%	44,43%

financial statement at 31st December 2010 of Padova Spa football club.

na s.p.a.			
Udinese Calcio s.p.a.	37,92%	40,12%	31,19%
Media	32,72%	34,64%	36,50%

Source: own elaboration on financial statements data 2007, 2008, 2009

The study has considered some financial statement items⁵³ to verify the conformity between a qualitative analysis of information surveyed on the documents of the financial statement and a quantitative one, to verify if the information are enough to represent the reality of football companies.

The first table (Figure 6) is to point out the weight of multiannual rights to exploit the performance of professional footballers in relation of the total asset of the financial statement.

Figure 8 – Weight of Multiannual rights to exploit the performance of professional footballers on the total assets of the serie B Clubs

Company/Year	2007	2008	2009
Unione Calcio Albino-Lefte s.r.l.	32,07%	20,76%	16,32%
Associazione Calcio Ancona s.p.a.	4,69%	3,54%	12,24%
Ascoli Calcio 1898 s.p.a.	9,92%	8,13%	4,95%
Brescia Calcio s.p.a.	10,28%	17,23%	12,53%
Associazione Calcio Cesena s.p.a.	29,03%	15,86%	17,29%
Associazione Sportiva Cittadella s.r.l.	2,39%	1,18%	2,13%
Football Club Crotone s.r.l.	9,05%	3,22%	1,41%
Empoli Football Club s.p.a.	30,41%	58,56%	46,28%
Frosinone Calcio s.r.l.	31,83%	21,86%	16,93%
Gallipoli Calcio s.r.l.	25,97%	34,58%	19,53%
Unione Sportiva Grosseto Football Club s.r.l.	30,20%	7,87%	5,38%
Unione Sportiva Lecce s.p.a.	23,31%	22,68%	26,97%
Associazione Calcio Mantova s.r.l.	49,47%	35,20%	36,14%
Modena Football Club s.p.a.	12,60%	9,83%	8,04%
Calcio Padova s.p.a.	11,05%	12,17%	-
Piacenza Football Club s.p.a.	30,05%	41,46%	26,82%
Reggina Calcio s.p.a.	12,62%	28,	20,08%

⁵³ The financial statement items examined are: multiannual rights to exploit the performance of professional footballers, balance sheet total assets, devaluation of multiannual rights to exploit the performance of professional footballers and profit/loss for the financial year.

		26%	
Salernitana Calcio 1919 s.p.a.	0,00%	8,85%	6,72%
Unione Sportiva Sassuolo Calcio s.r.l.	0,00%	31,49%	37,49%
Torino Football Club s.p.a.	43,94%	53,70%	48,85%
Unione Sportiva Triestina Calcio s.p.a.	32,24%	31,22%	29,06%
Vicenza Calcio s.p.a.	29,73%	32,79%	28,48%
Media	20,95%	22,75%	20,17%

Source: own elaboration on financial statements data 2007,2008,2009

Figure 9 – Weight of depreciation of multiannual rights to exploit the performance of professional footballers on the profit/loss for financial year of the listed clubs

Company/Year	2007	2008	2009
Borussia	0,06%	0,00%	0,00%
Celtic	3,54%	0,48%	1,10%
Futebol Club do Porto	6,32%	2,10%	2,48%
Juventus	0,23%	3,39%	0,00%
Lazio	0,00%	0,00%	0,00%
Millwall	0,00%	0,00%	0,00%
Olympic Lione	0,00%	0,24%	0,58%
Preston	0,00%	4,14%	0,00%
Roma	0,00%	0,00%	0,00%
Sport Lisboa e Benfica	0,00%	2,07%	2,66%
Tottenham	0,00%	0,00%	0,00%
Watford	0,00%	6,42%	0,14%
Media	0,85%	1,57%	0,58%

Source: own elaboration on financial statements data 2007, 2008, 2009

Figure 10 – Weight of depreciation of multiannual rights to exploit the performance of professional footballers on the profit/loss for financial year of serie A Clubs

Company/Year	2007	2008	2009
Atalanta Bergamasca S.p.a.	0,00%	30,06%	5,36%
Associazione Sportiva Bari s.p.a.	0,00%	0,18%	0,00%
Bologna Football Club 1909 s.p.a.	3,97%	1,94%	1,29%
Cagliari Calcio s.p.a.	0,00%	0,00%	0,00%
Calcio Catania s.p.a.	0,00%	0,00%	0,00%
Associazione Calcio Chievo	0,00%	0,00%	0,00%

Verona s.r.l.			
ACF Fiorentina s.p.a.	8,68%	0,00%	30,06%
Genoa Cricket and Football Club s.p.a.	0,00%	0,00%	0,00%
Football Club Internazionale Milano s.p.a.	0,00%	0,00%	0,00%
Associazione Sportiva Livorno Calcio s.r.l.	0,00%	0,00%	0,00%
Associazione Calcio Milan s.p.a.	3,15%	3,86%	16,35%
Società Sportiva Calcio Napoli s.p.a.	0,00%	0,00%	0,00%
Unione Sportiva Città di Palermo s.p.a.	0,00%	0,00%	0,00%
Parma Football Club s.p.a.	0,00%	-9,76%	0,00%
Unione Calcio Sampdoria s.p.a.	0,00%	1,66%	0,00%
Associazione Calcio Siena s.p.a.	13,93%	0,00%	0,00%
Udinese Calcio s.p.a.	0,00%	0,00%	0,00%
Media	1,03%	1,64%	1,92%

Source: own elaboration on financial statements data 2007, 2008, 2009

From the linked analysis of financial statement data with the total amount of assets we notice this intangible item.

We have to point out that in the financial statements where the weight of multiannual rights to exploit the performance of professional footballers seems a lower percentage value, in absolute is usually considerable value.

This situation springs from the presence of other important items as the value of technological-based tangibles assets as the stadium) and footballers who stay for a long time in the same Club (as Borussia Dortmund that has amortized multiannual rights to exploit the performance of professional footballers for about the 65% of their value).

Figure 11 – Weight of depreciation of multiannual rights to exploit the performance of professional footballers on the profit/loss for financial year of serie B Clubs

Company/Year	2007	2008	2009
Unione Calcio AlbinoLeffe s.r.l.	3,29%	0,00%	23,66%
Associazione Calcio Ancona s.p.a.	0,00%	0,00%	0,00%
Ascoli Calcio 1898 s.p.a.	0,00%	0,00%	0,00%
Brescia Calcio s.p.a.	0,00%	0,00%	0,00%
Associazione Calcio Cesena s.p.a.	0,00%	0,00%	0,00%
Associazione Sportiva Cittadella s.r.l.	0,00%	0,00%	0,00%
Football Club Crotone s.r.l.	0,00%	0,00%	0,00%
Empoli Football Club s.p.a.	0,00%	0,00%	0,00%

Frosinone Calcio s.r.l.	0,00%	0,00%	0,00%
Gallipoli Calcio s.r.l.	0,00%	0,00%	0,00%
Unione Sportiva Grosseto Football Club s.r.l.	0,00%	0,00%	0,00%
Unione Sportiva Lecce s.p.a.	4,74%	26,13%	119,58 %
Associazione Calcio Mantova s.r.l.	0,00%	0,00%	0,00%
Modena Football Club s.p.a.	0,00%	0,00%	0,00%
Calcio Padova s.p.a.	0,00%	0,00%	-
Piacenza Football Club s.p.a.	0,00%	0,00%	0,00%
Reggina Calcio s.p.a.	0,00%	38,43%	53,85%
Salernitana Calcio 1919 s.p.a.	0,00%	0,00%	0,00%
Unione Sportiva Sassuolo Calcio s.r.l.	0,00%	0,00%	0,00%
Media	5,59%	1,59%	10,22%

Source: own elaboration on financial statements data 2007, 2008, 2009

Three tables above analyse the weight of devaluation on the profit/loss for financial year.

From the analysis of the obtained data we understand that the weight of the depreciation it usually has a low impact on the loss/profit financial year and from the reading of financial statements we notice that Clubs effect only the depreciation of multiannual rights to exploit the performance of professional footballers referring to single footballer, and in the specific survey of cases above specified:

- footballer heavy accident;
- rescission of a contract;
- charge of depreciation at the date of reference of financial statemet after the footballer transfer effected in the technical period of drafting of the financial statement.

From the analysis of the financial statements of listed football Clubs we note:

- the method of individualization of cash generating unit has not made explicit and it is usually identified with the footballer;
- the calculating method of recoverable value has not supplied.
- from the study of football Clubs financial statement we point out the following critical aspect:
 - the obtained consideration have not been explicated in order to determine the reduction in value.

6 - Conclusions

The estimated analysis has already to point out some heavy criticisms relative to economic-financial communication produced to football companies. As usually shared, the financial statement gives useful information to take economic decisions about investments, but IAS/IFRS accounting standards do not always per-

fectly adapt to all the typologies of companies with specific business models as in football sector. In fact the reading of financials statement shows that the information of this considered sector are not always clearly explained.

Another criticisable element is the dishomogeneity of book rules for football companies. There emerges four levels of sources of the rules to draft a financial statement; if it is a listed or not listed company and if they take part in international competitions or only in national ones. The first source to draft the financial statement is the community regulations relative to IAS/IFRS accounting standards, the second one linked to the national laws, the third one the rules fixed by UEFA, in “Manuale delle licenze UEFA” and the fourth one the regulations and accounting recommendations of the national football leagues.

Several accounting rules involve the application of different evaluation standards of the same financial statement items and consequently a different determination in economic results. Less pressing standards or less strict applications allow a larger freedom to companies about financial statement policy which as always explained involve an impact on the profit/loss financial year with repercussions on the financial situation and on the company patrimonial solidity. In this way football companies have a larger freedom to realize operations for obtaining multiannual rights to exploit the performance of professional footballers. So football companies can, as analysed in Chapter 2, continue to obtain sports and economical results. Financial resources at disposal allow the establishment of competitive teams which can meet with sports success, that allow to get most important profits, exploiting larger business opportunities. This one can not be a positive circle as financial statements formally allow to provide a better economic-financial and patrimonial situation but it does not represent the real and truthful one.

There needs a tendency to the homogeneity of accounting rules to apply to football companies and a praxis to their strict application. These needs can be get by applying of IAS/IFRS international accounting standards (actually used only by listed companies).

This estimate for Serie A and B Clubs that adopt the domestic gaap, allows a better comprehension of information present in these companies financial statement, particularly it allows a correct evaluation of the item called multiannual rights to exploit the performance of professional footballers. As outlined above football companies would be obliged to check every year the impairment not only for the single right but for the total amount of all the rights. Therefore football companies should check the value of the cash generating unit, identified with the team. Form the effected empirical analysis we see that this method is not applied by any company analysed in this work.

In order to give to users of the financial statements a correct interpretation of all economic/financial information, football companies should give the following indications to integrate the notes present in the financial statements with regard to the multiannual rights to exploit the performance of professional footballers:

- a. the events and circumstances that led to the recognition of an impairment loss;
- b. for the cash generating unit (or CGU):
 - the description of cash-generating-unit;
 - the amount of the impairment loss recognised.
- c. if recoverable amount of the asset (cash-generating-unit) is its fair value less costs to sell or its value in use;
- d. if recoverable amount is based on fair value less costs to sell, the basis used to determine fair value less costs to sell;
- e. if recoverable amount is value in use, the discount rate(s) used in the current estimate of value in use.

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