Appendix

The issue

General fact pattern

Football clubs (“club”) regularly transfer a player from one club (“releasing club”) to another club (“receiving club”).

For this reason the two clubs enter into a transfer contract. The transfer contract and hence the receiving club’s right to receive cash is typically conditional upon the following conditions:

a) The releasing club must release the employment contract with the player with effect of a specific point in time. A specific characteristic of the employment contracts between a club and a player is that they are temporary and that they cannot be terminated by one party. Hence, a player can be transferred only by a mutual agreement between the club and the player.
b) The receiving club must enter into a new employment contract with the player with effect no earlier than the effect of the release.
c) The player must pass a medical check.
d) The receiving club must register the player in an electronic transfer system and upload the aforementioned documents.
e) The player’s registration certificate is issued by the national football league to the receiving club.

After all conditions are met the releasing club’s registration for that football player (“right”) collapses and a new registration for that football player is granted by the corresponding national football Association to the receiving club: the player can from now on participate in the club’s matches and competitions. It is important to emphasis that the “right” is – from a legal perspective – *not* transferable from one club to another. Not only from a pure legal perspective but also taking economic considerations into account the highest fiscal court in [our jurisdiction], that the existing right with the releasing club collapses, that a new right emerges with the receiving club and accordingly, that the transfer payment from the receiving club is not paid for the transfer of the right, but is paid for getting the possibility to enter inter a new contract with the player.

The receiving club recognises costs to receive the registration right as intangible asset under IAS 38 (EY, international GAAP 2019, Chapter 17, Example 17.4; KPMG Insights into IFRS, 3.3.60.40.) While the issuance of the registration right by the corresponding national football association itself is for free, there are significant directly attributable costs, such as payments to the releasing club (“transfer payments”) and payments to the player’s agent, see IAS 38.27(b) in connection with IAS 38.28. Subsequently, the rights are amortised over their useful lives (duration of the player’s employment contract).

Company-specific fact pattern

The specific characteristic of our business model […] is not to incur finance liabilities. As such it is an integral part of our business model to regularly transfer players in order to finance our business needs (in particular employee costs and costs for further investments). For us, income from transfer deals are equally seen and managed as income from other source of income, such as income from match operations, merchandising, advertising or from TV market. Hence, transfer deals are part of our ordinary activities.

In the market we are known as a club that is predominantly hiring young high potential players for comparable little money. Our intention is to “use” players within the team, develop them and

potentially transfer them after a while for a significantly increased amount to another top tier club. When young talented players join our club they can more or less expect to come into action on the field which is a condition to developing better skills. Of course, at the beginning of that joint journey is it all but clear whether a player will prolong the employment contract with our club, whether he will develop successfully, whether he will be released before the scheduled end of the service contract, and if so, for more or for less of the originally paid transfer amount.

[…]As opposed to our strategy other top tier clubs, for example, are known for hiring more mature players. The development of those players and subsequent transfer is not the predominant intention of those clubs. Rather, they need strengtheners for their teams straight away. Players with those clubs bear a comparable greater risk to be a benchwarmer than with our club.

Insofar we follow a "dual use" strategy with our players.

As a result of the aforementioned fact pattern we present receiving transfer payments as revenues and present the derecognition of the carrying amount of the rights as other expenses.

The question

The question arises as to whether presentation of the gross transfer payments as revenue is acceptable in the light of the specific business model of our club.

Current practice

We have observed diversity in practice regarding the treatment of the transfer payments in the IFRS financial statements of the releasing clubs. There are eleven listed football clubs in the EU applying IFRS and the following accounting policies have been observed:

Policy		Number of clubs
A	Presenting the transfer payments gross in revenue and presenting the derecognition of the carrying amounts in other expenses.	2
B	Presenting the net gain/loss of transfer payments less carrying amounts in revenue.	2
C	Presenting the net gain/loss of transfer payments less carrying amounts in other expenses/other income.	7

Proponents of **policy A** are of the view that transfer payments are not "disposal proceeds". Instead, they are income that meet the definition of revenue under IAS 18.7 and IFRS 15, since it is income from the ordinary activities of the company. Classification as revenue is not in conflict with IAS 38.112-113, because IAS 38.112(b) requires "disposal proceeds" to be netted against the carrying amount of the rights disposed of. Since the rights are not disposed of but instead elapse the transfer payments are not regarded as a consideration for a sale of a *good*. Rather, they are regarded as consideration for a *service* that is provided by the releasing club to the receiving club. The service is embodied in waiving the right to "use" the player for the benefit of the receiving club. We note that the term "disposal proceed" is not defined in IFRS.

Even if one would argue that IAS 38.112(a) is applicable and that transfer payments are disposal proceeds, then there is another argument that justifies a presentation as revenue. The rational of the IASB to prohibit presenting income from disposal proceeds under IAS 38 as revenue is given in IAS 16.BC35: *"Although the Board concluded that an entity should apply the recognition principle for revenue from sales of goods to its recognition of gains on disposals of items of property, plant and equipment, the Board concluded that the respective approaches to income statement display should differ. The Board concluded that users of financial statements would consider these gains and the proceeds from an entity's sale of goods in the course of its ordinary activities differently in their evaluation of an entity's past results and their projections of future cash flows. This is because revenue from the sale of goods is typically more likely to recur in comparable amounts than are gains from sales of items of property, plant and equipment. Accordingly, the Board concluded that an entity should not classify as revenue gains on disposals of items of property, plant and equipment."*

That is, the IASB supposed that income from disposals of non-current assets is less likely to recur in comparable amounts and hence, a presentation as revenue would not be a useful information for the users. We believe that – particularly in the context of a business model as described above – income from transfer payments occurs "regularly" and therefore meets the definition of revenue, which should not be trumped by IAS 38.113. Under this view, IAS 38.112(a) is only applicable for "irregular" disposals.

We further believe that the assessment of being "regular activities" must not only be claimed but it must be evidenced. Evidence can be provided by those criteria that were elaborated in "Agenda Paper 12B" by the IFRIC Staff in June 2007 in the context of developing guidance for the Annual Improvements Project, that resulted in the insertion of IAS 16.68A, issued in May 2008. In that paper, the staff concluded the following:

„Under view 1A, the Board may also consider that, in addition to rental and sale of rental assets being ordinary activities of the entity, further conditions should be met to present revenue gross, for instance:

- *The business model of the entity relies on leasing and selling the assets,*
- *A structure is in place to facilitate these sales, and*
- *An active market exists for the second-hand assets."*

IAS 16.68A resolves the conflict of classifying income from the sale of certain non-current assets as either gross revenue or as a net gain/loss states only with regards to one specific industry: the lease industry. However, we note that the limitation to that industry was not for conceptual reasons, but that industry was identified as the only industry that is concerned "geographically widespread", see paragraph 3 of the agenda paper.

We can confirm that in our case all of the three criteria are met and hence, transfers are not only claimed to be regular, but it is evidenced that they form a regular part of the ordinary activities. Therefor we believe that presenting transfer payments as gross revenue is not in conflict with IFRS requirements.

Proponents of **policy B** obviously also believe that presentation as revenue is not prohibited by IFRS.

Proponents of **policy C** are obviously of the view that the release of the service contract, that results in the collapse of the intangible asset, is a "disposal" in the terms of IAS 38.112(a), hence the consideration is a "disposal proceed" in accordance with IAS 38.113 and accordingly, the income must be presented net in other income and must not be presented as revenue.

Reasons for the interpretations Committee to address the issue:

The issue is not geographically widespread, but the football "industry" in Europe is of high public interest. The matter significantly effects key performance indicators such as revenue. We believe that financial reporting would be improved if the diversity in practice would be reduced because the financial statements would be more comparable. The issue is very narrow in scope and can be resolved by a statement of the IFRIC that presentation of revenue is appropriate and not in conflict with IAS 38.113 under certain conditions, i.e. depending on facts and circumstances.