

Player Transfer Payments (IAS 38 *Intangible Assets*)—June 2020

The Committee received a request about the recognition of player transfer payments received. In the fact pattern described in the request:

- a. a football club (entity) transfers a player to another club (receiving club). When the entity recruited the player, the entity registered the player in an electronic transfer system. Registration means the player is prohibited from playing for another club, and requires the registering club to have an employment contract with the player that prevents the player from leaving the club without mutual agreement. Together the employment contract and registration in the electronic transfer system are referred to as a 'registration right'.
- b. the entity had recognised costs incurred to obtain the registration right as an intangible asset applying IAS 38. As part of its ordinary activities, the entity uses and develops the player through participation in matches, and then potentially transfers the player to another club.
- c. the entity and the receiving club enter into a transfer agreement under which the entity receives a transfer payment from the receiving club. The transfer payment compensates the entity for releasing the player from the employment contract before the contract ends. The registration in the electronic transfer system is not transferred to the receiving club but, legally, is extinguished when the receiving club registers the player and obtains a new right.
- d. the entity derecognises its intangible asset upon the receiving club registering the player in the electronic transfer system.

The request asked whether the entity recognises the transfer payment received as revenue applying IFRS 15 *Revenue from Contracts with Customers* or, instead, recognises the gain or loss arising from the derecognition of the intangible asset in profit or loss applying IAS 38.

Recognition of transfer payment received

In the fact pattern described in the request, the entity recognised the registration right as an intangible asset applying IAS 38. Accordingly, the entity applies the derecognition requirements in IAS 38 on derecognition of that right.

Paragraph 113 of IAS 38 states that 'the gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognised ... Gains shall not be classified as revenue'. Applying that paragraph, the entity recognises in profit or loss, but not as revenue, the difference between the net disposal proceeds and the carrying amount of the registration right.

Does the transfer payment represent disposal proceeds?

The transfer payment arises from the transfer agreement, which requires the entity to release the player from the employment contract. The entity is therefore required to undertake some action for the right to be extinguished. Accordingly, the transfer payment compensates the entity for its action in disposing of the registration right and, thus, is part of the net disposal proceeds described in paragraph 113 of IAS 38.

The Committee concluded that, in the fact pattern described in the request, the entity recognises the transfer payment received as part of the gain or loss arising from the derecognition of the registration right applying paragraph 113 of IAS 38. In the fact pattern described in the request (in which the entity recognises the registration right as an intangible asset), the entity does not recognise the transfer payment received, or any gain arising, as revenue applying IFRS 15.

Statement of cash flows

IAS 7 *Statement of Cash Flows* lists cash receipts from sales of intangibles as an example of cash flows arising from investing activities. Accordingly, in the fact pattern described in the request, the entity presents cash receipts from transfer payments as part of investing activities.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for the entity to determine the recognition of player transfer payments received. Consequently, the Committee decided not to add the matter to its standard-setting agenda.