



## STAFF PAPER

November 2019

## IFRS® Interpretations Committee meeting

| Project     | Presentation of Player Transfer Payments (IFRS 15 and IAS 38) |  |                     |
|-------------|---|--|---------------------|
| Paper topic | Initial Consideration   |  |                     |
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## Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about the presentation of player transfer payments received by a football club. Specifically, the submitter asks whether a football club transferring a player to another club recognises the transfer payment received as revenue applying IFRS 15 *Revenue from Contracts with Customers*, or instead recognises the gain or loss in profit or loss applying IAS 38 *Intangible Assets*.
2. The objective of this paper is to:
  - (a) provide the Committee with a summary of the matter;
  - (b) present our research and analysis; and
  - (c) ask the Committee whether it agrees with our recommendation not to add the matter to its standard-setting agenda.

## Structure of the paper

3. This paper includes the following:
  - (a) background information (paragraphs 5–6);
  - (b) outreach (paragraphs 7–17);

- (c) staff analysis (paragraphs 18–64); and
  - (d) staff recommendation (paragraphs 65–66).
4. There are two appendices to this paper:
- (a) Appendix A—proposed wording of the tentative agenda decision; and
  - (b) Appendix B—submission.

## Background information

5. The submission outlines the following fact pattern:
- (a) A football club (Selling Club) transfers a player to another club (Buying Club). The two clubs enter into a transfer agreement under which Selling Club receives a transfer payment from Buying Club.
  - (b) The player is registered in an electronic transfer system managed by a third party. Registration means that the player is unable to play for another football club. Registration in the system requires the registering club to have an employment contract with the player that prevents the player from leaving the club without mutual agreement. The employment contract and registration in the electronic transfer system are together referred to as a ‘registration right’.
  - (c) Selling Club had previously recognised any transfer payment made to obtain the registration right as an intangible asset applying IAS 38. Selling Club uses the player within its team, to develop the player and then potentially transfer the player to another club. Selling Club views the development and transfer of players to be part of its ordinary activities.
  - (d) Buying Club pays Selling Club to release the player from the employment contract between Selling Club and the player. The right in the electronic transfer system is not transferred from Selling Club to Buying Club but, legally, is extinguished when Buying Club registers the player and obtains a new right.

- (e) Selling Club derecognises its intangible asset upon Buying Club registering the player in the electronic transfer system.
6. The submitter asks whether, in the fact pattern described in the submission, Selling Club recognises the transfer payment received as revenue applying IFRS 15 (and the carrying amount of the intangible asset as an expense), or instead recognises the gain or loss arising from derecognition of the intangible asset in profit or loss applying IAS 38.

### **Outreach**

7. We sent an information request to members of the International Forum of Accounting Standard-Setters, securities regulators and large accounting firms. The submission was also made available on our website.
8. The request asked those participating to provide information based on their experience about:
- (a) the prevalence of the fact pattern, including the existence of similar fact patterns in other sports or similar intangible assets;
  - (b) whether entities typically apply IFRS 15 or IAS 38 to account for transfer payments received; and
  - (c) whether entities typically apply IAS 2 *Inventories* or IAS 38 to account for costs incurred to obtain a player.
9. We received fifteen responses—five from large accounting firms, eight from national standard-setters and two from organisations representing groups of securities regulators. The views received represent informal opinions, rather than formal views of those responding.

### **Prevalence**

10. Some respondents say the fact pattern described in the submission (or similar fact patterns) is common in football clubs in Europe—for example, France, Germany,

Italy and the UK. Two respondents note that another sport in Europe has the same system as that of football.

11. Developing and transferring players is common for football clubs. Respondents say clubs often consider that activity to be part of their ordinary activities. However, some are also aware of clubs that consider developing and transferring players to be outside their ordinary activities.
12. Other respondents say the fact pattern described in the submission is not common in Australia, Canada, Hong Kong, Japan and Malaysia.
13. One respondent says it is aware of a similar question in the biotech industry—it notes one entity that recognised revenue, rather than a gain or loss, for the sale of a development project accounted for applying IAS 38.
14. Another respondent says the question could arise in the media and entertainment industry if an entity owns film broadcasting rights, uses those rights to generate income and, subsequently, sells the rights.

### ***Accounting treatment applied***

15. Thirteen respondents provide information about the accounting treatment applied. All say entities apply IAS 38 to account for costs incurred to obtain players; they do not account for such costs as inventories.
16. Six respondents report differences in the accounting for transfer payments received. They say entities present:
  - (a) the gain or loss outside revenue applying paragraph 113 of IAS 38—because the entity applies IAS 38 in recognising the registration right as an intangible asset;
  - (b) the gain or loss within revenue; or
  - (c) the gross amount received as revenue applying IFRS 15—because the entity considers developing and transferring players to be part of its ordinary activities.

17. Four respondents note the link between classification in the income statement and cash flow statement. Two respondents note differences between entities in how they present transfer payments received in the cash flow statement—some entities present those payments received as part of operating activities whereas others include payments received as part of investing activities. Those respondents say they are unaware of differences in how entities present transfer payments made to bring players to the club—almost all entities report those cash flows as investing cash flows.

### **Staff analysis**

18. The question asked is about how to account for transfer payments received. However, in our view the accounting for such transfer payments is influenced by how the football club accounts for cost incurred in bringing players to the club. In the following paragraphs, we therefore first discuss how to account for those costs before then discussing the accounting for transfer payments received.

### ***On employing and registering a player, does the club have an intangible asset?***

19. Paragraph 8 of IAS 38 defines an intangible asset as:
- ...an identifiable non-monetary asset without physical substance.
20. It also defines an asset as:
- ...a resource:
- (a) controlled by an entity as a result of past events; and
  - (b) from which future economic benefits are expected to flow to the entity.
21. In our view, the registration right is an intangible asset for the registering club because the right is:
- (a) not physical;

- (b) identifiable (paragraphs 24–25);
  - (c) non-monetary (paragraphs 26–27);
  - (d) controlled by the registering club as a result of past events (paragraphs 28–31); and
  - (e) expected to generate future economic benefits that flow to the club (paragraphs 32–33).
22. Paragraph 2 of IAS 38 states that IAS 38 applies in accounting for all intangible assets, except those that are within the scope of another Standard. Paragraph 3(a) of IAS 38 lists intangible assets held by an entity for sale in the ordinary course of business as an example of an asset within the scope of another Standard.
23. Accordingly, a club would account for the registration right applying IAS 38, unless the right is within the scope of another Standard. We consider whether the registration right could be inventory in paragraphs 42–57 of this paper.

#### *Identifiable*

24. Paragraph 12 of IAS 38 states:
- An asset is identifiable if it either:
- (a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
  - (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
25. As noted in paragraph 5(d) of this paper, the registration right is not transferred to Buying Club through the transfer agreement. Instead, the registration right previously recognised by Selling Club is extinguished when a player transfers to a new club. Nonetheless, the registration right arises as a result of registering the player and having an employment contract in place between the club and the player.

Accordingly, the registration right is identifiable—it arises from contractual or legal rights.

*Non-monetary*

26. Paragraph 16 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* states that ‘the essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency... Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency’.
27. The registration right is a right to exclusively use the player to play for the registering club. It does not provide the club with a right to receive a fixed or determinable number of units of currency.

*Controlled as a result of a past event*

28. Paragraph 13 of IAS 38 states:

An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. ...

29. Paragraph 15 of IAS 38 notes that:

...an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition.

30. In the fact pattern described in the submission, the registered player can play only for the registering club. The registering club must also have an employment contract with the player that prevents the player from leaving the club without the club's agreement.
31. Accordingly, the registration right enables the club to obtain any economic benefits arising from the player's performance in football matches, or from transfer of that player to another club (see paragraphs 32–33). The right also enables the registering club to restrict another club's access to the economic benefits arising from the player's performance. Because the player cannot terminate the employment contract without the club's agreement, the club has the power to obtain those benefits and restrict others' access to those benefits until the earlier of the end of the contract or its agreement to terminate the employment contract. Therefore, the registering club controls the registration right.

#### *Existence of future economic benefits*

32. Paragraph 17 of IAS 38 states:
- The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues.
33. The registration right enables the registering club to exclusively use the player. The player may not increase the club's revenue directly, but playing in matches assists the club in generating revenue from ticket sales, competition prize money, television rights and sponsorship contracts. Moreover, the club may receive a transfer payment from another club who wishes to register the player before the end of the employment contract.

#### ***Presentation of transfer payment received***

34. If Selling Club recognises the registration right as an intangible asset applying IAS 38, in our view the club applies the derecognition requirements in IAS 38 to



account for the transfer payment received. Paragraphs 112–117 of IAS 38 contain requirements for the derecognition of intangible assets.

35. Paragraph 113 of IAS 38 states:

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 (unless IFRS 16 requires otherwise on a sale and leaseback.) Gains shall not be classified as revenue.

36. Applying IAS 38, Selling Club recognises in profit or loss the difference between the disposal proceeds and the carrying amount of the registration right. That paragraph explicitly specifies that the selling club does not classify any gain from the disposal as revenue.

*Does the transfer of a player result in the disposal of the registration right?*

37. The submitter suggests that the transfer payment received might not be considered proceeds from the disposal of the registration right because the registration right is non-transferrable; therefore Selling Club does not ‘dispose of’ or ‘sell’ its registration right on transfer of a player to Buying Club. Instead, the right held by Selling Club is simply extinguished (or elapses) when the player is registered by Buying Club; Selling Club receives the transfer payment for the *service* of waiving its right to use the player for the remainder of the employment contract. On this basis, Selling Club would recognise revenue for the transfer of that service to Buying Club.
38. We disagree with this assessment in the context of applying paragraphs 112–117 of IAS 38. In the fact pattern described in the submission, Selling Club does not receive the transfer payment unless it enters into a transfer agreement with Buying Club. This transfer agreement requires Selling Club to release the player from the employment contract and, consequently, extinguish the registration. In other words, Selling Club is required to undertake some action for its right to be extinguished—the right does not just expire or dissipate.

39. Paragraph 114 of IAS 38 states that ‘the disposal of an intangible asset may occur in a variety of ways (eg by sale, by entering into a finance lease, or by donation)’, which suggests that disposal has a wider meaning than only a sale. In our view, the action taken by Selling Club to cause the registration to be extinguished (ie terminating the employment contract) is disposing of the registration right, even though the right is not transferred to Buying Club. The transfer payment is Selling Club’s compensation for undertaking that action and, therefore, represents the proceeds from disposing of the registration right (previously recognised as an intangible asset by Selling Club).
40. Similarly, in our view Selling Club is not providing a service to Buying Club of waiving its right to use the player. We think that argument could be applied to any disposal of an intangible asset (or, indeed, item of property, plant and equipment), and if it were then an entity might never apply the specific derecognition requirements in IAS 38 (or IAS 16) when disposing of an intangible asset (or item of property, plant and equipment).
41. Accordingly, if Selling Club recognises its right arising from employing and registering the player as an intangible asset applying IAS 38, in our view it applies paragraph 113 of IAS 38 to account for the transfer payment received.

***Can a club recognise the right arising from employing and registering a player as inventory?***

42. Our analysis in paragraphs 34–41 assumes that Selling Club applies IAS 38 in accounting for its registration right. However, as noted in paragraph 22, an entity applies IAS 38 to account for an intangible asset only if it is not within the scope of another Standard.
43. The fact pattern described in the submission notes that Selling Club views developing players for transfer to other clubs as part of its ordinary activities. In our view, this suggests that the registration right may be inventory. IAS 2 defines inventories as:
- ...assets:
- (a) held for sale in the ordinary course of business;
  - (b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

44. If the registration right is inventory, Selling Club would account for that right applying IAS 2, rather than IAS 38. It would then account for transfer payments received applying IFRS 15 (as long as the transfer agreement is within the scope of IFRS 15, eg Buying Club must be a customer of Selling Club<sup>1</sup>). Selling Club would apply the derecognition requirements in paragraphs 34–35 of IAS 2 on derecognition of the registration right. Paragraph 34 of IAS 2 states ‘when inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised’.
45. IAS 2 does not define ‘ordinary course of business’. IFRS 15 refers to what we view as an equivalent term ‘ordinary activities’ in the definition of customer, but it also does not specify the meaning. In this regard, paragraph BC53 of IFRS 15 states:

The definition of a customer in IFRS 15 refers to an entity’s ordinary activities. Some respondents asked the boards to clarify the meaning of ordinary activities; however, the boards decided not to provide additional requirements, because the notion of ordinary activities is derived from the definitions of revenue in the boards’ respective conceptual frameworks. In particular, the IASB’s *Conceptual Framework* description of revenue refers specifically to the ‘ordinary activities of an entity’ and the definition of revenue in FASB Concepts Statement No. 6 refers to the notion of an entity’s ‘ongoing major or central operations’. As noted in paragraph BC29, the boards did not reconsider those definitions as part of the Revenue Recognition project.

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<sup>1</sup> IFRS 15 defines customer as ‘a party that has contracted with an entity to obtain goods or services that are an output of the entity’s ordinary activities in exchange for consideration.’.

46. Generally, we expect that any transfer of a good that is part of an entity's ordinary activities applying IFRS 15 would be an asset held for sale in the ordinary course of business applying IAS 2 immediately before that transfer.
47. Accordingly, if Selling Club were to recognise the registration right as inventory, in our view Selling Club would then account for the transfer payment received from Buying Club applying IFRS 15 (assuming that the sale is within the scope of IFRS 15).

*The development of players—one activity that potentially contributes to two income streams that are part of the club's ordinary activities*

48. Many football clubs are likely to consider their ordinary activities to relate mainly to playing football matches—competing in football competitions, generating income from ticket sales, sponsorship, advertising, prize money and television rights. Although the transfer of players to other clubs is something that happens from time to time, it is not another major part of their ordinary activities but contributes to that one main activity. From a review of the financial statements of some football clubs, it is clear that, for some, transfer payments received are not a significant part of the income that the club generates.
49. However, for others, transfer payments received represent a significant proportion of the income that the club generates—for example, for some clubs transfer payments received can represent between 20% and 50% of total income from all income streams and can, for example, be two or three times more than income from ticket sales. Some of those clubs have a policy of transferring a significant proportion of their players to other clubs before the end of players' employment contracts because the receipt of transfer payments is one of the main ways that the club generates income—for example, we are aware of one club that, over recent years, has transferred around 70% of players brought to the club before the end of players' employment contracts.
50. For those clubs, would the registration right that arises when players are brought to the club be inventory, rather than an intangible asset accounted for applying IAS 38?
51. In our view, it is possible for such a club to determine that registration rights associated with some players are inventories. This might be the case for players that

such a club expects to develop and then transfer to another club before the end of the player's employment contract. The club develops those players by having them play football matches.

52. We note that, when an entity plans to use an asset in its operations for a period of time and then sell that asset, it would not classify the asset as inventory when it initially acquires the asset. This is because the asset would not meet the definition of inventory but, for example, if tangible would meet the definition of an item of property, plant and equipment. In contrast, if an asset is in the process of development for sale in the ordinary course of business, it would meet the definition of inventory.<sup>2</sup>
53. Depending on the particular facts and circumstances, the registration right associated with some players could meet the definition of inventory if (a) the club expects to develop and transfer the player before the end of the employment contract, and (b) the development and transfer of players is part of the ordinary activities of the club. This is because playing football matches for the club until the date of transfer is how the club would *develop* the player *for sale*—and, thus, it could be said that the club has acquired the registration right, developed it for sale (by having the player play in football matches), and then sold it by transferring the player to another club before the end of the player's employment contract. It is not the case that playing matches contributes only to ticket sales, competition prize money, television rights, etc. The activity of playing matches both (a) develops players (increasing their value in the transfer market); and (b) generates income from ticket sales, etc.
54. In determining whether and which registration rights are inventories, we would expect a club (whose ordinary activities include the development and transfer of players) to make such a determination on a player-by-player basis. For example, if the club buys a more experienced player with the intention of keeping that player until the end of the employment contract, we would expect the club to apply IAS 38 in accounting for the registration right. However, if the club buys a high potential player with the

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<sup>2</sup> We note that paragraph 9(a) of IAS 40 *Investment Property* specifies that property intended for sale in the ordinary course of business or in the process of construction or development for such sale is not investment property but, instead, is inventory.

intention of developing that player and selling him (or her) to another club before the end of the employment contract, the club may conclude that the registration right is inventory.

*If the registration right is an intangible asset, can it be transferred to inventory at the time of player transfer?*

55. In the fact pattern described in the submission, Selling Club has recognised the registration right as an intangible asset. The submitter and some outreach respondents indicate that Selling Club may be able to transfer the registration right to inventory at the time of transferring the player to another club and, thus, recognise the transfer payment received as revenue applying IFRS 15. In that case, Selling Club would do so applying paragraphs 10–12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to analogise to paragraph 68A of IAS 16. Paragraph 68A states:

However, an entity that, in the course of its ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets shall be recognised as revenue in accordance with IFRS 15 *Revenue from Contracts with Customers*. IFRS 5 does not apply when assets that are held for sale in the ordinary course of business are transferred to inventories.

56. In our view, Selling Club cannot analogise to paragraph 68A of IAS 16. Firstly, the circumstances are not exactly analogous—as noted above in paragraph 53, in the fact pattern described in the submission, the activity of playing football matches both develops the players, and at the same time contributes to the other main revenue-generating streams of the club. So, one activity (playing football matches) potentially has two purposes—developing registration rights for sale and generating income from ticket sales, etc. In the circumstance addressed in paragraph 68A, the items of property, plant and equipment contribute only to the entity’s rental business for a period of time, and after that (when the items are sold) then contribute to another income stream.

57. Secondly—and more importantly, we note the following:
- (a) IAS 38 contains requirements for the derecognition of an intangible asset and, therefore, the circumstances described in paragraph 10 of IAS 8 (ie the absence of an IFRS Standard that specifically applies to a transaction) do not exist; and
  - (b) paragraph 68A of IAS 16 is designed for a specific situation—ie one in which an entity routinely sells items of property, plant and equipment that it has held for rental to others as part of its ordinary activities. We understand why the submitter and outreach respondents see similarities between the circumstances described in paragraph 68A and those of Selling Club—the Board explained in paragraph BC35C of IAS 16 that it developed the requirements in paragraph 68A because, ‘in the Board’s view, the presentation of gross selling revenue, rather than a net gain or loss on the sale of the assets, would better reflect the ordinary activities of such entities’ [entities whose ordinary activities include renting and subsequently selling the same assets]. However, paragraph 68A is written as an exception to the general derecognition requirements in paragraph 68 of IAS 16, which are mirrored in paragraph 113 of IAS 38. We therefore see no basis on which to apply those requirements in paragraph 68A to the fact pattern described in the submission, without a similar explicit exception in IAS 38.

### ***Statements of cash flows***

58. Some outreach respondents note differences between entities in how they present transfer payments received in the cash flow statement. IAS 7 *Statement of Cash Flows* states that an entity presents its cash flows from operating, investing and financing activities in a manner most appropriate to its business. Selling Club would determine the classification of cash flows arising from transfer payments received based on its classification of the registration right in the balance sheet—this is because the classification of the registration right as an intangible asset or inventory depends on the club’s business.

59. Paragraph 16(b) of IAS 7 lists as an example of cash flows arising from investing activities cash receipts from sales of property, plant and equipment, intangibles and other long-term assets. Selling Club would therefore classify cash receipts from transfer payments as investing activities when it recognises registration rights as an intangible asset. On the other hand, if Selling Club were to recognise registration rights as inventory, it would classify cash receipts from transfer payments as operating activities. This is because paragraph 14(a)–(b) of IAS 7 lists as examples of cash flows from operating activities cash receipts from revenue, and we would expect Selling Club to recognise revenue when it derecognises registration rights that are inventories (see paragraph 44 of this paper).

**Staff conclusion**

60. In the fact pattern described in the submission, we conclude that if Selling Club accounts for the registration right as an intangible asset, it recognises the transfer payment received as part of the gain or loss on disposal of the intangible asset applying paragraph 113 of IAS 38.
61. Depending on Selling Club’s particular circumstances (including that developing and transferring players is part of its ordinary activities), Selling Club might classify the registration right for some players as inventory and, thus, have:
- (a) a portfolio of players, for which the registration right is an intangible asset accounted for applying IAS 38; and
  - (b) a portfolio of players, for which the registration right is inventory.
62. If Selling Club were to recognise the registration right as inventory, on transfer of the player to another club it would apply IFRS 15 in accounting for the transfer payment received (as long as the transfer agreement is within the scope of IFRS 15).
63. Presentation of cash receipts in the cash flow statement would follow the classification of the registration rights in the balance sheet. Selling Club would present cash receipts from transfer payments received:
- (a) as part of investing activities if it had recognised the registration right as an intangible asset; and



- (b) as part of operating activities if it had recognised the registration right as inventory and the transfer payment received as revenue.

### Question 1 for the Committee

1. Does the Committee agree with our analysis of the application of the requirements in IFRS Standards to the fact pattern described in the submission summarised in paragraphs 60–63 of this paper?

### ***Should the Committee add this matter to its standard-setting agenda?***

*Is it necessary to add to or change IFRS Standards to improve financial reporting?<sup>3</sup>*

64. Based on our analysis, we think the principles and requirements in IFRS Standards provide an adequate basis for a football club to determine its accounting for player transfer payments received.

### **Staff recommendation**

65. Based on our assessment of the Committee's agenda criteria in paragraphs 5.16–5.17 of the *Due Process Handbook* (discussed in paragraph 64 of this paper), we recommend that the Committee does not add this matter to its standard-setting agenda. Instead, we recommend publishing a tentative agenda decision that outlines how a football club accounts for player transfer payments received.
66. Appendix A to this paper sets out the proposed wording of the tentative agenda decision.

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<sup>3</sup> Paragraph 5.16(b) of the *Due Process Handbook*

### Questions 2 and 3 for the Committee

2. Does the Committee agree with our recommendation not to add this matter to its standard-setting agenda?
3. Does the Committee have any comments on the proposed wording of the tentative agenda decision in Appendix A to this paper?

## Appendix A—proposed wording of the tentative agenda decision

### **Presentation of Player Transfer Payments (IFRS 15 *Revenue from Contracts with Customers* and IAS 38 *Intangible Assets*)**

The Committee received a request about the presentation 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 that the player is unable to play 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. The employment contract and registration in the transfer system together are referred to as a ‘registration right’.
- b) the entity had recognised any costs incurred to obtain the registration right as an intangible asset applying IAS 38. The entity uses the player within its team, to develop the player and then potentially transfer the player to another club. The entity views the development and transfer of players to be part of its ordinary activities.
- 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. The right 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 or, instead, recognises the gain or loss arising from the derecognition of the intangible asset in profit or loss applying IAS 38.

**Presentation of transfer payment received**

In the fact pattern described in the request, the entity had 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 ‘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; the right does not expire or dissipate. Accordingly, the transfer payment compensates the entity for its action in disposing of the registration right and, thus, represents disposal proceeds as referred to 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 (ie one in which the entity had recognised the registration right as an intangible asset), the entity does not recognise the transfer payment received as revenue applying IFRS 15.

**Is there a circumstance in which the entity would recognise the transfer payment received as revenue applying IFRS 15?**

Paragraph 2 of IAS 2 *Inventories* requires an entity to apply IAS 2 to intangible assets that meet the definition of inventories. Therefore the fact pattern described in the request is one in which the registration right does not meet the definition of inventories.

If the registration right were to meet the definition of inventories, the entity would apply IAS 2 in accounting for that right and, on disposal, apply the derecognition requirements in that Standard. Paragraph 34 of IAS 2 states ‘when inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised’. Consequently, if the entity had recognised the registration right as inventories, the entity would apply IFRS 15 in accounting for the transfer payment received (as long as the transfer agreement is within the scope of IFRS 15).

Paragraph 6 of IAS 2 defines inventories as ‘assets: (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services’. IAS 40 *Investment Property* also specifies that inventories include property in the process of construction or development for sale in the ordinary course of business.

The Committee observed that there may be circumstances in which registration rights associated with some players meet the definition of inventories for entities whose ordinary activities include the development and transfer of players. In considering the definition of inventories, such an entity would consider, on initial recognition, whether the registration right is acquired for development and sale in the ordinary course of business.

### **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. IAS 7 also lists cash receipts from revenue as examples of cash flows arising from operating activities.

Accordingly, the entity presents cash receipts from transfer payments:

- a. as part of investing activities if it had recognised the registration right as an intangible asset; or
- b. as part of operating activities if it had recognised the registration right as inventories and the transfer payment received as revenue.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for the entity to determine its accounting for player transfer payments

received. Consequently, the Committee [decided] not to add the matter to its standard-setting agenda.

## Appendix B—submission

B1. We have reproduced the submission below, and in doing so deleted details that would identify the submitter of this request.

### 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 emphasize 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 into 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 rationale 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 IA, 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. Therefore 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.