IN SEARCH OF TRANSPARENCY OF FINANCIAL INFORMATION IN SOCCER CLUBS P.L.C.:
INADEQUACIES IN ACCOUNTING STANDARDS.
A CASE STUDY

Authors:
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1.- OBJECTIVE OF WORK (I)

CORRUPTED/NEGLECTED BEHAVIOUR OR DECISIONS OF COMPANIES’ BOARDS

CURRENT APPLICABLE ACCOUNTING STANDARDS

LACK OF TRANSPARENCY IN FINANCIAL INFORMATION

IN SOCCER CLUBS PLC
INADEQUACIES OF ACCOUNTING IN MEASURING THEIR MOST RELEVANT ASSETS

NOT RELEVANT NOT USEFUL FOR MAKING DECISIONS

FINANCIAL STATEMENTS DO NOT REPRESENT “TRUE AND FAIR VIEW”
1.- OBJECTIVE OF WORK (II)

Soccer clubs PLC
Most Relevant Assets: Sporting Intangibles

ACCOUNTING REFORM:
• IFRS- Nic’s
• Spanish Acc. St.’07
• Spanish Sector Standards

INFORMATION DISCLOSURE OF INTANGIBLES

Adequate disclosure of rights to exploit performance of professional players

Would solve big gap between market value - net book value
2.- OBJECTIVES TO EVIDENCE

DISCLOSURE OF RIGHTS TO EXPLOIT THE PERFORMANCE OF PROFESSIONAL PLAYERS


PARCIALY RECOGNIZED:
- RIGHTS TO EXPLOIT PERFORMANCE OF PLAYERS ACQUIRED FROM OTHER CLUBS:
  - Valuation: Acquisition cost
- RIGHTS TO EXPLOIT PERFORMANCE OF INTERNALLY GENERATED PLAYERS
  - Non accounting Value

¿IS RELEVANT THE UNDERVALUATION OF NET BOOK VALUE IN RELATION TO MARKET VALUE?

ACCOUNTING REFORM:
Philosophy: Useful and Relevant information. Prevalence of “True and fair view” over Cosevatism concept
- IFRS- Admit “Fair Value” for Intangibles
- SAS’O7- Fair Value Not admitted for intangibles
- Future Spanish Sector standards?

METHODOLOGY: CASE STUDY
Objective to Evidence:
- Insufficiency existence
- Assets Relevance of Insufficiency
- Possibility of Valuation different from Acquisition Cost (reliable precedents?)
2. OBJECTIVES TO EVIDENCE (II) Global Accounting Insufficiency

- CURRENT ACCOUNTING STANDARDS
  - ACQUIRED PLAYERS’ EXPLOITATION RIGHTS
  - HIDDEN VALUES: ¿ARE THEY MEASURABLE BY ACCOUNTING at “Fair Value”?

- MARKET PRICE
  - ACQUIRED PLAYERS’ EXPLOITATION RIGHTS
    - INTERNALLY GENERATED PLAYERS’ EXPLOITATION RIGHTS
  - Market Value
    - Market Value - Net Book Value
    - Net Book Value

GLOBAL ACCOUNTING DEFICIT

= TOTAL ACCOUNTING VALUE OF SPORTING INTANGIBLE ASSETS

= TOTAL MARKET VALUE OF SPORTING INTANGIBLE ASSETS
3. REVISION OF PREVIOUS LITERATURE

- Intangibles in General and in Soccer clubs, in particular, we outstand the Classic Theory of Intellectual Capital:

\[ \text{Intellectual Capital} = \text{Structural Assets} + \text{Relational Assets} + \text{Human Assets} \]

- Yang & Sonmez (2005) in Britain consider as Human capital (managers’, coaches’ and specially players’ expertise) the core asset generator of the other intangibles assets and the highest future incomes.

- Bursesi y Carratalá, (2003) clasify Intangibles in soccer clubs in:

  - Non-identifiables/of difficult accounting measuring (Brands & patents, Club Image rights, trademarks, potentiality of generating future incomes at negotiating broadcasting rights, sponsoring, publicity or other important contracts based on successful sporting performance, efficient management, social prestige, mark image, home players formation, adequate sporting infrastructure, number of followers which may enable to hire star players with big impact in media mass, etc...)

  - Identifiables/measurable by accounting (Rights of use of acquired and home-grown players, home-grown formation cost, players’ image rights, etc… )
3. REVISION OF PREVIOUS LITERATURE (II). Los Activos Intangibles en general y en las S.A.D.

- **ACTIVOS CONTABLES**
  - Hasta Reforma
  - (J. Adq. a P. coste - Am. Acum.)

- **P. NETO + PASIVOS CONTABLES**
  - Hasta Reforma

- **Balance Situación oficial**

- **¿Intangibles Identificables y medibles a VR?**
  - J. Adq. (VR-VNC)
  - Jug. Cantera a VR

- **Goodwill**
  - (Fondo Comercio y Otros Intang.)

- **Capital Intelectual (Conocimiento)**
  - C. Humano
  - C. Estructural
  - C. Relacional

- El Mercado lo mide, le da un valor, lo cuantifica

- Debemos pretender que se aproximen

- ¿Interpretable? (narrativo / cualitativo)
- ¿cuantificable?

- INFORME INTANGIBLES

- TOTAL
  - DEBERÍA SER CUANTIFICABLE
4.- CONTRIBUTION OF OUR WORK

PREVIOUS LITERATURE STRESSES ON:

1. The existence in football clubs PLC’s of the intangible asset “Right to exploit the performance of professional players” as the main asset generator of the higher future incomes of these entities.
2. The difficulty for a reliable disclosure of the value of these intangibles in relation to the Market

OUR CONTRIBUTION:

Application of the CASE STUDY methodology in an entity of real soccer world scenario, not explored so far, in order to obtain empirical Evidence of:

1. Actual Existence of the accounting insufficiency when disclosing this Intangible asset
2. Its Relevance in relation to the actual Financial Statements, according to the applicable current accounting standards
3. Analysis of an actual and real precedent of approximative estimate of Market value, different from Accounting Value (Net Book Value)
We have chosen a case, Sevilla F.C., S.A.D.

Reasons for the election (among others):

- **Prototype average club** (neither the big two - R.M./ Barça- nor a small one)

- **Cares** specially the “cantera” (home-grown players) to obtain professional players for the first squad, which later will be transferred to other clubs for huge sums of money.

- **Policy of hiring young promising players** at low prices or free: zero cost from club of origin for having finished their contracts and later on will experience a remarkable revaluation.

- Likewise any other soccer clubs PLC, it makes acquisitions of rights to exploit players already reputed coming from other clubs at high prices to maintain or raise the competitive sporting level.

- In the last decade has managed to win important national and European Championships (4 Europe League, 1 Europa SuperCup, 1 Spanish SuperCup, 2 Spanish Cup)
5. CASE STUDY (II): Work done

1. Documentary Study prior.
   We have analyzed:


2. Data Collection

   - The last 14 Annual Reports of Sevilla F.C., S.A.D.
   - information provided by the entity in relation to:
     - Composition of professional squad during the analyzed years (source).
     - The individual accounting valuation of the players comprising the squad.
     - Non-accounting valuations both of total squad and individual players, carried out by an independent committee within the LFP (Official Body which group and represent the professional clubs which participate in football competitions) in six different dates.
3. DATA PROCESSING (work):

1. Analysis of the **structure** of the balance sheet and Profit and Loss Account of Sevilla FC, SAD

2. Comparison with the average structure of the Spanish soccer studies by Gay Saludas (2008, 2009) to **verify** the **suitability** of the **chosen case** as prototype status.

3. Study the **composition** of the **squad** of Sevilla FC, SAD and its **accounting reflection**.

4. Study the existence and extent (**relevance**) of the inadequacy (**insufficiency**) of accounting rules regarding the right to use players, **comparing** the sold players’ **net book value** of individual rights to their actual final **selling price** and to the **total value** of the **assets**

5. **Comparison** between total **net book value of squads** and **non-accounting assessment**, by the independent committee of the **LFP** (Spanish Professional Soccer League Association).

6. Study the extra-accounting assessment by LFP and its **ability to predict market values** of the rights to use players, based on a **comparison** with the subsequent **actual sales prices** of those sold players.

7. **Statistical Regression Analysis** to complete the descriptive results of the previous study in point 6.
### 6.- ANALYSING RESULTS (I)

#### 6.1. Most important items of a football club PLC’s Income Statement

<table>
<thead>
<tr>
<th>INCOMES</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>TURNOVER</td>
<td>95%</td>
<td></td>
</tr>
<tr>
<td><em>Competitions</em></td>
<td>15-20%</td>
<td></td>
</tr>
<tr>
<td><em>Seasons tickets</em></td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td><em>Broadcasting/TV Rights</em></td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td><em>Marketing/sponsoring</em></td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Other operating incomes</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td><strong>Total OPERATING INCOMES</strong></td>
<td><strong>100%</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXPENSES</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor Cost</td>
<td>50-60%</td>
<td></td>
</tr>
<tr>
<td>Amortizations exp. For Rights to exploit football players’ performance</td>
<td>16-20%</td>
<td></td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>20-25%</td>
<td></td>
</tr>
<tr>
<td><strong>Total OPERATING EXPENSES</strong></td>
<td><strong>-110/-120%</strong></td>
<td></td>
</tr>
</tbody>
</table>

#### OPERATING RESULTS
-10%/-20%

#### FINANCIAL RESULTS
-3%

(+$profit/-Loss on Sales of players’ use of rights)

**¿NON OPERATING? REVALUED PLAYER’S SALES RESULTS**
+10/+15%

| PROFIT BEFORE TAXES | 0/-5% |
| +/- INCOME TAX      | 3%    |
| PROFITS/LOSSES AFTER TAX | 0/-5% |
6.2. Most important items in a football club PLC’s Balance Sheet

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>%</th>
<th>LIABILITIES AND STOCKHOLDERS’ EQUITY</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FIXED ASSETS:</strong></td>
<td></td>
<td><strong>STOCKHOLDERS’ EQUITY:</strong></td>
<td></td>
</tr>
<tr>
<td>Intangible assets (Federative Rights to exploit footballers)</td>
<td>30-40%</td>
<td>Capital Stock</td>
<td></td>
</tr>
<tr>
<td>Tangible Assets</td>
<td></td>
<td>Reserves</td>
<td></td>
</tr>
<tr>
<td>Inmovilizaciones Financieras</td>
<td></td>
<td>Prior years Results</td>
<td></td>
</tr>
<tr>
<td>Deferred expenses (footballers’ image multianual rights)</td>
<td></td>
<td>Current Year P/L</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL FIXED ASSETS</strong></td>
<td>60-70%</td>
<td>Deferred Incomes (multianual broadcasting rights)</td>
<td>0-10%</td>
</tr>
<tr>
<td><strong>CURRENT ASSETS:</strong></td>
<td></td>
<td><strong>TOTAL LONG TERM LIABILITIES</strong></td>
<td>50%</td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
<td>ACREDORES A L.P.</td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td></td>
<td>L/TBorrowings</td>
<td></td>
</tr>
<tr>
<td>S/T financial Investments</td>
<td></td>
<td>Other creditors</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td><strong>TOTAL CURRENT LIABILITIES</strong></td>
<td>40-50%</td>
</tr>
<tr>
<td>Time period adjustments</td>
<td></td>
<td>S/T borrowings</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL CURRENT ASSETS</strong></td>
<td>30%</td>
<td>Suppliers</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>100%</td>
<td>Other Debtors</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL STOCKHOLDERS’ EQUITY AND LIABILITIES</strong></td>
<td>100%</td>
<td>Time period adjustments</td>
<td></td>
</tr>
</tbody>
</table>
6.- ANALYSING RESULTS (III)

6.3. Case SEVILLA F. C., S. A. D.: Tables

TABLE 1: BREAK DOWN OF THE SQUAD BETWEEN ACQUIRED AND HOME-GROWN

<table>
<thead>
<tr>
<th>AVERAGE IN TEN YEARS (1999-2009)</th>
<th>SOURCE</th>
<th>NUMBER OF PLAYERS in squad</th>
<th>%</th>
<th>NET BOOK VALUE (Million €)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACQUIRED</td>
<td>14</td>
<td>57%</td>
<td>19.6</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>HOME-GROWN</td>
<td>11</td>
<td>43%</td>
<td>0</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>25</td>
<td>19.6</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

TABLA 2: SOLD PLAYERS: Sales Value vs NBV and Sales Value vs Total Assets

<table>
<thead>
<tr>
<th>AVERAGE 6 YEARS of Sales in 12 years of study (1997-2008)</th>
<th>Number of sold Most significant PLAYERS</th>
<th>Average NBV of one SOLD PLAYER millions €</th>
<th>Average Sales Value of one sold player millions €</th>
<th>Average NBV of the sum of ALL PLAYERS of SQUAD millions €</th>
<th>% Sales Price of only one player / NBV of all the players</th>
<th>Average TOTAL ASSETS millions €</th>
<th>% Sales Price of one player / TOTAL ASSETS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11</td>
<td>1</td>
<td>22</td>
<td>20</td>
<td>110 %</td>
<td>58</td>
<td>38%</td>
</tr>
</tbody>
</table>
### 6.- ANALYSING RESULTS (IV)

#### 6.3. Case SEVILLA F. C., S. A. D.: Tables (II)

**TABLE 3:** NET BOOK VALUES vs NON ACCOUNTING ASSESSMENTS (BY COMMITTEE OF L.F.P.-National Professional Soccer League Association)

<table>
<thead>
<tr>
<th>Dates</th>
<th>feb-04</th>
<th>nov-04</th>
<th>sep-07</th>
<th>jul-08</th>
<th>sep-09</th>
<th>sep-10</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>LNFP ASSESSMENT (mill.€)</td>
<td>52,6</td>
<td>90,7</td>
<td>200,6</td>
<td>204,6</td>
<td>211,7</td>
<td>194,6</td>
<td>159,1</td>
</tr>
<tr>
<td>NBV PLAYERS at Closing of Accounts closest to Assessment</td>
<td>13,4</td>
<td>21,6</td>
<td>33,5</td>
<td>68,6</td>
<td>72,9</td>
<td>44,9</td>
<td>42,5</td>
</tr>
<tr>
<td>Underevaluation (mill.€)</td>
<td>39,2</td>
<td>69,1</td>
<td>167,1</td>
<td>136,0</td>
<td>138,8</td>
<td>149,7</td>
<td>116,6</td>
</tr>
<tr>
<td>% NBV over ASSESSMENT</td>
<td>25%</td>
<td>24%</td>
<td>17%</td>
<td>34%</td>
<td>34%</td>
<td>23%</td>
<td>26%</td>
</tr>
<tr>
<td>% Underevaluation over Assessment</td>
<td>75%</td>
<td>76%</td>
<td>83%</td>
<td>66%</td>
<td>66%</td>
<td>77%</td>
<td>74%</td>
</tr>
</tbody>
</table>

**TABLA 4:** NON ACCOUNTING ASSESSMENT (LFP) vs NBV vs SALES PRICE

<table>
<thead>
<tr>
<th></th>
<th>NBV at Closing (30-june)</th>
<th>LNFP ASSESSMENT previous to closing of Accounts</th>
<th>Actual Sales Price after closing of accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL 35 SOLD PLAYERS</td>
<td>30,1</td>
<td>181,5</td>
<td>208,7</td>
</tr>
<tr>
<td>% over SALES PRICE</td>
<td>11%</td>
<td>87%</td>
<td>100%</td>
</tr>
</tbody>
</table>

% predictive ability of non accounting Assessment
6.3. Case SEVILLA F. C., S. A. D.: Tables (III)

TABLE3: REGRESSION LINE OF SALES PRICE AND LNFP COMMITTEE’s APPRAISAL (000’s €)

\[ y = 1.0425x + 775.67 \]
1ST CONCLUSIONS:

- A big percentage of the squad of the professional teams is made up of internally generated football players who play the same economic function as the acquired players.

- According to current accounting standards, the internally generated players are not disclosed as assets on the balance sheet of these companies, differently from those acquired, which are reflected but at their historical acquisition cost netted by their amortization calculated over the life of the players’ contract.

- The value of acquired Players’ Transfer Rights represent the most important asset of the Balance sheet of the Football clubs PLCs.

2ND CONCLUSION:

- There is a significant and relevant accounting undervaluation in relation to market price, when we compare the sales prices of football players’ transfer fees (those sold/ transferred) with the net book value before their sales, not only in internally generated players but also in most of acquired players.

3RD CONCLUSION:

- There are assessments made by an Independent Valuation Panel of the market value of transfer’s rights of all the players who comprised the squads. Those total valuations of squads are far higher than the accounting values of the squads.

- When comparing these independent assessments to their eventual actual sales price, they have proved to be, on the whole, reliable, with a good regression analysis.
PROPOSAL OF A VALUATION MODEL UNDER IFRS (“FAIR VALUE”)
TO REFLECT ADEQUATELY THE MOST RELEVANT ASSETS OF SOCCER CLUBS P.L.C., TO SOLVE THE PROVED LACK OF RELIABILITY AND THEREFORE TRANSPARENCY OF CURRENT FINANCIAL STATEMENTS OF THESE ENTITIES, DUE TO THE INADEQUATE INTERPRETATION OF CURRENT ACCOUNTING STANDARDS
BASED ON THE EVIDENCE THAT THERE ARE PROMISING PRECEDENTS OF NON-ACCOUNTING VALUATIONS MADE BY AN INDEPENDENT VALUATION PANEL WHICH HAVE PROVED TO HAVE A GOOD PREDICTIVE LEVEL OF MARKET PRICE OF THESE ASSETS.

- THEORETICAL DISCUSSION over POSSIBILITIES to AMEND, under IFRS, the EVIDENCED ACCOUNTING INSSUFFICIENCY through “Fair Value” implementation.
- EXPLORATION OF CRITERIA AND EVALUATION OF VARIABLES AND THEIR WEIGHTS TO BE CONSIDERED IN A VALUATION MODEL AT FAIR VALUE
- FORMULATION OF THAT VALUATION MODEL and PROPOSAL of:
  ✓ AGENT, which will applicate the Model. Nature and composition
  ✓ How it will applicate it
  ✓ Way of disclosure in the Financial Statements