

## COVID-19 Impact on the Subsequent Assessment of the Competition Rights of Football Players

Chief Assist. Prof. Romyana Marinova  
University of Economics - Varna, Varna, Bulgaria  
r\_marinova@ue-varna.bg

### Abstract

*Acquired competition rights to football players are a specific intangible asset and therefore have different features in their initial and subsequent valuation. The purpose of this article is to discuss the impact of COVID-19 on the subsequent assessment of the value of transfer rights of players and on this basis to be made a critical analysis of the main factors relevant to the subsequent reporting of these rights and their presentation in the financial statements of the football clubs that apply International Financial Reporting Standards. As a result of the study, it was summarized that COVID-19 can be considered as a factor in reducing the value of the competitive rights of football players. This factor can be included as part of the so-called general factors that are relevant to the overall performance of the football club, as well as to have a personalized meaning - in relation to individual players. It was concluded that UEFA should develop a strict methodology that allows clubs to recognize impairment losses on competition rights in their financial statements and this methodology should be part of the FFP Rules.*

*Keywords: accounting, football players, impairment, IAS 36, COVID-19, UEFA FFP Rules*

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### Introduction

The football industry is one of the sectors of the economy in which significant cash flows are transferred related to the acquisition of competition (registration) rights, which focuses more and more attention on the accounting presentation of acquired competition rights of players in the financial statements of professional football clubs. This circumstance has become even more significant in the last two years, which have been marked worldwide by the emergence of the COVID-19 pandemic, which, in addition to medical, has serious economic consequences for almost all economic sectors.

The purpose of this article is to discuss the impact of COVID-19 on the subsequent assessment of the value of transfer rights on players and on this basis to make a critical analysis of the main factors relevant to the subsequent reporting of these rights and their presentation in financial statements of football clubs applying International Financial Reporting Standards (IFRS).

Only the subsequent evaluation of the acquired competition rights related to the reduction of their value as a result of COVID-19 and the accounting interpretation of this reduction will be considered. The possibility of subsequent measurement by amortization in applying the cost model within the meaning of IAS 38 Intangible Assets will not be considered.

### Materials and methods

The study used the publications of leading scientists and international organizations that are relevant to the assessment of transfer rights to football players. The publication also examines the existing regulatory framework set by the applicable IAS/IFRS and the UEFA Licensing and Financial Fair Play Rules (FFP) regarding the assessment of the competition (registration) rights of professional footballers.

### Accounting aspects of player's registration rights

In the practice of professional football clubs, there are four ways in which a football club can obtain competition rights over a player, namely:

- Through a contract for the transfer of competition rights from another football club;
- By attracting a player who is not currently competing for a specific football club (the

- so-called "free agent");
- By entering a player who is a product of the children and youth school of the respective professional football club;
  - By virtue of a lease agreement without subsequent binding; by virtue of a lease with an obligation for unconditional acquisition and by virtue of a lease with an option to acquire.

This article does not aim to analyze the ways of acquiring competition rights, which we have discussed in detail in previous publications. (Marinova, 2018) Will be considered mainly the first case in which there is a written contract between two football clubs, the subject of which is the transfer of registration (competition) rights of the player, and which determines the specific price to be paid by the acquiring club. The existence of such an agreement is stated as an explicit requirement for all professional players of clubs applying for UEFA and FIFA licenses in accordance with the relevant provisions of the FIFA Rules on the Status and Transfer of Players. (UEFA, 2018, p. 17) It is indisputable that the acquisition of a player is in order for him to compete for the club, and justifying the expectations of sports management in its acquisition, to generate future economic benefits for the football club, usually for long period of time, ie for more than a year. The benefits that have been agreed are intangible and, as stated, are a contribution to the club's football success, and the value of the competition rights is specified in the transfer agreement. The intangible nature of the rights obtained, as well as the likelihood that the company will receive an economic benefit, which is based on the fact that the acquisition of rights to a player is expected to contribute to future success of this club, are the basis of understanding that the acquired rights should be presented as an intangible asset. The presence of a specified transfer price (acquisition price) in the written transfer contract, in turn, satisfies the requirement for reliability of the valuation of the acquired asset (competition rights). These circumstances give us a reason to conclude that the competition rights that are subject to transfer in the contract for transferring of professional players from one football club to another, meet the recognition criteria and can be treated as intangible assets in the acquiring club, according to IAS 38 Intangible assets. (IAS 38, 2010) .

### **COVID-19 and its impact on the football industry**

Over the last decade, we have witnessed a steady growth in the transfer market for professional footballers with each passing year, reaching values that sometimes even seemed untenable. The effect of COVID-19 did not pass this market either, as according to CIES Football Observatory the value measured in 2020 is about 30% lower than observed in the record for the market 2019. The study compares the transactions made during the last transfer period by the teams of the five major European championships (Premier League, La Liga, Serie A, Bundesliga and Ligue 1) with those concluded in January 2010. The comparison covers three areas: investment volume, transfer typology, permanent, temporary, free, paid , etc.) and the price of the players. By isolating the summer transfer windows, the authors of the analysis show even more clearly the effect of the pandemic on the volume of investments. In this case, the decline compared to summer 2019 is 43%, and the costs incurred by the top five teams in the league in the last transfer window decreased to the level recorded in 2016. As for the price of players, the study notes that the most significant impact of the pandemic is on the slowdown in “violent inflation” observed between 2015 and 2019 (Poli, et al., 2020).

The fact that FIFA responded very quickly by developing a FIFA COVID-19 Relief Plan (FIFA, 2020) , as a result of which it provided \$ 1.5 billion to national associations through a system of grants and loans to ensure the restart of competitions in all categories, the remuneration of staff where it is necessary to re-hire key staff and the maintenance of football infrastructure.

A large-scale study conducted by Law in Sports of leading international sports lawyers and scholars from 58 countries found a shift in focus from rebuilding and running competitions to long-

term planning, looking at cost control measures, broad health standards and safety, return of fans to the stadiums, etc. However, the authors note that, as in all areas of society, recovery approaches vary across leagues and jurisdictions that have been called upon to strike a delicate balance between public health and financial recovery. (Colucci, et al., 2020)

We believe that several factors are important in determining the impact of COVID-19, two of which are essential: the rigor of the COVID restrictions introduced at national level and the football club's access to competitions outside national championships. The stricter the restrictions introduced and the less opportunity they have to participate in championships other than the national championship, the more serious the losses suffered by the clubs. According to a study by the audit and consulting company KPMG, conducted in 2020, the value of the teams in the ten leading European championships would decrease by between 17.7% and 26.5%, depending on which of the scenarios the company is developed, would be realized. (KPMG, 2020) In another study, KPMG points out that the operating revenues of the leading European football clubs have decreased between 2.3% and 32.5% for the last two seasons 2019/2020 and 2020/2021 compared to the 2018 season / 2019, with only two clubs showing a positive effect (Figure 1) (KPMG, 2022)

Club	League	Last full season pre-COVID (2018/19)	Average of two COVID-impacted seasons (2019/20-2020/21)	% change
Besiktas JK	Süper Lig	98.6	66.6	-32.5%
AS Roma	Serie A	232.8	165.8	-28.8%
AFC Ajax	Eredivisie	199.5	143.7	-28.0%
FC Barcelona	LaLiga	839.5	647.0	-22.9%
Manchester United FC	Premier League	711.3	568.5	-20.1%
Tottenham Hotspur FC	Premier League	522.5	426.4	-18.4%
SSC Napoli	Serie A	205.8	175.4	-14.8%
West Ham United FC	Premier League	218.6	190.7	-12.8%
FC Internazionale Milano	Serie A	366.1	320.0	-12.6%
Sporting Clube de Portugal	Primeira Liga	73.7	65.7	-10.8%
Real Madrid CF	LaLiga	740.3	660.9	-10.7%
Juventus FC	Serie A	463.6	418.5	-9.7%
AC Milan	Serie A	214.3	197.9	-7.6%
Chelsea FC	Premier League	512.9	481.9	-6.1%
Atlético de Madrid	LaLiga	371.2	353.6	-4.7%
Borussia Dortmund	Bundesliga I	377.1	362.0	-4.0%
FC Bayern München	Bundesliga I	625.5	602.4	-3.7%

Figure 1. Influence of COVID-19 on the value of football clubs

Source: KPMG, *Football in the pandemic: how top clubs are faring so far*, Football Benchmark - Football in the pandemic: how top clubs are faring so far

Our thesis about the different significance of the “corona crisis” on individual championships and teams is confirmed in a study by Deloitte, according to which the combined operating profits of clubs from the Spanish La Liga fell by 60% from 455 million euros to 183 million euros in 2019/20. However, it is stated that 15 clubs report operating profits despite the impact of COVID-19, demonstrating the impact on La Liga's financial sustainability since its introduction in 2013 (Deloitte, 2021).

However, it is significant that despite the decline in revenue, the ratio between wages and revenues (Wages / Revenue ratio,%) does not decrease, but even increases in the 2019/2020 season compared to the previous season (Deloitte, 2021), which we consider that is also important when discussing the topic.

### **COVID-19 as a factor in the impairment of the competition rights**

Once recognized as intangible assets in clubs financial statements, players' competition rights should be subject to subsequent evaluation and reporting using the approaches set out in IAS 38, namely the cost-of-acquisition model or the fair value model. As already noted, the subject of this publication will be only those points concerning the reduction in the value of competition rights (impairment) as a result of the impact of COVID-19, without addressing the issues of which of the two approaches would be more appropriate.

We believe that in the context of COVID-19 it should be noted that the "revaluation" (fair value) model in practice requires the existence of an active market for the asset at the date of preparation of the financial statements, which is not always possible due to the following circumstances:

- Transfers with competition rights are made only in the so-called. "Transfer windows (periods)", which are strictly regulated;
- There is no active market for every player in cases where the club does not intend to make a deal with its competition rights;
- The presence of COVID-19 significantly changed the negotiation and transfer of competition rights, as some championships ended too late and others started the following season much earlier in an attempt to avoid the waves of COVID-19. The latter was subject to explicit regulation by UEFA, and in June 2020 a temporary exemption from the "three registrations, two clubs" rule was introduced to protect players who lose their jobs due to the COVID-19 pandemic and to protect clubs that have been the subject of existing transfer agreements. Briefly this rule will give the players a temporary right to play official matches for three clubs in one season. (FIFA, 2021, Article 5e).

In order to assess whether the value of the relevant competition rights has decreased more than the depreciation accrued in applying the cost model, companies should also find a way to determine the fair value of these rights at the date of the financial statements.

This has been considered in determining the approach adopted in the UEFA Financial Fair Play Rules, where Annex VII stipulates that for accounting purposes the carrying amount of an individual player should not be revalued upwards, although management can believe that the market value is higher than the book value, ie. The fair value (revalued) approach from IFRS should not be applied. (UEFA, 2018, pp. 69-70)

When assessing the existence of impairment indicators, entities should consider whether the impact of COVID-19 requires an impairment review and, as a result of that review, whether an impairment of the intangible asset has occurred. In this regard, impairment indicators could be broadly divided into two main groups: general (external) indicators and specific (internal) indicators. (Figure 2)

As a specific general indicator of impairment Benkraiem et al. (Benkraiem, 2009) point out the results achieved by the football club. They study the relationship between the sports results achieved by football clubs (public companies) and the reaction of the stock markets, measured by the market price of traded securities. Empirical analysis based on event research shows the presence of unusual results around match dates. The movement and scope of the reaction on the stock market depends on the sports result (win or loss) and the place of the match (at home or as a guest). The authors' findings show that losses cause a significant decline in market prices. This impact is especially important for the defeats received as the host team of the match. However, the matches won were not followed by a significant price reaction. With regard to external indicators, when

performing an impairment review, companies should take into account the impact of COVID -19 on the inputs and assumptions used in making the financial projections for the period, ie. external and internal sources of information should be analyzed for possible impairment.

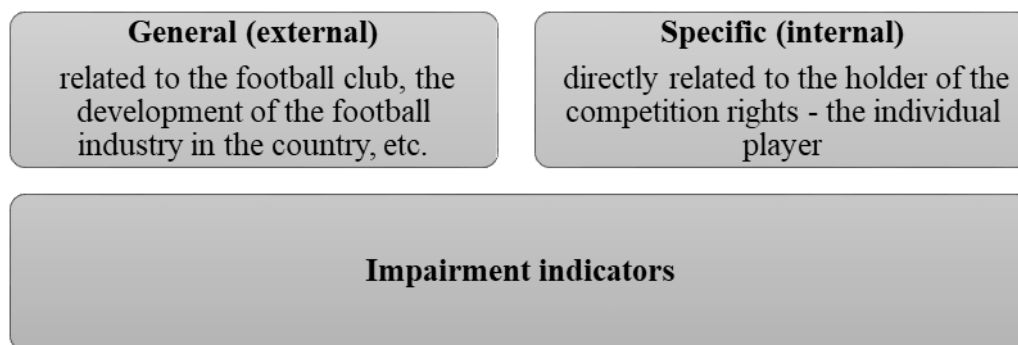


Figure 2. Impairment indicators of the competition rights

Hills and Lindstrom point out that in the process of assessing events related to the recognition of impairments, attention should be paid to the overall financial performance, which includes such factors as negative or declining cash flows; or a decrease in actual or projected revenues and / or profits compared to actual and projected results from the previous periods concerned. (Hills & Lindstrtom, 2020)

These general grounds relating to the football industry provide the framework for the subsequent evaluation and reporting, but also require an answer to a very important question: Can the changes in the football club's market value, the reduction of revenues from ticket sales, television rights, etc. can be considered as grounds for impairment of the value of the competitive rights of individual players and how can this impairment be individualized?

If a football club considers that it should impair an intangible asset presented in its financial statements in accordance with IAS 36, it shall recognize an impairment loss for the asset in the amount of which the carrying amount of the asset or the unit generating cash flows exceeds its recoverable amount. (IAS 36, 2010) In assessing impairment, an entity should consider all available information from internal and external sources. An explicit requirement is introduced in paragraph 10 of IAS 36 - whether there is an indication of impairment, an entity shall annually test for impairment an intangible asset with an indefinite useful life or an intangible asset not yet available for use by comparing its carrying amount with its recoverable amount. . This impairment test may be performed at any time during the year, provided that it is performed at the same time each year.

As Georgieva (Georgieva, 2016, p. 70) rightly points out, the impairment test by definition should be conducted at the individual asset level. Only if the individual asset does not generate cash flows alone, but as part of another, larger unit, then the impairment review should be performed at the cash flow generating unit (CGU) level. The main question to be answered in the context of assessing the extent to which COVID-19 may influence the assessment of competition rights is whether an individual player who is a holder of competition rights can generate economic benefits on his own, and whether he can its recoverable amount is determined, ie to act as a "cash-generating unit" (CGU)? On the one hand, the football team is the one that competes during the individual matches and it seems unthinkable the thesis that a player can be perceived as an object that independently generates economic benefits for the management of the club. A similar thesis is shared by the audit company PwC, according to which the individual player does not represent CGU according to IAS 36 and it is not possible to estimate its recoverable amount, as a player who plays with the main team does not generate cash flows up to largely independent. (PwC, 2018) In their publication, PwC states that the recoverable amount of the CGU (for the core squad) should be

compared to the carrying amount of the entire CGU (including the cost of competition rights of all players who are part of the team) in order to determine whether there is an impairment.

We believe that, despite this opinion, the statement that the value of the team as a whole is a measure of the individual value of individual players should not be considered relevant. On the other hand - very often the spectators attend certain matches only because of specific players. We have witnessed how the absence of a player in a certain football match is perceived almost as a premeditated loss for the team, etc. Moreover, each of these athletes generates benefits for the club independently, through the sale of fan accessories, etc. UEFA's understanding is similar, as FFP 2018 states that the impairment test should be performed individually for each player. (UEFA, 2018) This example is indicative of the gaps in the UEFA regulation, which some authors note, and that IFRS are not fully adapted to companies operating in specific business sectors such as the football industry. (Maglio, 2017)

Assuming the thesis that the object of impairment are the competition rights of the individual player, the logical question arises: What are the circumstances that may reduce the recoverable amount of competition rights and serve as criteria for recognizing an impairment loss and how their influence to be metrified? We believe that the main part of these circumstances are directly related to the holder of the competition rights - the individual player and his performance during his participation in matches of the club, and another part may be the so-called "general indicators" related to the football club, the development of the football industry in the country etc.

When considering the impact of COVID-19 on the value of competition rights, we believe that specific indicators should be indicated, the existence of which will be the basis for recognizing the depreciation of the competition rights of individual players. The following circumstances may play such a role:

➤ The specific clauses in the contract of the particular football player, arising from the advent of COVID-19 - these clauses are subject to negotiation between the parties and only the management knows whether and for how long it intends to extend the contract.

➤ Serious illness of the football player as a result of COVID-19, the so-called post-COVID syndrome, which takes him out of the game for an extended period of time, covering at least half of the contract - in which case the football club cannot receive economic benefits from this player, and at the same time could not sell his players rights, as the footballer cannot de facto exercise them.

➤ The footballer's popularity and influence on social media in relation to COVID-19 - footballer's behavior and sharing of views on social media, which may lead to conflicting perceptions of imposed restrictions, prohibitions, vaccination requirements, etc., caused by COVID-19, may have a negative effect on his football career.

It is worth to note that the UEFA FFP Rules state that if "the player suffers an injury during the reporting period and is temporarily unable to play professional football with the club" does not constitute a reason for recognizing an impairment loss. (UEFA, 2018, p. 70) We believe that this circumstance should be subject to refinement by UEFA, as the absence from play of a player for a period of 6-9 months, caused by a severe post-COVID period, in a one-year or two-year contract would have a significant negative impact on the club from ch. of the expected economic benefit from the respective player.

As a result of the arguments presented, we believe that COVID-19 and its consequences - economic, social, health, can be seen as a factor in reducing the value of the competitive rights of players. This factor can be included as part of the so-called general factors that are relevant to the overall performance of the football club, and to have a personalized meaning in relation to individual players.

We consider these indicators to be particularly important with regard to the subsequent reporting of competition rights as a specific intangible asset. Two years after its beginning, the pandemic of COVID-19 has not only not subsided, but continues to gain strength and affect all

spheres of life, including and the football industry. It has changed and will change the ways of doing business, the business models and the concepts of sustainability that companies apply and the specific regulations in different industries around the world. In this regard, we believe that UEFA must develop a strict methodology that allows clubs to recognize losses from impairment of competition rights in their financial statements and this methodology should be part of the FFP Rules and to fill the existing gap. This is necessary because football clubs will face great difficulties in assessing whether there are circumstances that justify the recognition of an impairment loss and, more importantly, how to measure and assess this loss given that a large part of the the factors (indicators) that determine it are mainly of a qualitative nature, and this in turn opens the door to the so-called "earnings management".

### **Conclusion**

The changes in socio-economic life brought about by the development of the COVID-19 pandemic have affected almost all sectors of the economy, provoking a mixed response, both from business and from regulators and governments around the world. The football industry has not remained unaffected by these processes. The action taken by FIFA, UEFA and national football federations aims to mitigate the impact of the pandemic on this industry. At the same time, COVID-19 has opened the door to many existing problems that have not previously been the subject of in-depth analysis by both football clubs and federations. The lack of specific regulations of the recognition of the impairment of players' competition rights is only one aspect of these problems. We believe that raising this issue and finding a solution is absolutely necessary and would improve the subsequent reporting of this specific intangible asset - the competitive rights of professional players, which are actually the main resource of football clubs and are the basis for generating huge cash flows ( incoming and outgoing) in this industry.

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