



DEPARTAMENT OF ACCOUNTING AND FINANCE

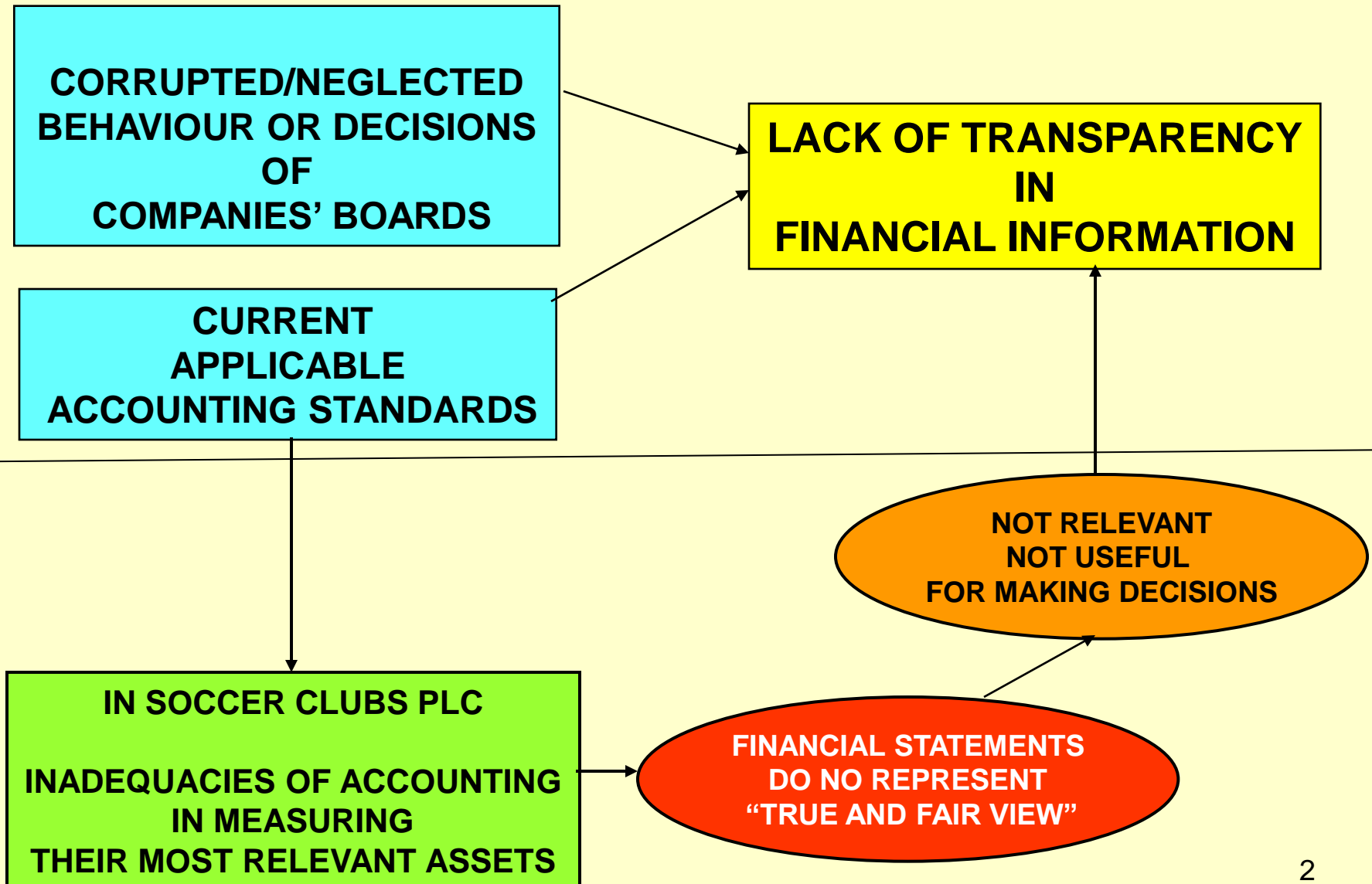
UNIVERSITY OF SEVILLA

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

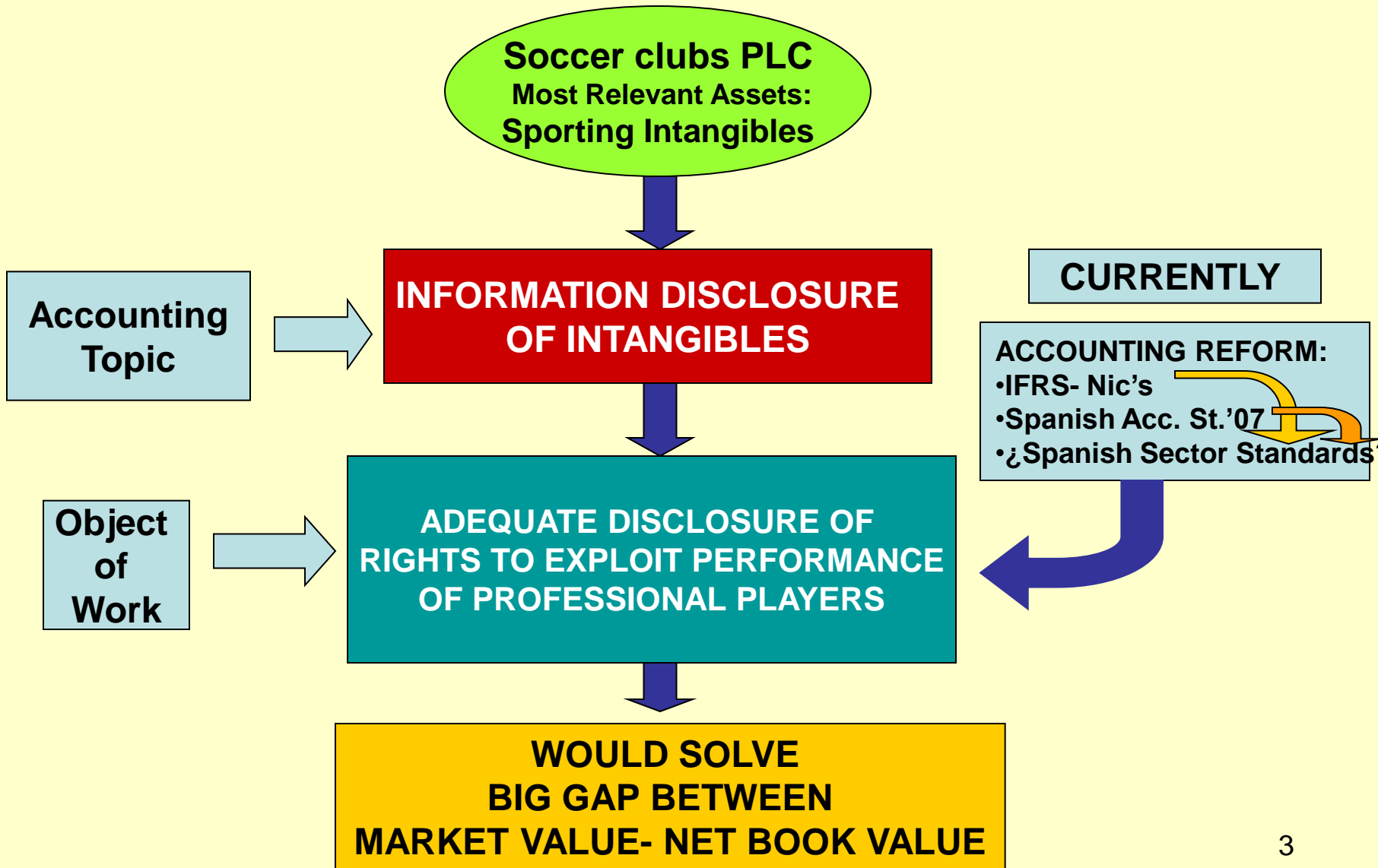
Authors:

**Martín Lozano, F. Javier
Carrasco Gallego, Amalia**

1.- OBJECTIVE OF WORK (I)



1.- OBJECTIVE OF WORK (II)



2.- OBJECTIVES TO EVIDENCE

DISCLOSURE OF RIGHTS TO EXPLOIT THE PERFORMANCE OF PROFESSIONAL PLAYERS

INSUFFICIENCY OF ACCOUNTING STANDARDS APPLICABLE UNTIL REFORM (Sp.Acc.St.'90 & Sector St. 2000)
Philosophy: Prevalence of Conservative cpt. & Acq. Cost)

PARCIALLY 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?

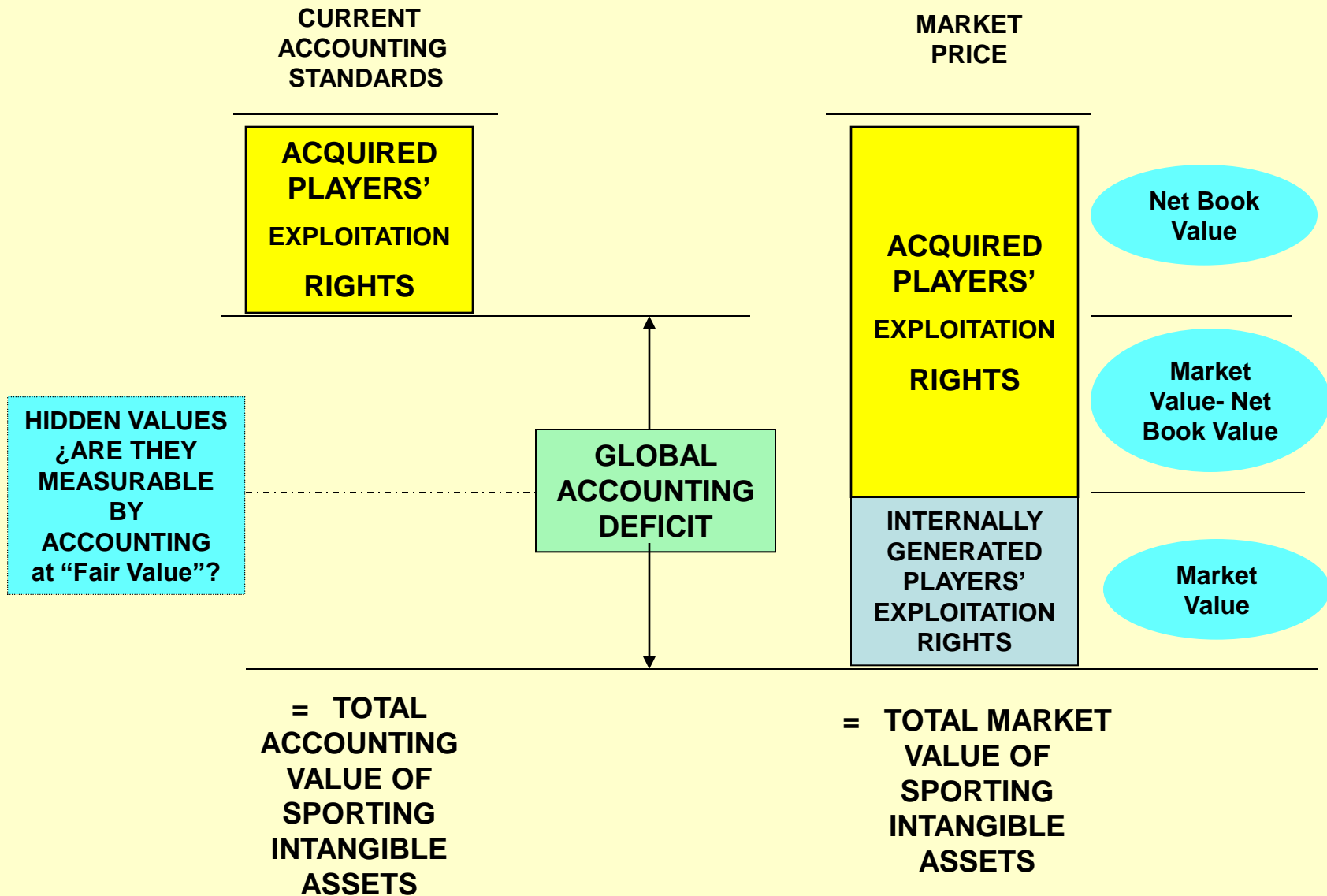
METHODOLOGY: CASE STUDY
Objective to Evidence:

- Insufficiency existence
- Assets Relevance of Insufficiency
- Possibility of Valuation different from Acquisition Cost (reliable precedents?)

ACCOUNTING REFORM:
Philosophy: Useful and Relevant information.
Prevalence of "True and fair view" over Cosevativism concept

- IFRS- Admit "Fair Value" for Intangibles
- SAS'07- Fair Value Not admitted for intangibles
- Future Spanish Sector standards?

2.- OBJECTIVES TO EVIDENCE (II) Global Accounting Insufficiency



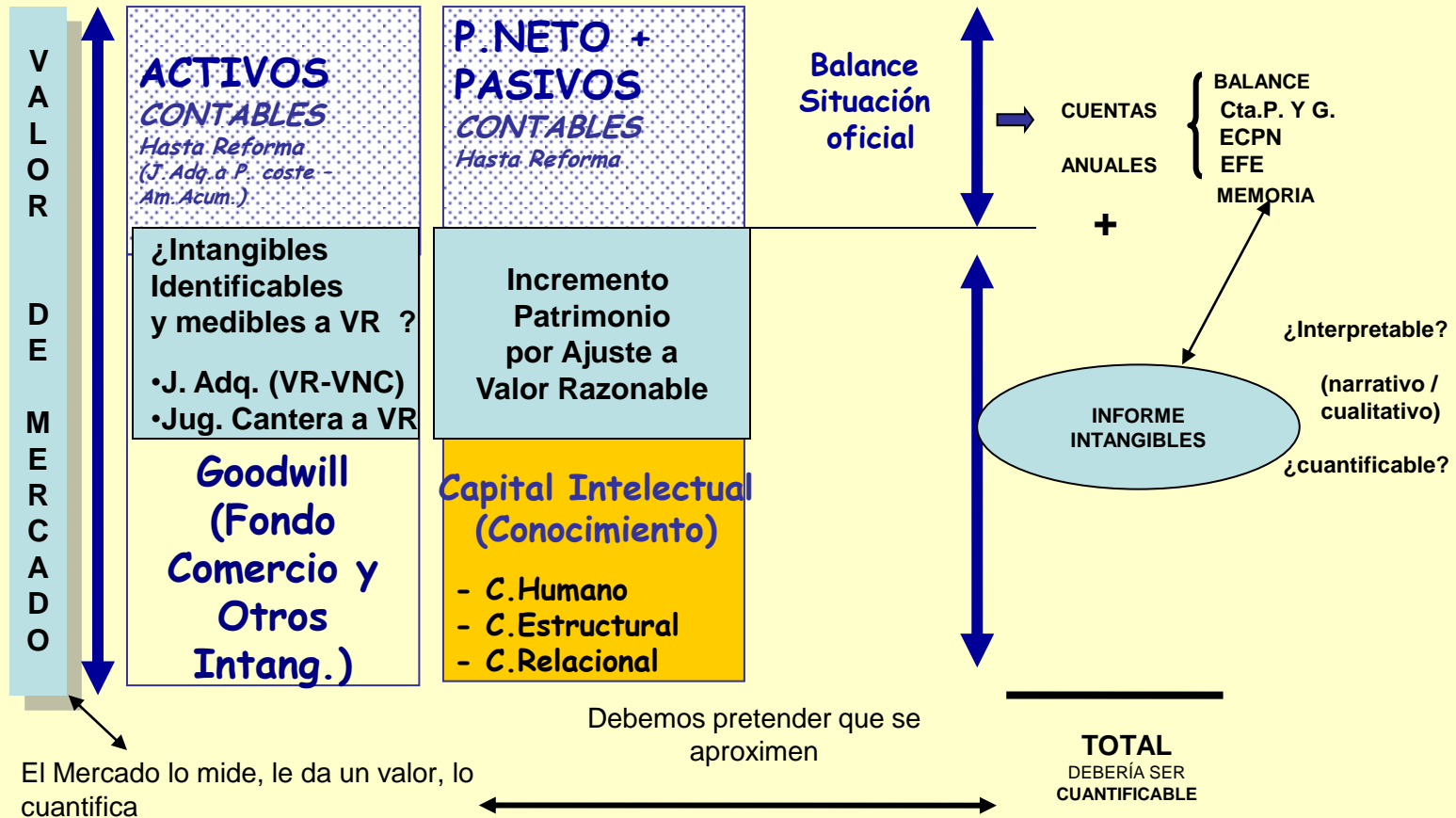
3. REVISION OF PREVIOUS LITERATURE

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

Intellectual Capital = Structural Assets + Relational Assets + 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**.
- **Bursesí 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 succesful 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.



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)

5.- CASE STUDY (I): Reasons for election

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 othe 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:

- the studies by Gay Liébana Saludas (2008, 2009) on the first Spanish Soccer Liga, based on the aggregation of the Balance Sheets and Profit and Loss Accounts of football clubs PLC's in seasons 2006/2007 and 2007/2008.
- Economical-Financial Summary Report of Spanish Soccer 1999-2012 (Consejo Superior de Deportes-2014)

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

INCOMES		%			%
TURNOVER		95%			
*Competitions:		15-20%			
*Seasons tickets:		20%			
*Broadcasting/TV Rights:		35%			
*Marketing/sponsoring:		25%			
Other operating incomes		5%			
		100%	Total OPERATING INCOMES		100%
EXPENSES		%			
Labor Cost		50-60%			
Amortizations exp. For Rights to exploit football players' performance		16-20%			
Other operating expenses		20-25%			
		100%	Total OPERATING EXPENSES		-110/-120%
			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.- ANALYSING RESULTS (II)

6.2. Most important items in a football club PLC's Balance Sheet

ASSETS	%	LIABILITIES AND STOCKHOLDERS' EQUITY	%
FIXED ASSETS:		STOCKHOLDERS' EQUITY:	
Intangible assets (Federative Rights to exploit footballers)	30-40%	Capital Stock	
Tangible Assets		Reserves	
Inmovilizaciones Financieras		Prior years Results	
Deferred expenses (fotballers' image multiaannual rights)		Current Year P/L	
		Deferred Incomes (multianuall boroadcasting rights)	
TOTAL FIXED ASSETS	60-70%	TOTAL STOCKHOLDERS' EQUITY	0-10%
CURRENT ASSETS:		ACREEDORES A L.P.	
Inventory		L/T Borrowings	
Receivables		Oher creditors	
S/T financial Investments		TOTAL LONG TERM LIABILITIES	50%
Cash		S/T borrowings	
Time period adjustments		Suppliers	
		Other Debtors	
TOTAL CURRENT ASSETS	30%	Time period adjustments	
		TOTAL CURRENT LIABILITIES	40-50%
TOTAL ASSETS	100%	TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	100%

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

AVERAGE IN TEN YEARS (1999-2009)	SOURCE	NUMBER OF PLAYERS in squad	%	NET BOOK VALUE (Million €)	%
	ACQUIRED	14	57%	19.6	100%
	HOME-GROWN	11	43%	0	0%
	TOTAL	25		19.6	100%

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

AVERAGE 6 YEARS of Sales in 12 years of study (1997-2008)	Number of sold Most significant PLAYERS	Average NBV of one SOLD PLAYER millions €	Average Sales Value of one sold player millions €	Average NBV of the sum of ALL PLAYERS of SQUAD millions €	% Sales Price of only one player / NBV of all the players	Average TOTAL ASSETS millions €	% Sales Price of one player / TOTAL ASSETS
	11	1	22	20	110 %	58	38%

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 COMMITTE OF L.F.P.- National Professional Soccer League Association-)

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

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

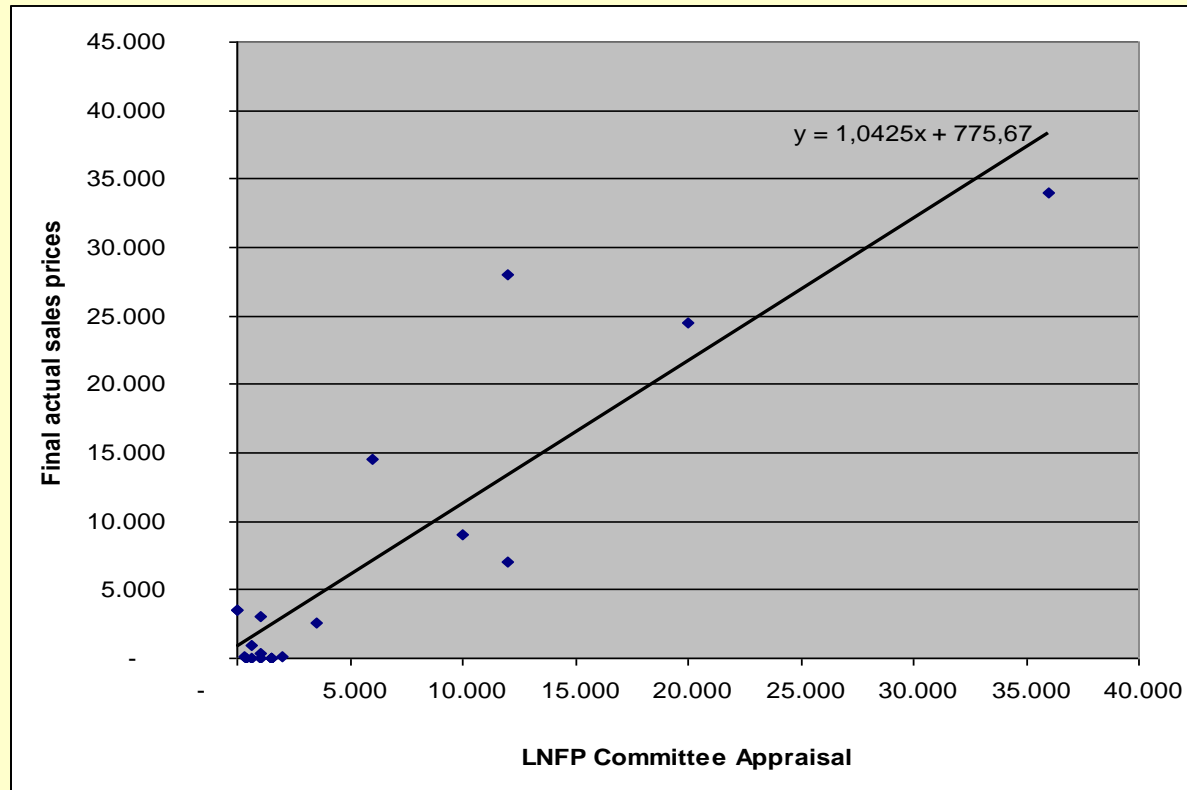
	NBV at Closing (30-june)	LNFP ASSESSMENT previous to closing of Accounts	Actual Sales Price after closing of accounts
TOTAL 35 SOLD PLAYERS	30,1	181,5	208,7
% over SALES PRICE	11%	87%	100%

% predictive ability of non accounting Assessment

6.- ANALYSING RESULTS (IV)

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

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



7.- CONCLUSIONS

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.

8.- FINAL CONCLUSION AND CURRENT WORK LINE

**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**