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Chairman

PDC N° 7

Paris, 7 February 2020

Mrs Sue Lloyd

IFRS Interpretation Committee Chair

7 Westferry Circus, Canary Wharf

London, E14 4HD

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## December 2019 – IFRS-IC Tentative Agenda Decision on IFRS 15 and IAS 38: Presentation of Player Transfer Payments

Dear Mrs Lloyd, *Dear Sue,*

I am writing on behalf of the Autorité des normes comptables (ANC) to express our views on the IFRS-IC tentative agenda decision published in the November 2019 Update, regarding IFRS 15 and IAS 38: Presentation of Player Transfer Payments.

While we agree on many aspects of the analysis (existence of an intangible asset, presentation of the transfer payment received when such an asset is sold), some questions remain, especially regarding the possible recognition of the right paid as inventory and its consequences, which are according to us not fully addressed by the tentative agenda decision. This letter sets out the most critical issues identified by interested stakeholders involved in ANC's due process. They relate to the possibility of recognising registration right as inventory (Part 1) and its subsequent measurement (Part 2).

We are of the opinion that the final agenda decision should not include any reference to the possibility of recognising transfer payment as inventory. This question does not appear to be relevant, as the fact pattern limits itself to the possibility of recognising the gain or loss arising from derecognition of an intangible asset when applying IFRS 15.

Should it nonetheless be decided to address the possibility of recognising the transfer payment as inventory, it would be strongly advised to contemplate a standard-setting process as to properly tackle the issues under review in this letter (Part 3).

### Part 1: Identifying a registration right

The tentative agenda decision specifies that, if the ordinary activities of a club include the development and transfer of players, the corresponding registration right could meet the definition of an inventory. According to the wording of the agenda decision, we understand that this determination would occur on a player-by-player basis, provided that evidence of the existence of such a business model could have been provided at the club level. This position raises difficult implementation questions.

First, this decision is bound to be mostly based on a judgement call, due to the frequent changes in the prospective use of a particular player, depending on his individual performance as well as his inclusion within a team. As underlined by our constituents, the underlying rationale could be frail and therefore difficult to assess, be it by the club itself or by its auditors. This could potentially impair the relevance of the club's financial statements.

It could be argued that these difficulties are the same as those encountered in other contexts (investment properties held for sale for example), but we would like to underline that they could be even more prevalent in a business where the decision to sell the right owned on a player could be construed as a question of opportunity rather than the result of a decision taken years before. For example, in the car rental business, the business model relies on the systematic sale of the fleet after a relatively short period of time, so as to renew the vehicles. By contrast, the business model of football clubs is much more fluid and difficult to characterise at individual player's level, even if the transfer of rights can represent a sizable portion of their total income for some of them. The difficulty would be all the more daunting in practice, as this assessment has to be made on a player-by-player basis. If this line of reasoning is nevertheless retained in the final decision, it would appear necessary that some guidance be provided as to how to assess the business model that should be applied to an individual player.

## **Part 2: Subsequent measurement of inventory**

Should the Committee decide to proceed with the possibility to classify the transfer right as inventory, some remaining aspects ought to be clarified, especially regarding its subsequent valuation. More precisely, two different aspects should be dealt with: the use of the inventory prior to its selling on the one hand, the accounting treatment of expenses during the training period on the other.

First of all, the players will contribute to the revenue of the club during the course of its development, be it from ticket sales, media rights or even competition prize money. Even if the intention to sell the right on the players underlies all this process, it remains that the accounting performance of the club will be driven by the accounting policy: whereas a right recognised under IAS 38 will affect the performance through its amortisation, no cost would be accounted for against the revenue stream if the same right is considered as inventory. This difference in accounting treatment does not appear to be underpinned by any convincing facts and circumstances, other than an expected transfer of the right, which consequences will not affect the periods prior to its occurrence.

Secondly, on a related but different basis, we are of the opinion that the question of the accounting treatment of expenses related to this player during the development period should also be dealt with. The costs of his development are incurred in order to maintain or increase the value of the right acquired, and thus generate a profit when the player is sold. Therefore, the right to transfer the player should be considered as part of an "inventory in the process of production for sale in the ordinary course of business". As underlined in the tentative agenda decision, the fact that the asset is in the process of development for sale in the ordinary course of business is indeed a key condition to its meeting the definition of inventory (as in IAS 40.9(a) for example). In this case, the cost of conversion ought to be included in the cost of the right (IAS 2.12). According to IAS 2.10, the cost of inventories shall indeed "comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition." Therefore, it follows that the costs pertaining to the development of the player's performance (salaries, production overheads...) should be considered as part of the cost of inventory, alongside the initial cost of purchase.

### **Part 3: Rationale for a standard-setting process**

The analysis provided in the agenda paper underlines both the limited scope of IAS 16.68A (assets held for rental prior to their sale) and the lack of basis on which to apply the requirements pertaining to IAS 16 in the context of IAS 38. Even though we concur with this analysis, we are of the opinion that introducing a dual model of derecognition in IAS 38 could have its merits. It could appear as a convincing way to allow for the proper recognition of the two different income streams identified in the fact pattern submitted to be recognised, without having to classify the player transfer payment as inventory at inception, with all the difficulties that such an accounting choice is bound to imply (see Part 1 and Part 2).

Moreover, the rationale behind the accounting for the transfer right of a player could be similar to other intangible rights. As the consequences of the tentative agenda decision on those transactions have not been fully explored, a standard-setting process would allow more time and extensive outreach to properly assess potential side effects of the accounting treatment as envisioned.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

*Kind regards.*

*Patrick de Cambourg*

Patrick de CAMBOURG

