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For discussion

The Statistical Treatment of Transfer and Loan Agreements of Sport Players

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Following the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6), economic transactions related to transfer agreements of sports players should be classified in the capital account as nonproduced, nonfinancial assets. However, BPM6 makes no reference to other terms often associated with transfers of sports players and does not provide guidance on the treatment of loan agreements of sports players. The BPM6 Compilation Guide (BPM6 CG), on the other hand, addresses both topics. This paper discusses the treatment presented in the BPM6 CG and proposes additional methodological guidance on the issues.

I. CURRENT GUIDANCE ON TRANSFERS AND LOANS OF SPORTS PLAYERS

1. **Transfer fees of sports players are classified as “contracts, leases, and licenses” in “acquisitions and disposals of nonproduced, nonfinancial assets” in the capital account.** BPM6 provides guidance on this matter in paragraphs 13.11 and 13.15. Paragraph 13.11 defines “contracts, leases and licenses”:

- ***Contracts, leases, and licenses covers those contracts, leases, and licenses that are recognized as economic assets.*** These assets are creations of society and its legal system, and are sometimes called intangible assets. Examples include marketable operating leases, permissions to use natural resources that are not recorded as outright ownership of those resources, permissions to undertake certain activities (including some government permits), **and entitlements to purchase a good or service on an exclusive basis.** [emphasis added]

2. **Paragraph 13.15 of BPM6 explicitly states that the transfer fees of sports players are economic assets of the sort described above,** as they are entitlements to purchase a good or service on an exclusive basis:

- *Entitlements to future goods and services on an exclusive basis may be an asset under contracts, leases, and licenses. Examples include the transfer fees paid by one sporting club to another for the transfer of a player (...)*

3. **Formally, transfer agreements usually involve the transfer of players’ federative rights,** which may be defined as “the rights binding a professional player to a club by virtue of an employment contract which is duly registered before the respective national association”². Since a player can be registered to play for only one club at any

¹ This note was prepared by the Balance of Payments Division (Dibap) of the Department of Statistics (DSTAT) of the Banco Central do Brasil (BCB) to be discussed at the Thirty-First Meeting of the IMF Committee on Balance of Payments Statistics (BOPCOM) in October 2018.

² Definition stated in Project TPO, KPMG, <https://www.ecaeuropa.com/media/1682/tpo-report.pdf>

given time the federative rights cannot be fractioned. For a club, having a player exclusively on its roster has economic value. Therefore, there are economic rights derived from the federative rights.

4. The transfer fees reflect the economic rights derived from the federative rights. Such economic rights have to do with the entitlement to future services (in this case, the player’s performances) on an exclusive basis (due to the indivisibility and therefore exclusiveness of federative rights). That is the rationale for the classification of transfers as “contracts, leases, and licenses” under “acquisition and disposal of nonproduced, nonfinancial assets”. In broad terms, the economic rights can be treated as an *economic asset*, which is neither produced (but created by contracts and practices of the sports markets) nor has a counterpart liability (if it had, it would be a financial asset in the balance of payments financial account).

5. BPM6 however does not provide guidance on other terms often associated with transfer agreements. The topic is addressed only in the *BPM6 CG*:

- *Both “transfer” and “loan” agreements may be of a variety of forms with different terms, including those related to risk factors, transfers of registration, salaries for the players, players’ sponsorship and media rights, and so on. The compiler would need a variety of details regarding the terms of the agreements (with particular attention to agreements that are significant in value) to determine appropriate classifications in the balance of payments (paragraph 15.13).*

6. According to findings of the BCB, two such terms stand out in transfer agreements: third-party entitlements of economic rights and agents’ commissions.

(a) **Third-party entitlements:** even though federative rights are indivisible and must belong to only one club at a time, the derived economic rights are not. Third-party entitlements occur when any party other than the two clubs directly involved in the transfer or the players themselves own a share of the players’ economic rights³. Third-party entitlements may be mandated by federations’ regulations, as in the case of training compensation and solidarity mechanisms⁴ that occur in football.

(b) **The role of agents:** in principle, agents act as intermediaries, and therefore their commission fees should be excluded from the capital account and treated as services.

³ The Fifa Regulation on the Status and Transfer of Players (<https://resources.fifa.com/image/upload/regulations-on-the-status-and-transfer-of-players.pdf?cloudid=adi1292xtnibmwrqnimy>) has banned, since 2015, third-party ownership, a specific kind of third-party entitlement in which the third-party is not a club with which the player has been registered in the past. In other words, the only kind of third-party entitlement currently allowed in football is with a player’s former clubs, in particular through the compensation and solidarity mechanisms.

⁴ Fifa Regulation on the Status and Transfer of Players, Chapters 20 and 21.

However, based on evidence from the sports press, it is known that many agents actually own shares of the economic rights of the players that they represent. When that is the case, their shares of revenues of transfer fees (net of their intermediation services) should also be treated as nonproduced, nonfinancial assets rather than services.

7. Moreover, BPM6 does not provide guidance on the “loan agreements” of players. The matter is only addressed in the *BPM6 CG* in Chapter 13 – Primary Income:

- *Another component that is classified under rent is related to agreements in professional sports involving the sale of rights to use players. Under so-called loan agreements, a player is allowed to temporarily play for a club other than the one with whom the player is currently under contract. **The fees paid under loan agreements should be recorded in property income as rent** (paragraph 13.104). [emphasis added]*

BPM6 CG Chapter 15 – Capital Account emphasizes this treatment and describes the underlying rationale:

- *When the sale of rights to a player involves a cross-border transaction, the fee paid by the party acquiring the player under a “transfer agreement” should be classified under gross acquisitions/disposals of nonproduced nonfinancial assets in the capital account. **In contrast, amounts paid under “loan agreements” (which, as noted, involves the temporary transfer of rights to use the services of players) should be recorded in property income as rent ...** (paragraph 15.12). [emphasis added]*

8. As stated above in item 5, paragraph 15.13 of the *BPM6 CG*, both loan and transfer agreements may have a variety of forms with different terms. One important term in the case of loan agreements is the responsibility for paying players’ salaries⁵. The property income classified as rent paid by the club receiving the player to the club lending the player covers only the temporary transfer of rights to use the services of the player. Even though not explicitly stated in paragraph 15.13, it is reasonable to assume that the salary that the receiving club owes to the player should be considered as a separate transaction.

9. In some cases, the parent club may opt to keep paying the player’s salaries in full or in part. This raises the following question: from a methodological standpoint, who bears the economic responsibility for paying these salaries? In principle, there are three possible answers: the parent club, the borrower club or whoever is appointed in the agreement. Given that during the term of the loan the player has an employment

⁵ Although it does not strictly fall under the topic of transfers of sports players, as a related topic and not covered in *BPM6* we understand that guidance should be provided on this issue.

contract with and plays exclusively for the borrower club, we propose to assume that it is this club's responsibility to pay the player's salary.

10. If the contract does not match this (proposed) methodological guidance, then a rerouting will be needed. For instance, let's consider a simple agreement between two clubs and a player, with only two terms, loan fee and salary. In the standard case in which the borrower club pays the full salary directly to the player, no rerouting is required. However, if the parent club pays part of the salary, then this part should be deducted from the loan fee and considered to be paid by the borrower. In case this part is higher than the loan fee, the loan fee should be considered to be zero and the difference between the two would be a transfer from the parent to the borrower club⁶.

11. Another methodological aspect of a loan agreement, given its temporary nature, is determining the residence of the player on loan to a nonresident club. Neither *BPM6* nor *BPM6 CG* provide specific guidance on this point. As the loan agreement implies an employment agreement on an exclusive basis with the receiving club, it should be considered that, like with any worker, a player's residence follows the general "one year" rule laid out in paragraph 4.117 of *BPM6*. The fact that this agreement is temporary would have no effect in determining the player's residence; only the duration (shorter or longer than one year) would.

II. PROPOSED RECORDING OF DIFFERENT TERMS ASSOCIATED WITH TRANSFERS OF SPORT PLAYERS

12. If third parties, other than the two clubs and the player directly involved in a transfer, receive a part of the transfer fee because they own a share of the player's economic rights, the amount received by these third parties should be classified as "contracts, leases, and licenses" in "acquisitions and disposals of nonproduced, nonfinancial assets" in the capital account.

13. If details on the transfer agreement are available, more than one item will possibly be recorded in the balance of payments. The amount related to the rights to use the services of the player should be classified as "acquisitions and disposal of nonproduced, nonfinancial assets" in the capital account. Amounts related to other terms, such as risk factors, transfers of registration, agents' commissions, players' sponsorship and media rights, should be recorded in other appropriate balance of payments items.

⁶ The rationale for the parent club to engage in a transaction in which it agrees to keep paying the player's salary or even making a loss may be that the parent club see economic value in the transaction that is not explicit in the contract. For example, the club might not have a place for a young player in its roster and might decide to lend him/her hoping it will help his/her improvement. Or the club might have a sunk cost from a high salary previously agreed with a player that is not performing well and lending him/her to another club could reduce at least part of this cost.

14. In particular, agents' commissions, which are the compensation for the agents' work as intermediaries, should be classified as trade-related services. However, disproportionately high commissions suggest that the agent owned a share of the player's economic rights, in which case the commission (net of their intermediation services) should be classified as nonproduced, nonfinancial assets. Knowledge of the transfer market is necessary for the compiler to be able to define an appropriate cap for the intermediation services⁷.

III. PROPOSED RECORDING OF LOANS OF SPORT PLAYERS

15. The fees paid for the temporary transfer of rights to use the services of sports players under so-called loan agreements should be recorded as rent, which is the appropriate account for income generated from nonproduced, nonfinancial assets.

16. If details on the loan agreement are available, more than one item will possibly be recorded in the balance of payments. The amount related to rent and amounts related to other terms, such as risk factors, players' salaries, agents' commissions, players' sponsorship and media rights, should be recorded in other appropriate balance of payments items.

17. Players' salaries in particular are considered to be paid by the borrower club. If the contract establishes that the salaries (or a part of) are responsibility of the parent club, this part should be rerouted to the borrower through a deduction from the loan fee. If the salaries are higher than the loan fee, the correspondent rent will be regarded null and a transfer from the parent to the borrower club, equal to the difference, will be recorded under secondary income.

18. The residence of a player on loan should be determined according to the general rule stated in paragraph 4.117 of *BPM6*. If the loan lasts for more than one year, it should be considered that the player's country of residence has changed; otherwise, it should be considered that it has not changed.

Questions for the Committee:

1. *Do Committee members agree with the proposed recording of the different terms associated with transfers of sports players? In particular, do Committee members agree with the proposed recording of agents' commissions?*
2. *Do Committee members agree with the proposed recording of loans of sports players? In particular, do Committee members agree with: (a) The recording of*

⁷ For this, federations' regulations might be useful. In the case of football, for example, [FIFA regulations on working with intermediaries](#) establish 3% as an appropriate commission.

loan fees as rent?; (b) The recording of players' salaries as being a responsibility of the borrower club? (c) The treatment of the residence of players on loan according to the general one-year rule?

3. *Do Committee members agree that the concluding step would be to publish a clarification beyond dispute that addresses the statistical treatment of transfers and loan agreements of sports players?*

APPENDIX 1: Recording loan agreements in the balance of payments

This appendix illustrates the principles laid out above for the recording of loan agreements in the balance of payments.

In this example, team Alfa from country A lends a player on a loan agreement to team Bravo in country B. The player was a resident of country A before the loan. Two possibilities are considered: (i) loan lasts for less than one year; (ii) loan lasts for more than one year.

Case 1: Team Alfa receives a loan fee of \$ 100 and team B pays the player's salary of \$ 20.

Case 2: Team Alfa receives a loan fee of \$ 100 and pays the player's salary of \$ 20.

Case 3: Team Alfa receives a loan fee of \$ 100 and pays the player's salary of \$ 130.

BOP records for country A		
	(i)	(ii)
Case 1	Primary Income: Rent (credit): +100 Compensation of employees (credit): +20	Primary Income: Rent (credit): +100 Compensation of employees (credit): -
Case 2	Primary Income: Rent (credit): +100-20 = +80 Compensation of employees (credit): +20	Primary Income: Rent (credit): +100-20 = +80 Compensation of employees (credit): -
Case 3	Primary Income: Rent (credit): +100-130 = -30 -> 0 Compensation of employees (credit): +130 Secondary income Other transfers (debit): -30	Primary Income: Rent (credit): +100-130 = -30 -> 0 Compensation of employees (credit): - Secondary income Other transfers (debit): -30

APPENDIX 2: THE CASE OF BRAZIL

Compilation in Brazil

Three possible data sources for Brazil to compile statistics on transfers of athletes would be the International Transactions Reporting System (ITRS), surveys, and administrative data. ITRS coverage is satisfactory if the share of the transfer fee revenues kept abroad (not settled through the domestic foreign exchange market) is not significant and granted that there is a consistent data validation process. This is the case in Brazil and the ITRS has therefore been so far the most efficient data source. Obtaining adequate responses from surveys of football clubs would be more costly and less satisfactory in terms of coverage. The third option, using administrative data such as registers from national football federations, has not been attempted.

In the Brazilian ITRS, there is a specific transaction code for athlete transfer fees, called “economic and federative rights of professional athletes”. An advantage of using the ITRS as a data source is that it is regulated and supervised by the BCB and, through a specific foreign exchange monitoring unit, balance of payments compilers can provide guidance to banks on the use of the code. Another advantage is that ITRS regulation requires banks to provide documents to support the validation of the classification of transactions in the ITRS. In the case of player transfers, these documents would be, for example, the transfer contracts between the clubs and other parties. A third advantage is that compilers have access to the microdata on the transactions, including the names of the parties involved.

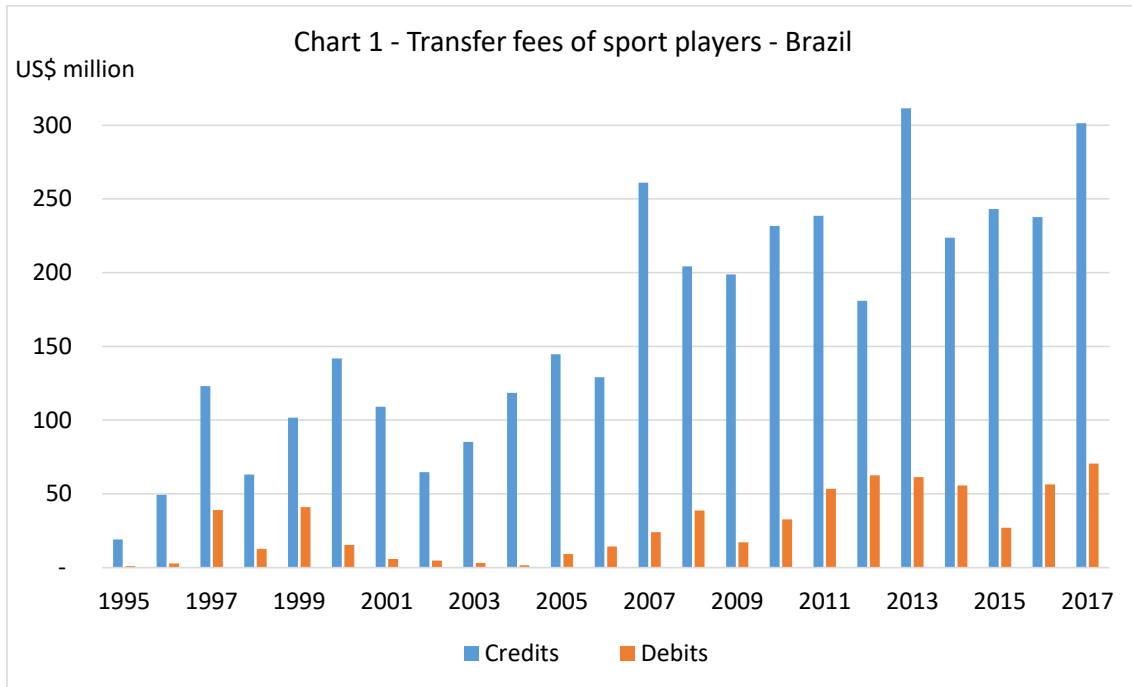
Clubs that contribute to a player’s education and training are entitled to receive a portion of their future transfer fees. Data on the payment of these fees from nonresident buyers to the resident club entitled to these portions are covered in the ITRS. The ITRS code is the same used for the initial transfer from Brazil to the club abroad, and both kinds of transactions are treated as nonproduced, nonfinancial assets, since the buyer is paying to use the services provided by the player on an exclusive basis. We understand that this treatment is in line with *BPM6*.

A shortcoming of the ITRS is that it does not capture transactions settled abroad. This may occur for some player transfers, which would result in a gap in the balance of payments, since settlements abroad are not reported in Brazil’s ITRS. Currently there is no estimate of the size of this gap.

Brazil’s statistics

BPM6 does not recommend the breakdown of gross acquisitions and disposals of nonproduced, nonfinancial assets. Notwithstanding, given the availability of data on gross flows and the importance for users, the BCB publishes two “of which” series

under nonproduced, nonfinancial assets with statistics of player transfers. These statistics are shown in Chart 1. Credits (residents selling players' economic rights) have been growing consistently since the early 2000's. There are outliers though, like in 2013 and 2017, due to uncommonly high value transfers.

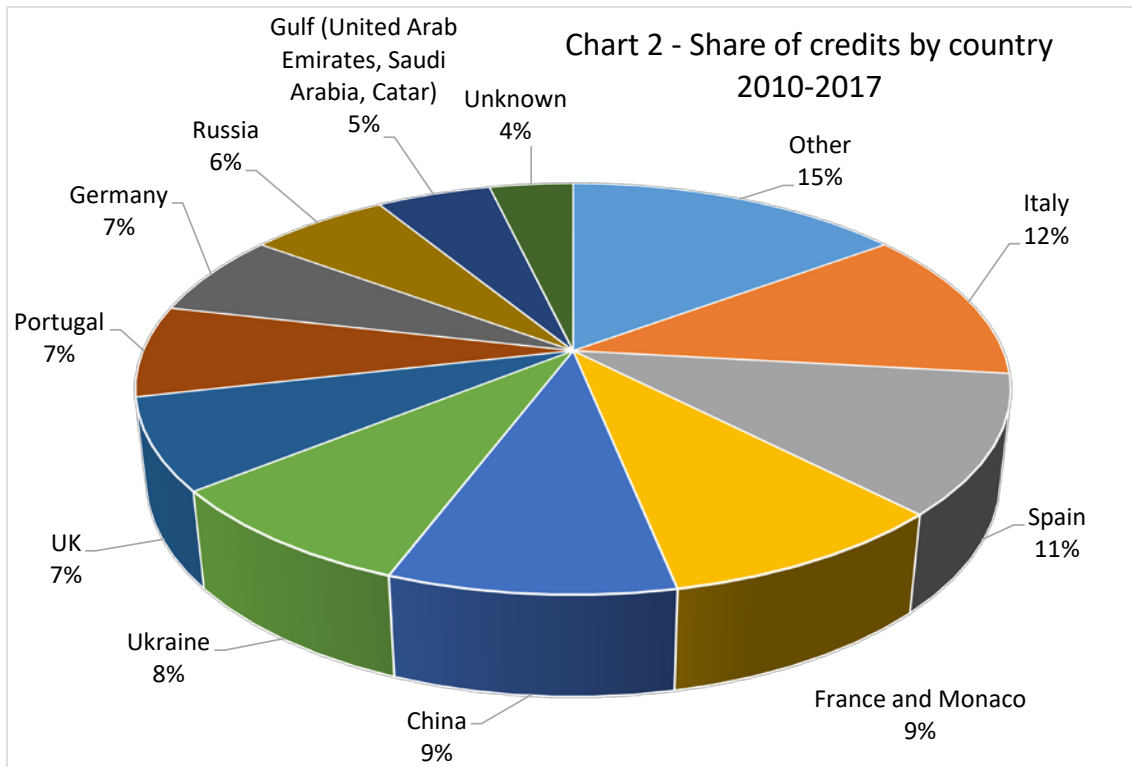


On the debit side (residents buying players economic rights from nonresidents), there is an increase from virtually zero in the mid-2000's to the recent level of US\$50 million a year, due to the increase in the number of foreign football players, mostly from other Latin-American countries, playing for Brazilian clubs.

For 2010 onwards the BCB has granular data on athlete transfers in the balance of payments database. These data show several non-football-related transfers, particularly volleyball, but their values are overshadowed by the football-related contracts.

As for residents taking part in the transactions, 93% of the credits between 2010 and 2017 were received by resident clubs and only 7% by other parties (agents, investors, or the players themselves). However, the clubs' shares may be overestimated in the ITRS, as some reports in the sports press indicate that clubs often receive the whole of the transfer fees from abroad and then distribute the shares to other resident parties.

The breakdown of credits by country of nonresident buyers (Chart 2) shows a mix of mature football markets (Spain, Italy, Portugal, Germany, France, UK) and emerging football markets (Ukraine, China, Russia, Persian Gulf countries, and Japan).



The distribution of annual credits by country of the buying club (Table 1) shows the rapid growth of China, from almost zero in 2010 to US\$38 million in both 2014 and 2015, when the country topped the ranking, and US\$40 million in 2016, when it was second. Payments from Ukraine also grew rapidly, from US\$26 million in 2010 to US\$72 million in 2013, the highest annual value between 2010 and 2017. Flows fell sharply, reaching virtually zero in 2015-2017, in the aftermath of the country's political crisis. Nonetheless, the flows from Ukraine were the third largest in the period, only below Italy and Spain, and the highest among the emerging football markets.

Table 1 - Annual credits by selected countries

	US\$ million							
	2010	2011	2012	2013	2014	2015	2016	2017
Italy	29	21	24	25	27	19	63	27
Spain	32	17	13	49	15	27	15	47
France and Monaco	3	7	6	59	3	16	18	69
China	3	22	9	12	38	38	40	13
Ukraine	26	36	11	72	18	2	-	1
UK	14	11	14	22	12	10	24	34
Portugal	28	35	13	11	21	11	10	12
Germany	23	10	13	10	13	25	17	17
Russia	18	19	35	18	-	-	10	22
Gulf countries	4	10	10	9	19	35	7	5