



FORENSIC

Football Transfer Monitor

Summer 2009 Window

ADVISORY





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Introduction

Welcome to the latest edition of the *Football Transfer Monitor* which looks at the player transfer activities of clubs in the top three tiers of English football in the recent summer transfer window. This publication has been produced by the KPMG Forensic Sports Industry Team and provides analysis and insight to the 170 transfers that commanded a fee which were completed before the window closed on 1 September 2009.

The *Monitor* shows that in the most recent transfer window Premiership clubs' net spending has fallen significantly – down to £82 million from £210 million in the summer 2008 transfer window. 'Big Four'¹ clubs have actually generated a combined net inflow on transfer activity of around £75 million. This is not the whole story though, with Manchester City in particular bucking the trend with some significant player investments.

Generally, clubs have been acting with greater financial care in the current economic environment. Moreover, some big names, such as Kaka and Benzema, have opted to join Real Madrid whilst Manchester United and Liverpool have lost star players to the La Liga club. The lack of 'big name' players arriving in the UK might appear strange given the recent success of English clubs in Europe, with three of the four semi finalists in the last three years of the Champions League being English. It may be that the relative weakness of the Pound against the Euro, coupled with the higher rate tax band recently announced in the UK, has deterred some players on financial grounds from playing in the Premiership.



Geoff Mesher

Head of KPMG Forensic Sports Industry Team

¹ Manchester United, Chelsea, Liverpool, Arsenal.

High stakes motivate fraudsters

Whilst spending in the current transfer window has declined in the top three divisions of the English game, football is still a multi-billion pound business with much at stake. This amount of money can provide motivation to any potential fraudsters involved in the game.

A former director of Norwegian club Lyn was convicted last year of tampering with a contract between John Obi Mikel, the now Chelsea midfielder, and Lyn in order that he could sell Mikel to Manchester United at the time.

More recently, four individuals have been convicted of offences in connection with the defrauding of Derby County for nearly £450,000. This included two former directors of the club and the former director of football.

Clubs must ensure that they have adequate controls in place to mitigate the risk of reputational or financial loss through fraud. A business must safeguard its assets through the implementation and maintenance of a robust control framework and the development of an appropriate anti-fraud culture in the organisation.

Football clubs at risk from money launderers

A recent report by the Financial Action Task Force (FATF) has highlighted the risk that criminals could launder the proceeds of crime through football clubs. Aside from the volume of cash that changes hands in the football industry, the FATF noted certain vulnerabilities that make the sector attractive to money launderers, namely the structure, financing and culture of the sector. Money laundering is an inherent risk in any business which deals with large volumes of money and football is no different.

The Premier League has recently made changes to the Fit and Proper Persons Test for directors and major shareholders of Premiership clubs. Importantly, clubs are now required to make public all shareholders with a greater than 10 percent stake as well as the ultimate beneficial owner. Identification of who the ultimate beneficial owner of an organisation actually is can often involve extensive due diligence to confirm no unidentified third parties are involved.

Football related disputes continue to make the headlines

Player related disputes have continued to appear in the courts. Adrian Mutu's failed appeal against damages awarded to Chelsea for breach of contract resulted in the player having to pay a record £14.6 million in compensation to his former club.

The successful outcome for Chelsea in this case will most likely motivate other clubs to pursue channels of litigation where disputes associated with players have arisen.

Breaking news as the FTM goes to press reveals that Chelsea have been on the losing side of a dispute involving French club Lens. Chelsea have been banned from signing any new players in the next two transfer windows after FIFA ruled that the club had induced Gael Kakuta to breach his contract with Lens back in 2007, although they can appeal against the ruling to the Court of Arbitration for Sport.

If FIFA are to start clamping down on clubs activities around transfers and player contracts then this represents a risk to how clubs carry out their business. Teams should be acting now to ensure that processes in these areas, and those of any agents acting on their behalf, are robust and in line with the regulations of football's governing bodies.



Geoff Mesher

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Trends from the summer 2009 transfer window

Transfer transactions

Clubs in the top three tiers of English football had net outlays of just over £12.5 million during this most recent transfer window, significantly down from £167.5 million in the previous year's summer transfer window.

The reduction in spending is clearly reflected by the activities of the 'Big Four' clubs with a combined net outlay of £45.2 million in 2008 turning to a net inflow of £75.3 million in the summer 2009 transfer window. Even allowing for the significant fee of £80 million paid to Manchester United for Cristiano Ronaldo this still leaves four of the traditionally biggest spending teams only marginally in the red.

The exception to this rule has been Manchester City which has comfortably topped the net spending table. Net investment is up £34.6 million on the previous year's net spend to £98.0 million with average spend per player of almost £20.0 million, double that of the 'Big Four' clubs.

Transfer Transactions

£m	Summer 2009 window			Summer 2008 window		
	Fees paid	Fees received	Net fees received/(paid)	Fees paid	Fees received	Net fees received/(paid)
Premiership - Big 4	(91.8)	167.1	75.3	(101.1)	55.9	(45.2)
Premiership - Manchester City	(117.5)	19.5	(98.0)	(76.2)	12.8	(63.4)
Premiership - Other	(257.3)	198.5	(58.8)	(291.0)	189.2	(101.8)
Premiership - All Teams	(466.6)	385.1	(81.5)	(468.3)	257.9	(210.4)
Championship	(45.0)	102.1	57.1	(30.6)	62.4	31.8
League 1	(4.4)	16.3	11.9	(2.9)	14.0	11.1
Total	(516.0)	503.5	(12.5)	(501.8)	334.3	(167.5)

Source: KPMG Football Transfer Monitor

'Big Four' clubs mostly absent from top of net spending table

Behind Aston Villa, Sunderland and Birmingham have the third and fourth highest net outlays of £19.2 million and £18.6 million respectively.

Birmingham are newly promoted whilst Sunderland were one of the lowest placed teams to avoid relegation from the Premiership last season. This level of investment in the current economic climate reflects the financial pressure on clubs to avoid relegation and their willingness to speculate to achieve this goal.

Chelsea are the only 'Big Four' club in the top half of the net spending table with the fifth highest net spend at £18.5 million, less than 20 percent of that of Manchester City.

Net spending by Premiership club

£m	Fees paid	Fees received	Net fees received/(paid)
Manchester City	(117.5)	19.5	(98.0)
Aston Villa	(39.6)	15.8	(23.8)
Sunderland	(39.0)	19.8	(19.2)
Birmingham City	(18.6)	-	(18.6)
Chelsea	(19.5)	1.0	(18.5)
Stoke City	(20.4)	3.0	(17.4)
Wolverhampton	(16.5)	0.5	(16.0)
Bolton Wanderers	(8.5)	1.6	(6.9)
Fulham	(6.8)	-	(6.8)
Burnley	(6.5)	0.1	(6.4)
West Ham United	(10.9)	8.0	(2.9)
Liverpool	(40.0)	37.3	(2.7)
Tottenham Hotspur	(28.9)	26.4	(2.5)
Everton	(20.4)	22.0	1.6
Hull City	(10.6)	14.4	3.8
Wigan Athletic	(10.1)	22.9	12.8
Blackburn Rovers	(12.0)	28.5	16.5
Portsmouth	(8.5)	35.5	27.0
Arsenal	(10.0)	41.0	31.0
Manchester United	(22.3)	87.8	65.5
Total	(466.6)	385.1	(81.5)

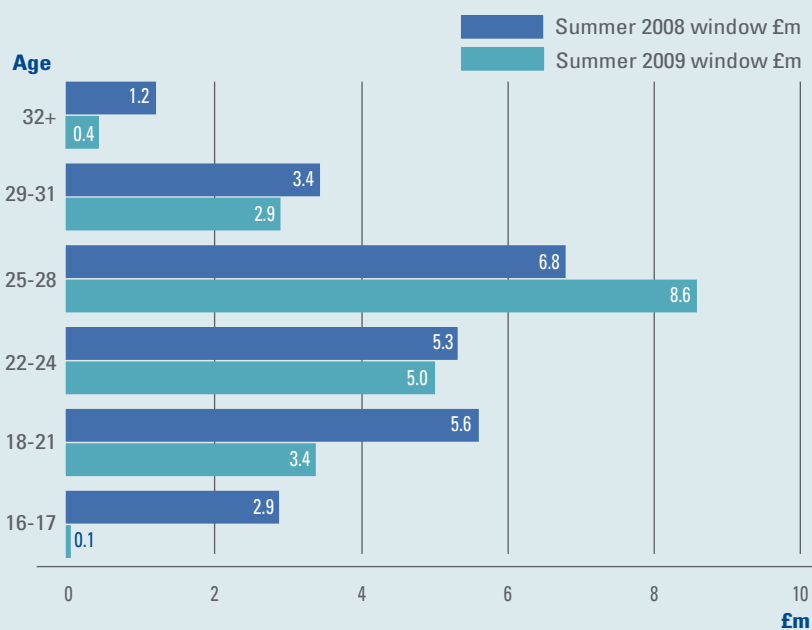
Source: KPMG Football Transfer Monitor

Experience and goals are most valued assets

Premiership clubs have attributed significant value to experience in the current transfer window with players in the 25-28 age range commanding an average fee of £8.6 million, up £1.8 million from last year. This trend is driven by a number of the 'Big Four' club's and all six of Manchester City's summer signings falling in that category.

Forwards continue to be the most valued position for clubs in all of England's top three divisions with average values in this position reaching just under one and a half times that of midfielders and defenders across the three leagues. Premiership clubs spent an average of £7.7 million on a forward.

Average Premiership fee paid by age



Source: KPMG Football Transfer Monitor

Average fee paid by position

£m	Summer 2009 window			Summer 2008 window		
	Premiership	Championship	League 1	Premiership	Championship	League 1
Goalkeeper	0.1	0.1	0.1	2.4	0.3	n/a
Defender	5.4	0.8	0.2	4.5	0.6	0.2
Midfielder	5.4	0.7	0.2	4.4	0.5	0.1
Forward	7.7	1.3	0.3	10.0	1.1	0.2

Source: KPMG Football Transfer Monitor

Big names opt for Europe

The summer window has seen a lack of 'big name' players coming to the UK from Europe, whilst star players from 'Big Four' clubs have moved overseas.

There has been a decrease in transfer funds paid to non-English clubs and, of the total Premiership spend, 35 percent was paid to non-English teams, down from 47 percent in the 2008 summer window.

Of the £162.5 million Premiership investment in players from non-English based teams, eight percent went to the Spanish League compared with 35 percent of the £222.0 million sent overseas in 2008.

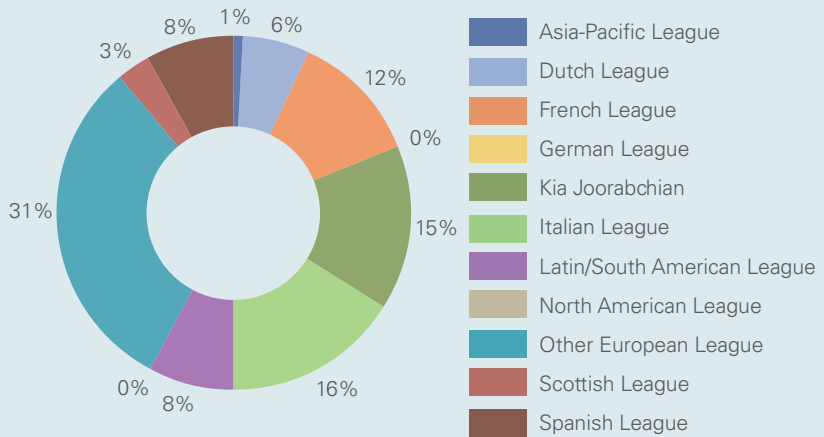
Conversely, around 85 percent of transfer funds received by Premiership clubs from overseas came from La Liga, and in particular from Real Madrid.

Cash destination of Premiership transfer spend

£m	Summer 2009 window		Summer 2008 window	
English based sides	304.1	65%	246.4	53%
Non-english based sides	162.5	35%	221.9	47%
Total	466.6		468.3	

Source: KPMG Football Transfer Monitor

Cash destination of Premiership non-English transfer spend



Source: KPMG Football Transfer Monitor



Transfer spending to be limited to revenues?

It may only be a few years before Manchester City and other clubs backed by wealthy owners can no longer be so dominant in the transfer market. UEFA President, Michel Platini, was recently reported to have said that clubs should be restricted to spending what they earn in football revenues. Such restrictions could finally close the door on clubs aspiring to break into the Big Four. Larger stadiums and the development of a worldwide fan base in regions such as the Far East would have to become more of a priority for clubs to maximise revenues and increase spending power if new rules were put in place.

In the short term this announcement may see spending in the next few years significantly exceed that in the most recent transfer window with clubs such as Manchester City looking to exploit their spending power before any restrictions are imposed.

This announcement may not just be a reaction to the disproportionate spending power that a wealthy new investor can bring to a club. The liabilities that some clubs are taking on do not in themselves raise concerns over sustainability, so long as teams are able to effectively service that debt. Football's governing bodies will be mindful, though, of clubs taking on debt that they cannot afford to maintain. Clubs which face the possibility of relegation from the Premiership in any given season would appear to be most at risk. Relegation would deny them the lucrative television and prize money on offer and they may have invested heavily, and taken on debt, to try and secure Premiership status.

How the KPMG Forensic Sports Industry Team can help

With Manchester City and Real Madrid heavily influencing the transfer market through significant player investments, and the recycling effect of that money through the wider game, the complexity of player valuations is increasing. Coupled with the significant financial impact that disputes can have on clubs or players, as shown by the recent case between Chelsea and Adrian Mutu, there is a need for appropriate experience and knowledge in valuation of player registrations.

Football also continues to be an attractive target for fraudsters and money launderers. A recently published report from the FATF cited 20 cases of football related money laundering, and proven or suspected fraud are rarely far from the headlines.

Our Sports Industry Team can help lawyers, clubs, and governing bodies within the sports industry to mitigate reputational and commercial loss. We can assist you with:

- Quantifying financial loss in dispute situations
- Developing “fit and proper persons” guidance for directors
- Conducting background due diligence on potential investors
- Providing anti-money laundering awareness training and internal controls guidance
- Investigating fraud cases and facilitating fraud awareness training
- Assistance with the valuation and management of intellectual property

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