7th October 2010

International Accounting Standards Board
30 Canon Street
London
EC4M 6XH

Dear Sir/Madam,

Re: Exposure Draft ED/2010/6 – Revenue from Contracts with Customers

On behalf of Northgate Information Solutions Limited (‘Northgate’), I am writing to comment on the exposure draft, Revenue from Contracts with Customers (the ED).

Introduction to Northgate

Northgate is a market leader in providing specialist software, outsourcing and information technology (IT) services to the human resources, local government, education and public safety markets.

Northgate annual Group revenues exceed £850 million.

Northgate currently employs over 10,000 staff in more than 35 countries across five continents.

NorthgateArinso, the HR division of Northgate, serves approximately 1,000 multinational customers, including:

- more than 20% of Global Fortune® 500 organisations
- 2,700 large / medium customers
- approximately 7,000 small / medium enterprise (SME) customers worldwide

Globally over 20m employees are managed on a NorthgateArinso software or service, either through one of the eight major business process outsourcing (BPO) service delivery centres, on one of our HR and payroll proprietary software solutions or on one of 800+ enterprise resource planning (ERP) based HR implementations.

In the UK Northgate’s services are used in the administration of over £24.5bn in council tax and business rates and providing key software for handling 60% of emergency calls. The many corporate organisations Northgate works closely with include 95% of the UK local authorities and all of the UK’s police forces. Our solutions enable us to support over 460,000 teachers, students and IT users, manage and support over 130,000 desktops and laptops and work with 1,250 schools and colleges.

The original company was founded in 1969 and since that time Northgate has built up over 40 years’ experience in the IT industry.
Northgate’s customer-centric approach is based on fully understanding application-specific business processes. This enables organisations in both the public and private sectors to increase their business process efficiency when deploying Northgate applications and their associated services, or when utilising Northgate’s wide range of high quality and proven IT services.

Furthermore, Northgate manages many customers’ key systems, providing a broad range of flexible and cost effective outsourced solutions; available either at client sites or hosted at our own ISO27001 accredited data centres.

Northgate specific Comment on ED

Northgate welcomes the work carried out on this subject and the efforts to develop a consistent revenue recognition model that could be applied to transactions across industries and provide more guidance than currently provided in IFRS’s. We broadly agree with the principles of the model proposed in the Discussion Paper with the exception that Northgate do not believe that the costs of securing a contract should be expensed as incurred.

Northgate in common with other outsourcing industries incur significant costs in bidding for and securing contracts to supply services. Where a bid is successful, Northgate will have incurred significant costs before the contract is signed.

Paragraph 59 proposes that an entity shall recognise the following costs as expenses when incurred:

(a) costs of obtaining a contract (for example, the costs of selling, marketing, advertising, bid and proposal, and negotiations);

In the view of Northgate if costs are incremental, necessary, directly related to a contract and will be recovered through the contract, they should be capitalised and not recognised as expense as incurred. We believe that the cash flows related to securing a contract are directly related to the contract and should therefore be accounted for as part of the contract.

Current guidance to support based on existing IFRS’s or UK GAAP

UITF abstract 34 – Pre-contract costs (UK GAAP)

Assets are defined in the Statement of Principles for Financial Reporting as ‘rights or other access to future economic benefits controlled by an entity as a result of past transactions or events’. An asset is recognised in financial statements only if there is sufficient evidence that the asset has been created (including, where appropriate, that a future inflow of benefit will occur) and it can be measured with sufficient reliability.

The UITF took the view that control does not arise before it is virtually certain that a contract will be awarded. In practice this is from the point Northgate becomes preferred bidder which can be between three to six months prior to signing a contract.

The UITF concluded that pre-contract costs directly attributable should be recognised as an asset from the point a contract becomes virtually certain and is expected to result in future net cash inflows (i.e. future revenues less attributable costs) with a present value no less than all amounts recognised as an asset.
IAS 11 – Construction Contracts

Para 21: Contract costs include all costs attributable to it, from the date when it becomes certain until the end of the performance of the works in question. Costs that are directly related to a contract, because they are incurred in the process of negotiating the same, can be included as part of the cost of the contract provided that they can be identified separately and measure reliably.

IAS 39 – Financial Instruments

In the case of financial assets, transaction costs are added to the amount recognised initially, while for financial liabilities transaction costs are deducted from the amount of debt recognised initially.

Conclusion

Northgate believe that a policy to recognise as an asset directly attributable pre-contract costs that can be separately identified and reliably measured from the point a contract becomes virtually certain is consistent with existing guidance and reflects the commercial reality of negotiating large complex contracts.

To expense costs as incurred would not result in more decision-useful information and if anything be misleading particularly during a period of extensive bid activity.

Northgate would encourage the IASB to amend the ED accordingly.

If you would like to discuss this I am more than happy to meet you at your convenience.

Yours sincerely

John Stier
Group Finance Director