CERiK

22 October 2010

IFRS Foundation/ International Accounting Standards Board

30 Cannon Street

London EC4M 6XH

United Kingdom

Comments on Exposure Draft 'Revenue from Contracts with Customers'

Dear Sir/ Madam,

The Construction and Economy Research Institute of Korea (CERIK) has been studied the construction industry. CERIK make efforts to resolve various issues faced by the construction industry.

CERIK would like to comment on the Exposure Draft "Revenue from Contracts with Customers". We think that the ED attempts to create a single revenue recognition standard across multiple industries and countries.

But this one-size-fits-all approach has a possibility to erode accounting principles that are specially tailored to the construction industry. For a long time, contractors have used a percentage of progress method for revenue recognition. Based on the percentage of progress, proportionate revenue and earnings can be determined. The ED does not qualify for percentage-of-completion accounting. The ED allows contractors recognize the revenue using a series of performance obligation.

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This approach granted to the contractors in how they recognize revenue could lead to wide deviation. Contractors could choose the very different revenue for the same obligation. Thus, some obligations on the same project could carry losses, while others carry profit. And it could confuse users of the information, in the case where the volatility of the financial statement of a corporation radically increase by the revenue recognition based on completion.

Particularly, the ED does not fully take into consideration the environment of construction industry in the Korea. The housing construction market of Korea has unique industry conditions as a result of characteristics.

In order to faithfully reflect economic substance of contracted revenues of housing construction, it is necessary to thoroughly consider various aspects such as characteristics of the market and related regulations, as well as the relationship of rights and duties between contracting parties.

Buyers are under an obligation to make progressive payments of the total housing price after the sales contract, and the government provides a regulation that enables buyers to apply loans secured by the contracted assets. The housing payment is made according to the construction progress percentage, as seller's income recognition is linked to the buyer's share increase. Buyers own controlling rights on incomplete construction through trades of housing sales contract.

While, the supplier is restricted in exercising ownership rights of land and assets by a means of taking a pledge, for instance while being obligated to apply for housing guarantee insurance. In case where buyers do not fulfill the duty of payments, sellers are able to exercise rights of claim through putting a temporary or permanent attachment on other assets of the buyers. By considering the economic conditions mentioned above, it is reasonable to recognize the revenue according to the percentage of progress method.



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But the Case 17 of the ED has a limitation to cover various forms of contracted revenues of housing constructions. Although the case could be used when a buyers role is limited and final goods possess a strong chance of resale during the course of housing construction, it is difficult to apply the case to the unique situation of the Korean housing industry based on specific characteristics and the regulatory system.

Thus, it is desirable that the Case 17 should be deleted or clearly stated with its limitations of implementation. It should be stated that the progress standard could be used only when a clear relationship of rights and duties are specified in the construction contract and the buyer's responsibility of making payments is finalized,

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