22 October 2010

IFRS Foundation/IASB 30 Cannon Street
London EC4M 6XH
United Kingdom

RE : Comment on Exposure Draft “Revenue from Contracts with Customers”

Dear Sir/Madam,

Daewoo Engineering & Construction is a Korean premier total engineering and construction company. The company’s core business divisions include civil & housing, power & industrial plants, architecture, LNG facilities and large-scale overseas projects. Along with the ongoing globalization of the industry, we acknowledge the need for standardized accounting practices and highly appreciate the efforts of IASB to achieve such objective.

The Korean GAPP has been modified to accommodate International Accounting Standards and in effect, the company has also taken necessary steps for the introduction of IFRS in 2011.

Although it is understandably difficult to incorporate particular aspects of individual countries in a global standard, we do feel that current accounting standards and the Exposure Draft should adopt additional measures to provide better guidance for judgment. At the moment, the revenue recognition method for development projects initiated by private construction companies is a widely discussed issue in Korea and thus, a sufficient guideline is needed for decision-making. It is our view that the revenue recognition methods and
indicators proposed in IAS 11, IAS 18, IFRIC 15 and the Exposure Draft contains some ambiguity in reflecting the economic substance of pre-sale contracts of apartments in Korea.

Unlike other countries, in Korea, limited residential land and a high population density has forced the development of high-rise apartments which has become the major residential structure. Naturally, the common dispositions of customers have been encompassed in design which has resulted in apartments with similar structure and layout. The Housing Law regarding safety of high-rise buildings impose many restrictions in design and as such, customer can only influence design that is not limited by government policies.

To illustrate, assume that an apartment complex is being built on land owned by the real estate developer. The company must go through a separate registration process so that the company will have no legal control over the land and the to-be-built apartment, for example, the company will not be able use it as collateral or exercise ownership rights. This is a prerequisite for the company to gain government approval for the construction. The customer cannot cancel the contract after the first progress payment ex parte. However, the customer has the full legal right to secure finance through pledging and also has owning rights, which exposes the customer to both the risks and benefits of price fluctuation. Furthermore, the apartment is customized to the customer because the buyer can choose the location, direction, floor and other qualities and can also request for design changes that are permitted within the law to meet their needs. Despite the fact that the legal title and ownership will not be transferred to the customer until the construction is completed, all other circumstances indicate that a Korean customer is well aware that the work-in-progress is of their belonging and that they are the real owner of the property without any doubt.

As described above, under the judgment that the real risk, benefits and control have been transferred to the customer, the Korean-GAAP allows the percentage-of-completion method. If the completed-contract method is applied based on nominal indicators of the IFRS, the economic substance will be misrepresented, contrary to what the IFRS is pursuing. In order to reflect the economic substance of Korean housing market, we recommend that 1) paragraph 30-(d) of the Exposure Draft be adjusted so that it acknowledges
customer-specific design to the extent allowed by the government, 2) include additional indicators to comprise real transfer of control before the legal title and physical possession of property, and 3) insert an example that reflects the characteristics of a legally restricted residential development project.

We sincerely believe that IFRS will successfully establish itself as a global accounting standard through these constructive efforts.

Best regards,

[Signature]

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Daewoo Engineering & Construction