



Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London, EC4M 6XH  
United Kingdom

8 August 2014

Dear Mr Hoogervorst,

**RE: LEASES PROJECT**

Wesfarmers Limited ('Wesfarmers') has noted a number of tentative decisions have been made by the International Accounting Standards Board ('IASB') in respect of the Leases Project that represent a significant divergence on the IASB's exposure draft ED/2013/6 Leases ('revised ED' or '2013 ED'), specifically in relation to lease classification and the removal of the dual model in the revised ED.

Wesfarmers is one of Australia's largest listed companies, retailers and employers. Our diverse business operations cover: supermarkets, department stores, home improvement and office supplies; coal mining; chemicals, energy and fertilisers; and industrial and safety products. Wesfarmers operates from over 4,000 discrete locations across Australia and New Zealand and has over 6,600 leases across the group, being predominantly property leases.

In our previous letters to the IASB, we highlighted that, in our view, property leases for lessees needed to be considered separately from or in the proposed leasing standard. This view was taken on the premise that the IASB's ED/2010/9 Leases ('original ED' or '2010 ED') simplistically treated all leases as a financing alternative, from both a balance sheet and profit or loss perspective, when this is not the economic reality. We maintained that IAS 17 should be retained because on-balance-sheet recognition of leases (including property) is conceptually inconsistent with the accounting treatment of economically similar arrangements such as long-term supply agreements and service contracts.

In our 2013 letter to the IASB we recognised that, to the extent that the IASB continues to be of the opinion that all leases should be recognised on balance sheet, the dual model in the revised ED was an appropriate compromise that resulted in an income statement expensing profile for property leases more consistent with the economic substance of the arrangement.

We note that the Project Update issued by the IASB in August 2014, outlines the IASB's tentative decision to adopt the single lessee model requiring interest and amortisation to be recognised for all leases taken up on a lessee's balance sheet. We also note that this tentative decision is inconsistent with the position adopted by the Financial Accounting Standards Board ('FASB').

We write to you on this occasion requesting that the IASB:

1. Reconsider its position in respect of the single lessee model and reconsider the merits of the dual model as proposed in the revised ED. In reconsidering this, we request the IASB consider the economic fundamentals of a property lease in comparison to other leases that led to the FASB taking an alternative approach.



2. Consider the significant time and resource required to appropriately implement any change to the Standard on Leases in determining an effective date. In considering the lead-time, we request the IASB recognise that leases are generally long-term and core business contracts and considerable time will be required to appropriately effect changes internally (i.e. systems and data collation) and externally (i.e. educating users and counter parties).
3. Provide further guidance in differentiating service arrangements from lease arrangements where both the customer (lessee) and supplier (lessor) have a degree of control over the use of the asset.

We note that, per the August 2014 Project Update, the IASB expects to issue a new Accounting Standard on Leases in 2015. Given the current tentative decisions of the IASB differ significantly from those outlined in the revised ED we would strongly encourage the IASB to undertake further outreach and education sessions ahead of issuance given the significant changes the proposed Accounting Standard may reflect.

If you have any questions regarding this letter or the basis of our position, please do not hesitate to contact myself or Colin Pavlovich, Executive General Manager - Group Accounting, Assurance & Risk ([cpavlovich@wesfarmers.com.au](mailto:cpavlovich@wesfarmers.com.au)) or Adam Sofoulis, Statutory Reporting Manager ([asofoulis@wesfarmers.com.au](mailto:asofoulis@wesfarmers.com.au)).

Yours sincerely,

A handwritten signature in black ink, appearing to be "Terry Bowen", written over a horizontal line. The signature is enclosed within a large, hand-drawn oval.

Terry Bowen  
Finance Director  
Wesfarmers Limited  
[tbowen@wesfarmers.com.au](mailto:tbowen@wesfarmers.com.au)