General Purpose Financial Report

For the financial year ended 30 June 2020

afca
Australian Financial Complaints Authority

Directors' Report

The Australian Financial Complaints Authority Limited ("AFCA") submits herewith the annual financial report of the company from 1 July 2019 to 30 June 2020, consistent with the provisions of the *Corporations Act 2001*. The operations of the company started on 1 May 2018, with the company becoming the operating entity of the external dispute resolution service previously provided by Financial Ombudsman Service Limited (FOS) from that date and for the Credit and Investments Ombudsman Limited (CIO) from 1 September 2018 . From 1 November 2018, AFCA commenced operating the AFCA external dispute resolution scheme, which encompasses the majority of consumer and small business complaints within the financial services industry.

Principal Activities

AFCA is a not for profit company limited by guarantee, with its principal activity being the external dispute resolution (EDR) provider for the financial services industry in Australia.

Company Objectives

Purpose

The mission of AFCA is to provide fair, independent and effective solutions for financial disputes.

Vision

AFCA's vision is to be a world class ombudsman service

- Raising standards and minimising disputes
- Meeting diverse community needs and
- Trusted by all

Authorisation of AFCA

The Minister for Revenue and Financial Services authorised AFCA to operate the AFCA EDR scheme in April 2018, with a commencement date of 1 November 2018.

Between 1 May and 31 October 2018, AFCA received new complaints lodged under the Financial Ombudsman Service EDR scheme and between 1 September 2018 and 31 October 2018, received new complaints lodged under the Credit and Investments

Ombudsman EDR scheme. It continued to finalise complaints lodged under both sets of arrangements and by 30 June 2020 only a small number of these complaints remain open.

The commencement of the AFCA EDR scheme was undertaken smoothly, despite unprecedented levels of demand for the new service. Record numbers of complaints have been received since operations began. This was partially driven by a broader jurisdiction, but also partly by increased consumer awareness of misconduct arising from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

Information about the Directors

The Company was initially formed in July 2017 with an establishment board of three directors. The establishment Board was expanded in February 2018 to a Transition Board, adding eight further directors for a short time in order to develop the application for approval to operate the AFCA external dispute resolution scheme.

Following Ministerial approval and announcements of the government's appointments to the Board in May 2018, the inaugural Board of eleven directors was formed and five transitional directors automatically retired.

The Board of Directors

Independent Chair

The Hon Helen Coonan (Chair) – BA LLB

Helen Coonan was appointed as the inaugural Independent Chair by the Minister for Revenue and Financial Services on 4 May 2018.

Helen is a former Australian Government Cabinet Minister for Communications, Minister for Revenue and Assistant Treasurer. She is a commercial lawyer and trained mediator with a track record of leading stakeholders through major economic reforms and handling complex policy settings.

Helen is the inaugural Chair of Australian Financial Complaints Authority (AFCA), her other current appointments include Chair of Crown Resorts Limited, Chair of the Minerals Council of Australia (MCA), Chair of Placemaking NSW Advisory Committee and Chair of GRACosway Pty Limited. She also Chairs boutique fund manager, Supervised Investments Australia Limited and is a member of the Advisory Council of J.P. Morgan. Helen is Chair of the Crown Resorts Foundation and is a Non-executive Director of the Australian Children's Television Foundation (ACTF).

Previously, Helen was a member of the Board of Advice for Aon Australia, Chair of HGL Limited and a non-executive director of Snowy Hydro Limited.

Consumer Directors

Carmel Franklin – BEd Dip (Financial Counselling)

Carmel Franklin was appointed to the inaugural Board on 4 May 2018. She is a former consumers' director of the Financial Ombudsman Service Limited.

Carmel is a Director on the Energy Consumer's Australia Board Reference Committee and has been the CEO of Care Financial Counselling and the Consumer Law Centre of the ACT for over 10 years.

She has been involved with consumer issues for a number of years, including as the Chair of Financial Counselling Australia, as a board member on the ACT Gambling and Racing Commission and through her previous roles on the boards of the National Information Centre on Retirement Investments and Canberra Community Law. In addition, she is a former member of the ASIC Consumer Advisory Panel as well as the FOS Consumer Liaison Group.

Elissa Freeman – BA GAICD

Elissa Freeman was appointed to the inaugural Board on 4 May 2018. She is a former consumers' director of the Financial Ombudsman Service Limited.

Elissa has advocated for consumers' rights in the financial services, telecommunications and energy and water industries in her roles at CHOICE, the Australian Communications Consumer Action Network and the Public Interest Advocacy Centre. She also led a major investigation into residential mortgage prices at the Australian Competition and Consumer Commission.

Elissa was previously Chair of the Financial Rights Legal Centre and a member of ASIC's Consumer Advisory Panel. She is currently a Director of the Financial Adviser Standards and Ethics Authority.

Catriona Lowe – LLB

Catriona Lowe was appointed to the inaugural Board on 4 May 2018 and retired from the Board on 1 January 2020. She is a former consumers' director of the Financial Ombudsman Service Limited.

Catriona is a member of the Boards of the Telecommunications Industry Ombudsman and Legal Practitioners' Liability Committee. She is also a director of the Financial Adviser Standards and Ethics Authority, Way Forward Debt Solutions Limited and Chair of the ACCC Consumer Consultative Committee.

She is formerly the Chair and Treasurer of the Consumers' Federation of Australia and Co-Chief Executive Officer of the Consumer Action Law Centre. Catriona has also served as a member of the Board of the National Information Centre on Retirement Investment, a member of ASIC's External Advisory Panel, a member of the National Australia Bank Social Responsibility Advisory Council, a member of the

Insurance Council of Australia Consumer Reference Group, and a member of the Motor Car Traders' Guarantee Fund Claims Committee.

Erin Turner – BA MPP GAICD

Erin Turner was appointed a consumers' director by the Minister for Revenue and Financial Services on 4 May 2018.

Erin is the Director of Campaigns and Communications at CHOICE and a member of the Management Committee of the Financial Rights Legal Centre. She has previously represented consumer interests on the ACCC Consumer Consultative Committee, ACMA Consumer Consultative Forum and the ASIC Consumer Advisory Panel.

She regularly appears in the media to advocate for consumers using financial services and to educate them on their rights.

Alan Wein – LLB PRI-Med-NMAS

Alan Wein was appointed a consumers' director by the Minister for Revenue and Financial Services on 4 May 2018.

Alan is a skilled lawyer, experienced mediator and advocate for small and medium sized businesses. He was a former Adjunct Professor at RMIT's Business Management School and was a director of House Franchised Concept, House Homewares.

He was appointed the inaugural chair of the Victorian Government Small Business Advisory Council 2000 and of the inaugural chair Victorian Governments Covid-19 CTRS Administration Committee in 2020. He was the business delegate on the Victorian Government Infrastructure Planning Council.

Alan is a member of the Resolution Institute (Office of Franchise Mediation Advisor – OFMA) and the Law Institute of Victoria. He is also a senior panel mediator on the Victorian Office of the Small Business Commissioner (VSBC).

Alan conducted the Federal Government Review of the Franchise Code of Conduct and Regulatory Framework in 2013 and in 2015 Alan was again appointed by the Federal Government to conduct a review of the Regulatory Framework in the Horticulture Code of Conduct. Finally, in 2016 Alan was involved in advising the Federal Government in Unfair Contracts legislation.

Industry Directors

Jennifer Darbyshire – BA LLB (Hons) LLM FAICD

Jennifer Darbyshire was appointed to the inaugural Board on 4 May 2018. She is a former industry director of the Financial Ombudsman Service Limited.

Jennifer has extensive senior executive experience in governance, law and conduct and regulatory risk across a range of sectors and in a variety of roles and organisations, including international experience on two separate occasions.

Jennifer worked at the National Australia Bank until September 2020, where her roles included EGM Conduct & Regulatory Risk, General Counsel Governance and General Counsel Corporate (including 8 months as Acting Group General Counsel). She also previously worked in private legal practice (including King & Wood Mallesons in Melbourne and Linklaters in London).

Jennifer currently sits on the Board of the Melbourne International Jazz Festival. Previous directorships include Heide Museum of Modern Art (Chair), St Vincent's & Mercy Private Hospital and St Vincent's Advisory Council Melbourne.

Robert Belleville – MBA

Robert Belleville was appointed to the inaugural Board on 4 May 2018 and retired from the Board on 8 May 2020. He is a former industry director of the Financial Ombudsman Service Limited.

Robert is a member of the Insurance Manufacturers of Australia (IMA) Board, Chair of the IMA Board Risk Committee and a member of its Audit and Remuneration Committees. He is also the Chair of the Insurance Council of Australia's Consumer Liaison Forum.

He was employed by AAMI for more than 37 years, culminating in his appointment as Chief Executive in 2002. Soon afterwards he was appointed to the position of CEO of Promina's Direct Division, adding APIA, Shannons and Just Car Insurance to his existing portfolio of responsibilities

Following the successful offer by Suncorp to take over Promina, Robert was appointed Group Executive, Personal Lines, which added GIO and Suncorp portfolios to his oversight. Despite retiring in December 2008, Robert stayed on with Suncorp as a part-time consultant until September 2009.

He is a Fellow of the Customer Service Institute of Australia (FCSIA) and in 2018 was awarded the ANZIIF Lifetime Achievement Award for Services to the General Insurance Industry.

Andrew Fairley – AM LLB (Melb) Hon Doc (Deakin) FAICD

Andrew Fairley AM was appointed an industry director by the Minister for Revenue and Financial Services on 4 May 2018.

Andrew is the independent Chair of Togethr Trustees, which company acts as Trustee for Equip Super and Catholic Super. These Funds have combined assets under management of $27b and 150,000 members. He is an equity lawyer consulting to Hall & Wilcox with over 35 years' experience in superannuation. He is also a Director of Qualitas Securities Pty Ltd and Chair of Golden Age Capital Pty Ltd. He has been named as one of Australia's leading superannuation lawyers by the AFR

2013-2019 (inclusive). He founded the Law Council of Australia Superannuation Committee and served as its Chair for 10 years.

He is very involved in philanthropy, and is Chair of The Sir Andrew Fairley Foundation and the Foundation for Alcohol Research & Education. He is Deputy Chair of the Mornington Peninsula Foundation and is a past Chair of Parks Victoria and former Deputy Chair of Tourism Australia.

Claire Mackay – BCom LLB LLM GAICD

Claire Mackay was appointed an industry director by the Minister for Revenue and Financial Services on 4 May 2018.

Claire is a Director and Principal Adviser at Quantum Financial and is a Chartered Accountant, Certified Financial Planner, Chartered Tax Analyst and a Self-Managed Superannuation Fund specialist. Previously Claire held roles at Macquarie Bank and PwC.

Claire is a Director of the Accounting Professional and Ethical Standards Board. Claire's current appointments include the FPA Professional Standards and Conduct Committee, the RMIT School of Accounting Program Advisory Committee and the Finance Audit and Compliance Committee for Surf Lifesaving NSW.

As the owner of an independent financial services business, Ms Mackay regularly engages with other business owners and smaller financial firm operators in industry forums and conferences.

Johanna Turner – BA LLB GAICD

Johanna was appointed to the inaugural Board on 4 May 2018. She is a former industry director of the Financial Ombudsman Service Limited.

Johanna has gained extensive executive experience in the financial services industry over the past 25 years, working in domestic and international banks, exchanges and regulatory bodies. She has expertise in risk management, compliance, regulation, policy and corporate governance. As a Managing Director of Citibank, Johanna held the positions of Chief Risk Officer and Chief Country Compliance Officer. She has also held senior roles at Macquarie Bank, the Australian Stock Exchange, the Sydney Futures Exchange and ASIC.

Johanna is an independent compliance committee member for organisations including Schroders, Blackrock and Perpetual. She is also a member of the NSW Government Council for Women's Economic Opportunity and Chair of the AFMA Professionalism Committee. Johanna is a panel member on the ASIC Financial Services and Credit Panel.

Company Secretary

Anna Campbell - BA LLB

Anna Campbell joined AFCA as General Counsel in November 2019 and is experienced senior executive with cross-sector and regulatory expertise. Anna's extensive knowledge of financial services means she is uniquely positioned to provide expert advice to AFCA on complex legal matters, corporate governance and risk management.

Anna was previously General Manager of Enterprise Compliance at the Australian Securities Exchange (ASX) where she was responsible for the ASX Group's regulatory assurance function, involving Corporations Act licensing obligations, Trade Practices Act requirements and other statutory obligations.

Anna also held the role of Deputy General Counsel at ASX for nine years, after joining the ASX from Allianz where she was Acting General Counsel. She has worked as a lawyer in both the private and public sector and exhibits a breadth of experience in providing expert instruction on a range of matters. Anna is a highly effective operative in developing and leading organisational approaches to management, corporate governance, risk management, and stakeholder management.

Nicolas Crowhurst - BA LLB (Hons) FGIA FCSA GAICD

Nicolas Crowhurst was appointed Company Secretary on 17 July 2017 and resigned as company secretary on 25 November 2019.

Nicolas is the managing director of a small strategic advisory firm, The Collaboratus Group, which focuses on serving the not-for-profit and charities sector. He also teaches short-courses and certificates for the Governance Institute of Australia and is a Director of Financial Services Compensation Scheme Pty Ltd.

Nicolas qualified as a Barrister in the United Kingdom in 2000. He worked in-house at UBS Warburg in London and then for Minter Ellison Lawyers in Melbourne prior to entering the alternate dispute resolution industry in 2005. Nicolas has previously served as Legal Counsel to the Financial Industry Complaints Service Limited and was both Legal Counsel, then Company Secretary of the Financial Ombudsman Service Limited.

Board Committees

The Board Committees play an important role to assist the Board in its decision-making processes. The standing Board Committees are:

- Audit and Risk Committee
- Information Technology and Digital Transformation Committee
- Nominations and Remuneration Committee

During the reporting period, there was a refresh of committee composition resulting in variations in the number of Committee meetings directors were required to attend.

Board Member Attendance

The number of directors' meetings and number of meetings attended by each of the directors of the company during the financial year is set out in the table below.

	Full Board		**Full Board Restricted agenda board meetings**		**Audit & Risk Committee**		**IT&DT Committee**		**Nominations & Remuneration Commitee**	
	Actual Attendance	Eligible to Attend	Actual Attendance	Eligible to Attend	Actual Attendance	Eligible to Attend	Actual Attendance	Eligible to Attend	Actual Attendance	Eligible to Attend
R Belleville*	4	4	2	2	-	-	2	2	-	-
H Coonan	5	5	4	4	-	-	-	-	2	2
J Darbyshire	5	5	3	4	-	-	-	-	2	2
A Fairley	5	5	4	4	7	7	-	-	-	-
C Franklin	5	5	4	4	7	7	-	-	-	-
E Freeman	5	5	4	4	-	-	-	-	2	2
C Lowe**	2	2	-	-	-	-	1	1	-	-
C Mackay	5	5	4	4	-	-	-	-	2	2
E Turner	5	5	4	4	7	7	1	1	-	-
J Turner	5	5	4	4	6	7	-	-	-	-
A Wein	5	5	4	4	-	-	-	-	2	2

*Robert Belleville's term as a director expired 8 May 2020
**Catriona Lowe resigned effective 1 January 2020

Company Overview

Background

The company was incorporated on 17 July 2017 with the objective of presenting an application to operate the external dispute resolution (EDR) scheme for the financial services industry mandated by the *Treasury Laws Amendment (Putting Consumers First – Establishment of the Australian Financial Complaints Authority) Act 2017*.

Memberships

There were 10,367 Financial Firms and 28,728 Authorised Credit Representative members registered at 30 June 2020.

Operating result

The net deficit for the year from 1 July 2019 to 30 June 2020 is $5,464,923 and total accumulated funds amount to $32,914,377.

Complaint numbers

AFCA received 80,546 complaints between 1 July 2019 and 30 June 2020, which is a 13.7% increase in monthly complaints compared to the last financial year (FY18/19). AFCA has received 127,694 complaints since commencing on 1 November 2018.

In 2019-20, AFCA closed 376 CIO and 334 FOS legacy cases. As at 30 June 2020, AFCA continues to work on 22 open FOS and CIO legacy cases which had been transferred to it on 1 November 2018.

Legacy complaints

In response to the Royal Commission the Government announced that AFCA's jurisdiction would be expanded to enable it to assess legacy complaints (that is, complaints involving firms dating back to 1 January 2008). AFCA incurred significant costs as a result of implementation of the legacy complaint jurisdiction in 2019-20. AFCA received 1,886 complaints under this jurisdiction, and as at 30 June 2020 there were 430 open legacy complaints spread across most product areas, with the majority in banking.

COVID-19

Since the virus was declared a pandemic on 11 March 2020, AFCA has received 4,773 complaints relating to COVID-19 to the end of 30 June 2020. All staff at AFCA began working from home from March 2020 with complaint handling activities otherwise continuing as usual. Although there were additional technology and process set-up costs with this change, there have been cost reductions in areas including travel, office support costs and engagement activities, many of which have transitioned to digital-only formats, such as the Member Forums.

Subsequent events

As at 30 June 2020 whilst the financial impacts of COVID-19 have not been materially detrimental to the company, the COVID-19 pandemic has created unprecedented uncertainty in the wider economy. Economic events and conditions in the future may be materially different from those currently estimated by the company at reporting date. In the event that the COVID-19 pandemic impacts are more severe or prolonged than anticipated, this will likely have further impact on the company (including an increase in the volume of complaints). At the date of the annual report an estimate of the future impact will depend on the magnitude and duration of these economic events. Given the high level of uncertainty, the financial impact of these events cannot be reliably measured.

In July 2020, a 12-year office lease became effective for AFCA's new head office in Wesley Place, Melbourne. In August 2020, it replaced the previous head office in Docklands, Melbourne. An additional office lease also became effective in Sydney from 1 September 2020. When the lessor made these premises available to AFCA, right-of-use-assets and leasehold improvements were recognised to the value of $70.01 million, with an offsetting lease liability of the same value. As possession was not effective on 30 June 2020, the amortised values of these assets and liabilities will be recognised in the financial statements for the year ending 30 June 2021.

Other than as outlined above, since the end of the financial year to the date of this report, there has not arisen any item, transaction or event of a material and unusual nature that, in the opinion of the directors of the company, would significantly affect the operations of the company, the results of those operations or the state of affairs of the company in future financial years.

Indemnification and insurance of officers

The company has agreed to indemnify the current and former directors and secretaries of the company against all liabilities to another person (other than the company) that may arise from their position as directors or secretaries of the company, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the company will meet the full amount of any such liabilities, including costs and expenses.

Under the terms of the agreements entered into, the company has agreed to indemnify the adjudicators, panel members and ombudsmen for all liabilities to another person (other than the company) that may arise from their position in the company except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the company will meet the full amount of any such liabilities, including legal fees.

The company has paid insurance premiums in respect of the Directors' and Officers' Liability and Legal Expenses Insurance contracts for officers of the company. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, except conduct involving wilful breach of duty or improper use of information or position to gain a personal advantage.

The insurance policies outlined above do not contain details of premiums paid in respect of individual officers of the company.

During or since the end of the financial period, the company has not otherwise indemnified or agreed to indemnify any officer or auditor of the company against a liability incurred as such an officer or auditor.

Members' Guarantee

The company is a public company limited by guarantee incorporated in Australia. If the company is wound up, the Constitution states that each member is required to contribute a maximum of $100 each towards meeting any outstanding obligations of the company.

At 30 June 2020, the maximum total members' contribution is $3,909,500 if the company is wound up.

Auditor's Independence Declaration

A copy of auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 12.

Directors' Declaration

For the financial year ended 30 June 2020, the directors declare that:

a) the financial statements and notes, as set out on pages 15 to 44, are in accordance with the *Corporations Act 2001* and:
    a. comply with Australian Accounting Standards – Reduced Disclosure Requirements; and
    b. give a true and fair view of the financial position as at 30 June 2020 and the performance for the year ended on that date of the company.

b) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to Section 295(5) of the Corporations Act 2001.

On behalf of the directors

Director

On behalf of the directors

Dated at Sydney this 4th day of September 2020

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AUDITOR'S INDEPENDENCE DECLARATION
UNDER S 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF AUSTRALIAN FINANCIAL COMPLAINTS AUTHORITY LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2020, there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Moore Australia

MOORE AUSTRALIA AUDIT (VIC)
ABN 16 847 721 257

RYAN LEEMON
Partner
Audit and Assurance

Melbourne, Victoria

4 September 2020

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF AUSTRALIAN FINANCIAL COMPLAINTS AUTHORITY LIMITED

Opinion

We have audited the accompanying financial report of Australian Financial Complaints Authority Limited (the Company), which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the Company.

In our opinion:

a. the financial report of Australian Financial Complaints Authority Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Company's financial position as at 30 June 2020 and of their performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001*;

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements with Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report of the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the Corporations Act 2001, and for such internal control as the directors determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located on the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Moore Australia

MOORE AUSTRALIA AUDIT (VIC)
ABN 16 847 721 257

RYAN LEEMON
Partner
Audit and Assurance

Melbourne, Victoria

4 September 2020

Statement of profit or loss and other comprehensive income for the year ended 30 June 2020

	Notes	Year ending 30 June 2020 $	Year ending 30 June 2019 $
Revenue	2	123,815,520	80,084,915
Employee benefits expense		(100,836,411)	(65,463,573)
Office costs		(1,160,165)	(877,149)
Communication & Stakeholder relations expenses		(2,510,534)	(2,719,159)
Interest expense on leases	7	(378,994)	-
Occupancy expenses		(8,630,926)	(4,968,344)
Board expenses		(875,674)	(683,100)
Impairment losses on financial assets		(2,903,977)	(1,546,028)
Insurance expenses		(124,333)	(126,215)
Professional assistance expenses		(2,524,645)	(2,100,075)
Depreciation & amortisation expense		(2,976,507)	(1,306,823)
Free decisions provided to members		(828,650)	(239,882)
Technology expenses		(5,374,525)	(3,941,688)
Other expenses		(155,102)	(99,863)
Deficit before tax		(5,464,923)	(3,986,984)
Income tax expense		-	-
Deficit for the period		(5,464,923)	(3,986,984)
Other comprehensive income		-	-
Total comprehensive income		(5,464,923)	(3,986,984)

Notes to and forming part of the financial statements are included on pages 20 to 44. The company has initially applied AASB 15 & AASB 16 using the cumulative method and has not restated comparatives. The comparatives have been prepared using AASB 117 and AASB 118 and related interpretations.

Statement of financial position as at 30 June 2020

	Notes	2020 $	2019 $
Current Assets			
Cash and cash equivalents	17 (i)	26,073,236	20,429,788
Trade receivables, prepayments & other debtors	3	25,570,052	17,071,692
Other financial assets	4	-	14,000,000
Total Current Assets		**51,643,288**	**51,501,480**
Non-Current Assets			
Property, plant and equipment	5	3,973,304	4,411,649
Intangible Assets	6	-	3,501
Right of Use Assets	7	12,753,883	**-**
Total Non-Current Assets		**16,727,187**	**4,415,150**
Total Assets		**68,370,475**	**55,916,630**

Notes to and forming part of the financial statements are included on pages 20 to 44. The company has initially applied AASB 15 & AASB 16 using the cumulative method and has not restated comparatives. The comparatives have been prepared using AASB 117 and AASB 118 and related interpretations.

Statement of financial position as at 30 June 2020 (continued)

	Notes	2020 $	2019 $
Current Liabilities			
Accounts payable and other payables	8	7,633,146	7,587,162
Lease Liabilities	9	752,286	-
Provisions	10	**13,269,882**	10,602,012
Total Current Liabilities		**21,655,314**	**18,189,174**
Non-Current Liabilities			
Lease Liabilities	9	11,925,614	-
Provisions	10	1,875,170	683,082
Total Non-Current Liabilities		**13,800,784**	**683,082**
Total Liabilities		**35,456,098**	**18,872,256**
NET ASSETS		**32,914,377**	**37,044,374**
ACCUMULATED FUNDS	**11**	**32,914,377**	**37,044,374**
Total Accumulated Funds		**32,914,377**	**37,044,374**

Notes to and forming part of the financial statements are included on pages 20 to 44. The company has initially applied AASB 15 & AASB 16 using the cumulative method and has not restated comparatives. The comparatives have been prepared using AASB 117 and AASB 118 and related interpretations.

Statement of changes in equity for the year ended 30 June 2020

2020	Notes	Equity from Previous EDR Schemes $	Retained Earnings $	Total $
Balance as 1 July 2019		**43,528,057**	**(6,483,683)**	**37,044,374**
Deficit for the period		-	(5,464,923)	(5,464,923)
Net Assets Transferred from Credit & Investments Ombudsman		1,334,926	-	1,334,926
Balance at 30 June 2020		44,862,983	**(11,948,606)**	**32,914,377**

2019	Notes	Equity from Previous EDR Schemes $	Retained Earnings $	Total $
Balance as 1 July 2018		**38,258,717**	**(2,496,699)**	**35,762,018**
Deficit for the period		-	(3,986,984)	(3,986,984)
Net Assets Transferred from Credit & Investments Ombudsman		5,269,340	-	5,269,340
Balance at 30 June 2019		**43,528,057**	**(6,483,683)**	**37,044,374**

Notes to and forming part of the financial statements are included on pages 20 to 44. The company has initially applied AASB 15 & AASB 16 using the cumulative method and has not restated comparatives. The comparatives have been prepared using AASB 117 and AASB 118 and related interpretations.

Statement of cash flows for the year ended 30 June 2020

	Notes	2020 $	2019 $
Cash Flows from operating activities			
Receipts from members and others		122,015,544	81,487,053
Interest received		499,177	999,274
Payments to suppliers and employees		(129,183,765)	(84,036,468)
Lease Interest		(378,994)	0
Net cash used in operating activities	17 (ii)	(7,048,038)	(1,550,141)
Cash Flow from investing activities			
Payment for property plant and equipment		(1,558,421)	(3,399,920)
Redemption / (Payment) for investments in term deposits		14,000,000	11,500,000
Proceeds from Sale of Equipment		36,364	-
Net cash provided by / (used in) investing activities		12,477,943	8,100,080
Cash Flow from financing activities			
Proceeds from predecessor external dispute resolution schemes		1,334,926	4,825,224
Payment of lease liability principal		(1,121,383)	-
Net cash provided by financing activities		213,543	4,825,224
Cash and cash equivalents at the beginning of the financial period		**20,429,788**	**9,054,625**
Net increase in cash and cash equivalents		**5,643,448**	**11,375,163**
Cash and cash equivalents at the end of the financial period	17 (i)	**26,073,236**	**20,429,788**

Notes to and forming part of the financial statements are included on pages 20 to 44.

Notes to and forming part of the Financial Statements for the year ended 30 June 2020

Note 1: summary of Significant Accounting Policies

General information

Australian Financial Complaints Authority Limited (the company or "AFCA") is a company limited by guarantee, incorporated and operating in Australia.

From 1 August 2020, Australian Financial Complaints Authority Limited's new registered office and its principal place of business is:

Level 26 Wesley Place
130 Lonsdale Street
Melbourne Vic 3000

AFCA is a not for profit company limited by guarantee with its principal activity being an external dispute resolution provider for the financial services industry in Australia.

The Minister for Revenue and Financial Services authorised AFCA to operate the AFCA EDR scheme in April 2018, with a commencement date of 1 November 2018.

Between 1 May and 31 October 2018, AFCA was the operating entity of the External Dispute Resolution (EDR) service previously provided by the Financial Ombudsman Service (FOS), and received new complaints lodged under the FOS EDR scheme, and between 1 September 2018 and 31 October 2018 provided EDR services previously provided by the Credit and Investments Ombudsman (CIO), and received new complaints lodged under the CIO EDR scheme.

Statement of Compliance

The financial statements being general purpose financial statements have been prepared in accordance with *Australian Accounting Standards – Reduced Disclosure Requirements* of the Australian Accounting Standards Board and the *Corporations Act 2001*. The company is a not-for-profit entity for financial reporting purposes under Australian Accounting Standards.

The financial statements, except for the cash flow information, have been prepared on an accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The amounts presented in the financial statements have been rounded to the nearest dollar. All amounts are presented in Australian dollars.

The financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets.

The financial statements were approved by the directors and authorised for issue on 4 September 2020.

Accounting Policies

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Revenue

AFCA has applied *AASB 15: Revenue from Contracts with Customers (AASB 15)* and *AASB 1058: Income of Not-for-Profit Entities (AASB 1058)* using the cumulative effective method of initially applying AASB 15 and AASB 1058 as an adjustment to the opening balance of equity at 1 July 2019. Therefore, the comparative information has not been restated and continues to be presented under *AASB 118: Revenue and AASB 1004: Contributions.* The details of accounting policies under AASB 118 and AASB 1004 are disclosed separately since they are different from those under AASB 15 and AASB 1058, and the impact of changes to implementation of new standards was immaterial.

Revenue from contracts with customers

The core principle of AASB 15 is that revenue is recognised on a basis that reflects the transfer of promised goods or services to customers at an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. Revenue is recognised by applying a five-step model as follows:

1. Identify the contract with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue as and when control of the performance obligations is transferred

Generally the timing of the payment for sale of goods and rendering of services corresponds closely to the timing of satisfaction of the performance obligations, however where there is a difference, it will result in the recognition of a receivable, contract asset or contract liability.

None of the revenue streams of the Company have any significant financing terms as there is less than 12 months between receipt of funds and satisfaction of performance obligations.

Specific revenue streams

The revenue recognition policies for the principal revenue streams of the Company are:

Membership levies, Superannuation Levies and User Charges

Annual membership levies, superannuation levies and user charges are recorded as revenue in the financial year they relate to. Cash received from members for membership levies relating to the following financial year is treated as income received in advance.

Complaint fees and User Charges

Revenue from complaint fees and user charges are recorded on the basis of the stage of completion of the complaint to the extent revenue can be reliably measured and by taking into account any conditions specified in arrangements with specific members, explicit or implicit, regarding the complaint handling services..

Code monitoring

Code monitoring is recorded as revenue in the financial year monitoring activity is performed. Where cash received from code subscribers and industry associations remains unspent at the end of the financial year it is treated as income received in advance as this is deemed to align with the performance obligations within the agreement.

Membership application fees

The membership application fee is a one-off contribution which is applicable to all new members. It is recorded as revenue in the financial year in which a new member applies to join the company.

Interest income

Interest income is recognised as using the effective interest method.

Grant Revenue

AFCA receives grants where there are conditions to deliver economic value through the set-up of new complaint handling processes and support arrangements. As conditions are attached to the grant before AFCA is eligible to retain the contribution, the recognition of the grant as revenue is deferred until those conditions are satisfied.

(b) Property, plant and equipment and depreciation

Plant and equipment and leasehold improvements are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the item. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. The Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

Furniture and fittings	1-11 years
Computer hardware and software	3-5 years
Office equipment	1-5 years
Leasehold improvements	To expiry of lease term

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. Property, plant and equipment is assessed for impairment each year and an impairment loss is recognised when no future economic benefit will arise from the continued use of an asset.

Work in progress assets are in the course of construction for future use by AFCA and are carried at cost, less any recognised impairment loss. Depreciation of these assets will commence when the assets are ready for their intended use.

(c) Leases

Adoption of AASB 16

The Company has adopted AASB 16 Leases using the modified retrospective (cumulative catch-up) method from 1 July 2019 and therefore the comparative information for the year ended 30 June 2019 has not been restated and has been prepared in accordance with AASB 117 Leases and associated Accounting Interpretations.

Impact of adoption of AASB 16

The impact of adopting AASB 16 is described below:

The Company as a lessee

Under AASB 117, the Company assessed whether leases were operating or finance leases based on its assessment of whether the significant risks and rewards of ownership had been transferred to the Company or remained with the lessor. Under AASB 16, there is no differentiation between finance and operating leases for the lessee and therefore all leases which meet the definition of a lease are recognised on the consolidated statement of financial position (except for short-term leases and leases of low value assets).

The Company has elected to use the exception to lease accounting for short-term leases and leases of low value assets, and the lease expense relating to these leases are recognised in the statement of profit or loss on a straight line basis.

Practical expedients used on transition

AASB 16 includes a number of practical expedients which can be used on transition, the Company has used the following expedients:

- contracts which had previously been assessed as not containing leases under AASB 117 were not re-assessed on transition to AASB 16;
- lease liabilities have been discounted using the Company's incremental borrowing rate at 1 July 2019;
- right-of-use assets at 1 July 2019 have been measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments;
- a single discount rate was applied to all leases with similar characteristics;
- the right-of-use asset was adjusted by the existing onerous lease provision (where relevant) at 30 June 2019 rather than perform impairment testing of the right-of-use asset;
- excluded leases with an expiry date prior to 30 June 2020 from the consolidated statement of financial position and lease expenses for these leases have been recorded on a straight-line basis over the remaining term;
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease;
- for leases which were classified as finance leases under AASB 117, the carrying amount of the right-of-use asset and the lease liability at 1 July 2019 are the same value as the leased asset and liability on 30 June 2019.

At inception of a contract, AFCA assesses if the contract contains or is a lease. If there is a lease present, a right-of-use asset and a corresponding lease liability is recognised by AFCA where AFCA is a lessee. However, all contracts that are classified as short-term leases (lease with remaining lease term of 12 months or less) and leases of low value assets are recognised as an operating expense on a straight-line basis over the term of the lease.

Initially the lease liability is measured at the present value of the lease payments still to be paid at commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, AFCA uses the incremental borrowing rate.

Lease payments included in the measurement of the lease liability are as follows:

- fixed lease payments less any lease incentives;
- lease payments under extension options if lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The right-of-use assets comprise the initial measurement of the corresponding lease liability as mentioned above, any lease payments made at or before the commencement date as well as any initial direct costs. The subsequent measurement of the right-of-use assets is at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset whichever is the shortest.

(d) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when AFCA becomes a party to the contractual provisions to the instrument. For financial assets, this is the date that AFCA commits itself to either the purchase or sale of the asset.

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified “at fair value through profit or loss”, in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain a significant financing component or if the practical expedient was applied as specified in *AASB 15: Revenue from Contracts with Customers*.

Financial liabilities

Financial liabilities are subsequently measured at amortised cost.

All other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense in profit or loss over the relevant period.

The effective interest rate is the internal rate of return of the financial asset or liability, that is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

Financial assets

Financial assets are subsequently measured at amortised cost.

Measurement is on the basis of two primary criteria:

- the contractual cash flow characteristics of the financial asset; and
- the business model for managing the financial assets.

A financial asset that meets the following conditions is subsequently measured at amortised cost:

- the financial asset is managed solely to collect contractual cash flows; and
- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

Derecognition

Derecognition refers to the removal of a previously recognised financial asset or financial liability from the statement of financial position.

Derecognition of financial liabilities

A liability is derecognised when it is extinguished (ie when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability, is treated as an extinguishment of the existing liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Derecognition of financial assets

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

All the following criteria need to be satisfied for the derecognition of a financial asset:

- the right to receive cash flows from the asset has expired or been transferred;
- all risk and rewards of ownership of the asset have been substantially transferred; and
- AFCA no longer controls the asset (ie it has no practical ability to make unilateral decisions to sell the asset to a third party).

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Impairment

AFCA recognises a loss allowance for expected credit losses on:

- financial assets that are measured at amortised cost or fair value through other comprehensive income; and
- contract assets.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

AFCA uses the following approaches to impairment, as applicable under AASB 9: Financial Instruments:

- the general approach; and
- the simplified approach.

General approach

Under the general approach, at each reporting period, AFCA assessed whether the financial instruments are credit impaired, and:

- if the credit risk of the financial instrument increased significantly since initial recognition, AFCA measured the loss allowance of the financial instruments at an amount equal to the lifetime expected credit losses; and
- if there was no significant increase in credit risk since initial recognition, AFCA measured the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

Simplified approach

The simplified approach does not require tracking of changes in credit risk at every reporting period, but instead requires the recognition of lifetime expected credit loss at all times.

This approach is applicable to:

- trade receivables or contract assets that result from transactions that are within the scope of *AASB 15: Revenue from Contracts with Customers*, and which do not contain a significant financing component; and
- lease receivables.

In measuring the expected credit loss, a provision matrix for trade receivables is used taking into consideration various data to get to an expected credit loss (i.e. diversity of its customer base, appropriate groupings of its historical loss experience).

Recognition of expected credit losses in financial statements

At each reporting date, AFCA recognises the movement in the loss allowance as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

The carrying amount of financial assets measured at amortised cost includes the loss allowance relating to that asset.

(e) Impairment of Assets

At the end of each reporting period, the entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use, is compared to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised in profit or loss.

Where the assets are not held primarily for their ability to generate net cash inflows – that is, they are specialised assets held for continuing use of their service capacity – the recoverable amounts are expected to be materially the same as fair value.

Where it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where the future economic benefits of the asset are not primarily dependent upon the asset's ability to generate net cash inflows and when the entity would, if deprived of the asset, replace its remaining future economic benefits, value in use is determined as the depreciated replacement cost of an asset.

(f) Employee Provisions

Short-term employee provisions

Provision is made for AFCA's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) where employees are eligible for settlement within 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries, sick leave and annual leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

Other long-term employee provisions

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates that approximate the terms of the obligations. Upon the remeasurement of obligations for other long-term employee benefits, the net change in the obligation is recognised in profit or loss as part of employee provisions expense.

AFCA's obligations for long-term employee benefits are presented as non-current employee provisions in its statement of financial position, except where AFCA does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current employee provisions. Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

AFCA does not provide any defined benefits plans to employees.

(g) Cash and cash equivalents

Cash on hand includes deposits held at-call with banks and term deposits that have a maturity of less than 3 months.

(h) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

(i) where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO), it is recognised as part of the cost of acquisition of the asset or as part of an item of expense

(ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to the ATO is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financial activities which is recoverable from, or payable to, the ATO is classified as operating cash flows.

(i) Income tax

The company has determined that it is an exempt entity under section 50-10 of the *Income Tax Assessment Act 1997* and therefore exempt from income tax.

(j) Intangible Assets

Software is recorded at cost. Where software is acquired at no cost, or for a nominal cost, the cost is its fair value, as at the date of acquisition. It has a finite life and is carried at cost less accumulated amortisation and any impairment losses. Software has an estimated useful life of between one and three years. It is assessed annually for impairment.

(k) Provisions

Provisions are recognised when AFCA has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions recognised represent the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(l) Comparative Figures

Where required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

Where required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year. The following updates of comparative amounts have been made this year, with no impact on the net assets or the Statement of profit or loss and other comprehensive income:

- Term deposits of less than 3 months maturity have been reclassified as cash;
- Employee Benefits Provisions are classified as current where employees are eligible for settlement of these benefits within 12 months;
- Gross GST payments and receipts have been added to operating cash flows in the Cash Flow Statement.

(m) Accounts Payable & Other Payables

Accounts payable and other payables represent the liability outstanding at the end of the reporting period for goods and services received by AFCA during the reporting period which remain unpaid. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(n) Accumulated funds

As per section 2.3 of the company's constitution, upon winding up of the company, any excess funds shall not be paid to members but shall be given or transferred to any organisation with similar purposes and which has rules prohibiting the distribution of its assets and income to its members.

(o) Critical accounting estimates & judgements

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information.

Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within AFCA.

Key Judgements

Employee entitlements

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- future increases in wages and salaries
- future on cost rates, and
- experience of employee departures and period of service.

For the purpose of measurement, *AASB 119: Employee Benefits* defines obligations for short-term employee benefits as obligations expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service. AFCA expects most employees will take their annual leave entitlements within 24 months of the reporting period in which they were earned, but this will not have a material impact on the amounts recognised in respect of obligations for employees' leave entitlements.

Long term employee benefit provisions are measured at present value using discount rates by reference to market yields for high quality corporate bonds at the end of the reporting year.

Performance obligations under AASB 15 Revenue

To identify a performance obligation under AASB 15 Revenue, the promise must be sufficiently specific to be able to determine when the obligation is satisfied. Management exercises judgement to determine whether the promise is sufficiently specific by taking into account any conditions specified in the arrangement, explicit or implicit, regarding the promised services. In making this assessment, AFCA management takes account of complaint handling activities for complaints that are currently lodged with AFCA and are in progress in addition to other membership support services that are available to effective members during the current membership year.

Key sources of estimation uncertainty

Useful lives of property, plant and equipment

As described in note 1(b) the company reviews the estimated useful lives of property, plant and equipment at the end of each reporting year.

Employee entitlements

Expected future cash outflows are based on future salary increases, which are subject to multiple influences, including CPI inflation and salary increases within the financial services market.

Trade Receivables – Credit Losses

As described in note 1(d), various data is used to get an expected credit loss for trade receivables.

Credit losses arise from multiple AFCA members that are unable or unwilling to pay debts owing to AFCA. In addition to insolvency, the underlying reasons for this condition can vary significantly for each member, so determining whether a credit loss will occur is a key source of uncertainty. Under these circumstances, the volume of complaints and the extent of work that is required to resolve these complaints is also uncertain. This impacts on the value of credit losses that arise from the non-recovery of complaint fees.

2) Revenue

Deficit for the period includes the following items of revenue:

Revenue	**2020** **$**	**2019** **$**
Complaint fees	92,898,861	54,868,898
Membership levies	25,010,751	17,762,546
Interest income	403,949	973,821
Government Grants	1,235,444	3,264,555
Code monitoring	4,266,515	3,211,010
Other sundry income	-	4,085
Total Revenue & other income	**123,815,520**	**80,084,915**

3) Trade receivables, prepayments and other debtors

	2020 $	2019 $
Trade receivables	15,932,949	8,626,133
Accrued income	11,978,951	9,349,539
Prepayments	1,365,638	1,155,779
Other debtors	1,608,365	191,972
Provision for expected credit loss	(5,315,851)	(2,251,731)
	25,570,052	17,071,692

The credit period for services rendered is 30 days. No interest is charged on overdue trade receivables. Trade receivables greater than 30 days are provided for based on estimated irrecoverable amounts from services rendered, determined by reference to past default experience.

AFCA assesses the credit worthiness of trade debtors on an individual debtor basis. Where an assessment is made that debts will not be recoverable from the debtor due to credit issues, credit losses are taken up at 100% of the balance owing to AFCA, including expected losses for open and unresolved complaints on hand.

AFCA always measures the loss allowance for accounts receivables at an amount equal to lifetime expected credit loss. The expected credit losses on accounts receivable are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

There has been no change in the estimation techniques used or significant assumptions made during the current reporting period.

AFCA writes off accounts receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery (eg when the debtor has been placed under liquidation or has entered into bankruptcy proceedings) or payment plans are not in place for debts older than 90 days, whichever occurs earlier.

4) Other financial asset

Term Deposits of $14,000,000 with a maturity of over 3 months were recognised as held to maturity assets as at 30 June 2019.

5) Property, plant and equipment

2020	Plant & Equipment	Leasehold improvements	Work in Progress	Total
Gross carrying amount				
Opening Balance	2,336,393	1,535,148	1,793,891	5,665,432
Additions – at cost	1,416,596	259,423	(117,598)	1,558,421
Disposals	(91,397)	-	-	(91,397)
Balance at 30 June 2020	3,661,592	1,794,571	1,676,293	7,132,456
Accumulated Depreciation				
Opening Balance	528,342	725,440	-	1,253,782
Disposals	(22,236)	-	-	(22,236)
Depreciation expense	1,072,416	855,190	-	1,927,606
Balance at 30 June 2020	1,578,522	1,580,630	-	3,159,152
Book Value - 30 June 2020	**2,083,070**	**213,941**	**1,676,293**	**3,973,304**

2019	Plant & Equipment	Leasehold improvements	Work in Progress	Total
Gross carrying amount				
Opening Balance	659,421	1,485,683	11,200	2,156,304
Additions – at cost	1,617,229	-	1,782,691	3,399,920
Additions – at fair value	59,742	49,465	-	109,207
Balance at 30 June 2019	2,336,392	1,535,148	1,793,891	5,665,431
Accumulated Depreciation				
Opening Balance	35,228	101,794	-	137,022
Depreciation expense	493,114	623,646	-	1,116,760
Balance at 30 June 2019	528,342	725,440	-	1,253,782
Book Value - 30 June 2019	**1,808,050**	**809,708**	**1,793,891**	**4,411,649**

6) Intangible Assets

Computer Software	2020 $	2019 $
Gross carrying amount		
Opening Balance	252,649	173,560
Additions – at cost	-	-
Additions – at fair value	-	79,089
Balance at 30 June	252,649	252,649
Accumulated Depreciation		
Opening Balance	249,148	59,085
Depreciation expense	3,501	190,063
Balance at 30 June	252,649	249,148
Book Value as at 30 June	**-**	**3,501**

7) Right of Use Assets

Apart from short-term leases, AFCA has one leasehold building with a term of 11 years and an option to renew for a period of 5 years. This new lease was recognised this year under *AASB 16 Leases.*

Right of use assets	**2020** **$**
AASB 16 amounts recognised in the Balance Sheet	
Right of Use Asset – Building & Leasehold Fitout	13,799,283
Accumulated Amortisation	(1,045,400)
Net Book Value	**12,753,883**

Movement in carrying amounts	**2020** **$**
Recognised on commencement of new leases	13,799,283
Amortisation expense	(1,045,400)
Net Book Value	**12,753,883**

AASB 16 related amounts recognised in the statement of profit or loss	**2020** **$**
Depreciation charge related to right-of-use assets	1,045,400
Interest expense on lease liabilities	378,994
Makegood interest expense	16,225
Total amounts recognised in the statement of profit and loss	**1,440,619**

8) Accounts Payable & Other Payables

	2020 $	2019 $
Trade payables and accruals	5,685,173	5,010,828
Deferred income	900,069	2,362,504
Amounts due to Australian Taxation Office	1,047,904	213,830
Total Accounts Payable and Other Payables	**7,633,146**	**7,587,162**

Trade payables consist of amounts owing for goods and services rendered which have a credit period not exceeding 30 days. The company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

9) Lease Liabilities

Lease liabilities - current

	2020 $	2019 $
Lease Liability – AASB 16 Leases	752,286	-
Total Current Lease liabilities	**752,286**	**-**

Lease liabilities – non-current

	2020 $	2019 $
Lease Liability – AASB 16 Leases	11,925,614	-
Total Non-Current Lease liabilities	**11,925,614**	**-**

10) Provisions

Provisions - current

	2020	2019
Employee benefits	11,372,015	8,421,626
Makegood provision	1,781,868	1,613,053
Lease Liability	115,999	567,333
Total Provisions - Current	**13,269,882**	**10,602,012**

Provisions – non-current

	2020 $	2019 $
Employee benefits	1,309,922	683,082
Makegood provision	565,248	-
Total Provisions – non-current	**1,875,170**	**683,082**

11) Accumulated funds

	2020	2019
Opening Balance	37,044,374	35,762,018
Net Assets Transferred from other EDR schemes	1,334,926	5,269,340
Net deficit for the year	(5,464,923)	(3,986,984)
Balance at end of financial year	**32,914,377**	**37,044,374**

12) Remuneration of auditors

	2020 $	2019 $
(a) Auditing the Financial Report	43,000	43,000
(b) Other Audit Services	4,000	-
Total Remuneration of auditors	**47,000**	**43,000**

13) Capital and Leasing Commitments

Non-cancellable Operating Lease Commitments

	2020 $	2019 $
Payable – minimum lease commitments:		
Future operating lease rentals and rentals not provided for in the financial statements:		
Not longer than one year	2,170,906	6,316,497
Longer than one year but not longer than five years	-	2,170,906
Longer than five years	-	-
	2,170,906	8,487,403

Subsequent to 30 June 2020, new leasing commitments also commenced for new offices in Melbourne and Sydney.

14) Contingent Assets

There are no contingent assets as at 30 June 2020.

15) Contingent Liabilities

There are commitments for two new office leases that commenced after 30 June 2020. There are no other contingent liabilities as at 30 June 2020.

16) Members' guarantee

The company is a public company limited by guarantee incorporated in Australia. If the company is wound up, the Constitution states that each member is required to contribute a maximum of $100 each towards meeting any outstanding obligations of the company. At 30 June 2020, the maximum total members' contribution is $3,909,500 (2018: $3,602,000) if it was required by the company at winding-up.

17) Notes to the cash flow statement

Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items shown in the balance sheet as follows:

(i) Cash and Cash Equivalents	2020 $	2019 $
Cash at bank - unrestricted	11,318,440	3,670,664
Term deposits – maturity 3 months or less	13,000,000	16,000,000
Cash at bank – held against bank guarantees	1,754,796	759,124
Total cash and cash equivalents	**26,073,236**	**20,429,788**
(ii) Reconciliation of deficit for the period to net cash flows from operating activities		
Deficit for the year	(5,464,923)	(3,986,984)
Depreciation & amortisation	2,976,507	1,306,823
Loss on sale of fixed assets	32,797	-
Provision for doubtful debts	3,064,120	1,285,242
Changes in net assets and liabilities:		
(Increase)/decrease in assets:		
Trade debtors	(7,306,816)	(1,935,298)
Operating assets transferred from CIO	-	255,820
Other debtors and prepayments	(4,255,664)	(4,265,474)
Increase/(decrease) in liabilities:		
Trade creditors & accruals	1,508,418	2,526,153
Deferred income & income received in advance	(1,462,435)	1,200,148
Provisions	3,859,958	2,063,429
Net cash from operating activities	**(7,048,038)**	**(1,550,141)**

18) Financial instruments disclosure

(a) Financial risk management objectives

The company's finance department provides services to the business, coordinates access to domestic financial markets, monitors and manages financial risks relating to the operations of the company. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The finance department reports quarterly to the company's Audit & Risk Committee.

(b) Market risk

The company's activities expose it to the financial risks of changes in interest rates (refer note 17(d)). There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

(c) Foreign currency risk management

The company does not undertake foreign currency transactions.

(d) Interest rate risk management

The company does not borrow funds.

The company's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for cash deposits at the reporting date and the stipulated change taking place at the beginning of the financial period and held constant throughout the reporting period. A 50-basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 50 basis points higher (or lower) and all other variables were held constant, the company's net loss would decrease /(increase) by $16,250. This is mainly attributable to the company's exposure to interest rates on its term deposits.

The company's sensitivity to interest rates has increased during the current period mainly due to the increase in variable rate cash deposits.

(e) Credit risk management

Trade receivables consist of a large number of members. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit rating agencies.

(f) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the company's liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows.

The company does not have any derivative financial liabilities or assets.

(g) Fair value of financial instruments

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

19) Key management personnel compensation

Key management personnel includes:

- Chair of the Board, all Directors and the company secretary;
- the Chief Ombudsman & Chief Executive Officer, Deputy Chief Ombudsman, General Counsel, Chief Operating Officer and all Lead Ombudsman;
- all Executive General Managers; and
- the Chief Financial Officer

Directors	2020 $	2019 $
Short Term Employee Benefits	606,115	464,209
Post-Employment Benefits - Superannuation	54,175	41,353
Total benefits	**660,290**	**505,562**

Senior Management	2020 $	2019 $
Short Term Employee Benefits	3,605,891	2,743,438
Post-Employment Benefits including Superannuation	490,613	226,152
Total benefits	**4,096,504**	**2,969,590**

20) Related party disclosures

Key management personnel compensation is shown in Note 19.

No loans have been made to key management personnel of the company or to their related entities.

There were no other transactions with any related party.

21) Subsequent events

As at 30 June 2020 whilst the financial impacts of COVID-19 have not been materially detrimental to the company, the COVID-19 pandemic has created unprecedented uncertainty in the wider economy. Economic events and conditions in the future may be materially different from those currently estimated by the company at reporting date. In the event that the COVID-19 pandemic impacts are more severe or prolonged than anticipated, this will likely have further impact on the company (example would include an increase in volume of complaints). At the date of the annual report an estimate of the future impact will depend on the magnitude and duration, with the full range of possible impact unknown.

In July 2020, a 12-year office lease became effective for AFCA's new head office in Wesley Place, Melbourne. In August 2020, it replaced the previous head office in Docklands, Melbourne. An additional office lease also became effective in Sydney from 1 September 2020. When the lessor made this premises available to AFCA, right-of-use-assets and leasehold improvements were recognised to the value of $70.01 million, with an offsetting lease liability of the same value. As possession was not effective on 30 June 2020, the amortised values of these assets and liabilities will be recognised in the financial statements for the year ending 30 June 2021.

Other than as outlined above, since the end there has not arisen any item, transaction or event of a material and unusual nature that, in the opinion of the directors of the company, would significantly affect the operations of the company, the results of those operations or the state of affairs of the company in future financial years.