

# General Purpose Financial Report

For the financial year ended 30 June 2018



## Directors' Report

The Australian Financial Complaints Authority Limited ("AFCA") submits herewith the annual financial report of the company from 17 July 2017 to 30 June 2018, 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. From 1 November 2018, AFCA will commence operating the AFCA external dispute resolution scheme, which will encompass the jurisdiction presently provided by the Credit and Investments Ombudsman and new complaints that would previously have been made to the Superannuation Complaints Tribunal. Accordingly, the principal activities outlined in this report relate to the activities of the FOS scheme in 2017-18.

## Principal Activities

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

## Company Objectives

### ***Mission***

The mission of the FOS scheme, as operated by AFCA, is to fulfil an important role by providing an independent dispute resolution service in which people can place their confidence and trust. This involves understanding all sides of a dispute and resolving it fairly and efficiently.

### **Authorisation of AFCA**

In May 2017, the panel appointed by the government to review external dispute resolution in the financial sector (Ramsay Review) released its final report and recommendations. The government accepted the Ramsay Review Panel's key recommendations for a new single scheme and legislation to create AFCA passed through Parliament in February 2018.

The Minister for Revenue and Financial Services authorised AFCA to operate in April 2018. AFCA is to commence receiving new complaints on 1 November 2018. All financial firms required to hold membership of an external dispute resolution scheme will be required to join AFCA by no later than 21 September 2018. From 1 May 2018 to 30 June 2018, AFCA began the arrangements necessary to ensure we would be

equipped to commence receiving new complaints from 1 November 2018, including assuming control of the Financial Ombudsman Service EDR scheme and business assets as at 1 May 2018.

We are committed to working constructively with the Government's transition team, other schemes and all our stakeholders in ensuring a smooth transition to the new single scheme.

### **Implementation of the AFCA external dispute resolution scheme**

Since the authorisation was provided in April 2018, the Company has:

- Obtained authorisation to operate the external dispute resolution schemes previously operated by Financial Ombudsman Service Limited and Credit and Investments Ombudsman Limited;
- Transitioned the entire Financial Ombudsman Service Limited business into the Company;
- Consulted on the draft Rules and Funding model for the AFCA external dispute resolution scheme;
- Launched an interim website – [www.afc.org.au](http://www.afc.org.au) – to advise stakeholders about critical information ahead of the formal launch on 1 November;
- Engaged with the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry with a focus on contributing to the work of the Commission in an constructive, open and transparent manner.

### **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 names and particulars of the directors at each stage are shown below.

		FORMER FOS DIRECTOR	ESTABLISHMENT BOARD	TRANSITIONAL BOARD	INAUGURAL BOARD
			17 July 2017 to 16 February 2018	16 February to 4 May 2018	From 4 May 2018
<b>R Belleville</b>	Industry Director	✓	✓	✓	✓
<b>J Berrill</b>	Consumer Director			✓	
<b>H Coonan</b>	Chair				✓
<b>D Coorey</b>	Consumer Director	✓		✓	
<b>J Darbyshire</b>	Industry Director	✓		✓	✓
<b>M Dwyer</b>	Industry Director			✓	
<b>A Fairley</b>	Industry Director				✓
<b>C Franklin</b>	Consumer Director	✓	✓	✓	✓
<b>E Freeman</b>	Consumer Director	✓		✓	✓
<b>L Lakomy</b>	Industry Director	✓		✓	
<b>M Lavarch</b>	Chair	✓	✓	✓	
<b>C Lowe</b>	Consumer Director	✓		✓	✓
<b>C Mackay</b>	Industry Director				✓
<b>E Turner</b>	Consumer Director				✓
<b>J Turner</b>	Industry Director	✓		✓	✓
<b>A Wein</b>	Consumer Director				✓

## Establishment Board

### ***Professor The Honourable Michael Lavarch AO – LLB (QUT)***

Michael Lavarch was appointed as the Chair of the Establishment Board on 17 July 2017. He continued as Chair of the Transition Board until his retirement from the Board on 4 May 2018.

Michael was formerly:

- the Chair of the Financial Ombudsman Service Limited;
- the Commissioner, Risk Analysis and Investigation, for the Australian Skills Quality Authority,
- Executive Dean of the Faculty of Law at the Queensland University of Technology.
- Federal Attorney-General and a former Secretary-General of the Law Council of Australia.

He has extensive board experience, having held public and private company directorships, and is currently Chief Adjudicator of the Alcohol Beverages Advertising Code adjudication panel and a director of the Telecommunications Industry Ombudsman.

In 2012, Michael was appointed an Officer of the Order of Australia for distinguished service to law, education and human rights.

### ***Robert Belleville – MBA***

Robert Belleville was appointed an industry director on 17 July 2017 and continues in that capacity, having been appointed to the inaugural Board on 4 May 2018. 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 Committee. 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 added the position of Chief Executive of Promina's Direct Division, afterwards he took on positions with APIA, Shannons and Just Car Insurance. 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.

### ***Carmel Franklin – BEd., Dip (Financial Counselling)***

Carmel Franklin was appointed a consumers' director on 17 July 2017 and continues in that capacity, having been appointed to the inaugural Board on 4 May 2018. She is a former consumers' director of the Financial Ombudsman Service Limited.

Carmel has been involved with consumer issues for a number of years, including as the Director of Care Financial Counselling and the Consumer Law Centre of the ACT, as the Chair of Financial Counselling Australia and through her role on the boards of the National Information Centre on Retirement Investments and the Welfare Rights and Legal Centre. In addition to these positions, she is a director of the ACT Gambling and Racing Commission.

She is a former member of the ASIC Consumer Advisory Panel as well as the FOS Consumer Liaison Group.

## **Transition Board**

### ***John Berrill***

John Berrill was appointed a consumers' director on 16 February 2018 and retired from the Board on 4 May 2018.

John is a Director of Berrill Watson Lawyers. He is a board member of the Consumer Action Law Centre, the Travel Compensation Fund, the Chronic Illness Alliance and the Superannuation Complaints Tribunal Advisory Council.

He is a past member of the Financial Industry Complaints Service (now Financial Ombudsman Service), the Superstream Advisory Council, the Stronger Super Implementation Committee and the National Disaster Insurance Review Panel. John is a highly respected industry leader and regularly features in the media as the voice for consumers in financial matters.

### ***David Coorey – BA, LLB (UNSW)***

David Coorey was appointed a consumers' director on 16 February 2018 and retired from the Board on 4 May 2018. He is a former consumers' director of the Financial Ombudsman Service Ltd.

He is a senior lawyer with the Civil Division section of the Legal Aid Commission of NSW, which he joined in 2002. Since commencing with the Legal Aid Commission, he has been actively involved in policy work in consumer law, with particular interest in policy issues that affect consumers of insurance products.

David previously worked with the law firm Freehills for more than three years, including a one-year pro bono secondment to Kingsford Legal Centre. He is also a former member of the Insurance Council of Australia Consumer Reference Group and a former director of the Financial Ombudsman Service Limited.

He has worked in various areas of civil law including insurance, credit, consumer and trade practices litigation, as well as human rights and discrimination law.

***Jennifer Darbyshire – BA, LLB (Hons), LLM (London), GAICD***

Jennifer Darbyshire was appointed an industry director on 16 February 2018 and continues in that capacity, having been appointed to the inaugural Board on 4 May 2018. She is a former industry director of the Financial Ombudsman Service Limited.

Jennifer joined National Australia Bank in 2006 and was appointed General Counsel, Corporate in March 2016. From late 2014 to early 2016, Jennifer was the General Manager, Group Regulatory Strategy & Affairs. From mid-2012 to late 2014, she was General Counsel and Company Secretary for NAB's UK banking operations.

Jennifer has previously worked in private legal practice (including Mallesons in Melbourne and Linklaters in London) and in major Australian corporations (including Coles Myer). She has a corporate legal and executive background with extensive governance, regulatory and transactional experience.

Jennifer was the Chair of Heide Museum of Modern Art until January 2016 (and a director since 2006). Previous directorships include St Vincent's & Mercy Private Hospital (2006 to 2011) and St Vincent's Advisory Council Melbourne (2011 to 2012).

***Michael Dwyer AM***

Michael Dwyer AM was appointed an industry director on 16 February 2018 and retired from the Board on 4 May 2018.

Michael was appointed as the CEO of First State Super in 2004 and is a Director of the United Nations Refugee agency, Australia for UNHCR, the Fund Executive Association Limited, the Association of Super Funds of Australia and of the Sydney Financial Forum.

Previously the General Manager of Asset Super (now part of CareSuper) Michael's extensive industry knowledge is the culmination of over 20 years' experience in senior executive roles in the superannuation and financial services industry.

***Elissa Freeman – BA (UNSW), GAICD***

Elissa Freeman was appointed a consumers' director on 16 February 2018 and continues in that capacity, having been 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 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 has represented consumers at the ASIC Consumer Advisory Panel, the ACCC Consumer Consultative Committee and as a council member of the Energy and Water Ombudsman of NSW.

Elissa was previously Chair of the Financial Rights Legal Centre (then the Consumer Credit Legal Centre of NSW) and Manager of Consumer Policy at CHOICE.

She is currently a Director in the ACCC's Financial Services Unit.

***Louise Lakomy – MBA, GDPFP, JP, CFP***

Louise Lakomy was appointed an industry director on 16 February 2018 and retired from the Board on 4 May 2018. She is a former industry director of the Financial Ombudsman Service Limited.

Louise is a certified financial planner with 15 years' experience in financial planning. In her current role, she is a director with Crystal Wealth Partners, an independently owned financial planning business offering investment and strategic advice to her clients. Louise also holds a Masters of Business Administration, majoring in finance and funds management.

She previously served on the Board of the Financial Planning Association (FPA) of Australia for the maximum term of six years. She is a former member of the Financial Planning Education Council and the FPA's Professionalism Committee, and has held roles with large institutions including Westpac and St George private banks as well as boutique advisory firms.

***Catriona Lowe – LLB (QLD)***

Catriona Lowe was appointed a consumers' director on 16 February 2018 and continues in that capacity, having been appointed to the inaugural Board on 4 May 2018. 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 and Chair of the ACCC Consumer Consultative Committee.

She is formerly the 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.

***Johanna Turner – BA, LLB (Macquarie), GAICD***

Johanna was appointed an industry director on 16 February 2018 and continues in that capacity, having been 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. She combines this with extensive industry experience in consumer banking, consumer credit, wealth management, corporate and investment banking, exchange traded funds and derivative markets. 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 Blackrock Investment Management (Australia) Limited and Fundhost Limited. She is also a member of the NSW Government Council for Women's Economic Opportunity, Chair of the AFMA Professionalism Committee and Panel member of the ASIC FSCP. Johanna was formerly a board member of Women in Banking and Finance and Chair of their Audit, Risk and Governance Committee.

## **Inaugural Board**

### ***The Hon Helen Coonan (Chair) – BA, LLB (Syd)***

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.

Ms Coonan's current appointments include non-executive directorships of Crown Resorts Limited and Snowy Hydro Limited. She is the Chair of Place Management NSW and Co-Chair of GRA Cosway Pty Limited. She Chairs boutique fund manager Supervised Investments Australia Limited, is a member of the Advisory Council of JP Morgan and was previously a member of the Board of Advice for Aon Australia.

### ***Andrew Fairley – AM, LLB***

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 Equisuper and an equity lawyer with over 35 years' experience in superannuation. He founded and ran Australia's first specialist superannuation firm, IFS Fairley. He also founded the Law Council of Australia Superannuation Committee and served as its Chair for 10 years.



***Claire Mackay – BCom, LLM, CPA, CFP, CTA, GAICD***

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

Claire is a highly regarded financial planner and the Principal Adviser at Quantum Financial. She is a Chartered Accountant, Certified Financial Planner, lawyer, Chartered Tax Analyst and a Self-Managed Superannuation Fund expert. Ms Mackay is a member of the ASIC External Advisory Panel.

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

***Erin Turner – BA, MPP***

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 is a high profile and experienced consumer advocate. She regularly appears in the media to advocate for consumers using financial services and to educate them on their rights.

Ms Turner represents CHOICE on the ACCC Consumer Consultative Committee and is a former member of the ASIC Consumer Advisory panel.

***Alan Wein – LLB (Melb), 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 appointed the inaugural chair of the Victorian Government Small Business Advisory Council and was the business delegate on the Victorian Government Infrastructure Planning Council.

Alan is a member of LEADR, (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 (OSBC).

***Company Secretary***

***Nicolas Crowhurst - BA, LLB (Hons), FGIA, FCSA***

Nicolas Crowhurst was appointed Company Secretary on 17 July 2017. He is a former Company Secretary of the Financial Ombudsman Service Limited.

Nicolas qualified as a Barrister in the United Kingdom in 2000 and has previously served as Legal Counsel to the Financial Industry Complaints Service Limited, the Financial Ombudsman Service Limited and the company. He is also a former Director

of Financial Services Compensation Scheme Pty Ltd and worked at Minter Ellison Lawyers prior to entering the alternate dispute resolution industry.

He is a Fellow of the Governance Institute of Australia, and the Institute of Chartered Secretaries and Administrators.

## 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
- Nominations and Remuneration Committee

## Board Member Attendance

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

	FULL BOARD		AUDIT & RISK COMMITTEE		NOMINATIONS & REMUNERATION COMMITTEE	
	Actual Attendance	Eligible to Attend	Actual Attendance	Eligible to Attend	Actual Attendance	Eligible to Attend
R Belleville	5	5	1	1		
J Berrill	2	2				
H Coonan	3	3			0	0
D Coorey	2	2				
J Darbyshire	4	4			0	0
M Dwyer	2	2				
A Fairley	2	2				
C Franklin	5	5				
E Freeman	4	4	1	1		
L Lakomy	2	2				
M Lavarch	3	3				
C Lowe	4	4	1	1		
C Mackay	2	2			0	0
E Turner	2	2			0	0
J Turner	4	4	1	1		
A Wein	2	2			0	0

The company commenced its full operations subsequent to the transfer of assets and liabilities from Financial Ombudsman Service Ltd on 1 May 2018.

The Finance & Risk Management Committee was renamed Audit and Risk Committee on 7 May 2018.

## **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*.

### ***Operation of FOS scheme***

Following Ministerial approval, the operations of the company started on 1 May 2018 with the company becoming the operating entity of the EDR service previously provided by Financial Ombudsman Service Limited (FOS).

The company's EDR scheme, AFCA, will commence on 1 November 2018.

### ***Memberships***

There were 5,340 Financial Services Providers and 6,633 Authorised Credit Representative members registered at 30 June 2018.

### ***Operating result***

The net deficit for the period from 17 July 2017 to 30 June 2018 is \$2,496,699 and total accumulated funds amount to \$35,762,018.

### ***Dispute numbers***

The FOS EDR scheme operated by AFCA received 7,999 disputes from 1 May 2018 to 30 June 2018. This amounts to an annualised amount of approximately 48,000 disputes, which compares to 43,684 disputes being received across the 2017-18 financial year by both FOS Limited (up to 30 April 2018) and AFCA (from 1 May to 30 June 2018).

### ***State of Affairs***

On 9 May 2017, the government announced that the Australian Financial Complaints Authority (AFCA) will be established as a new 'one-stop-shop' body from 1 July 2018 for financial external dispute resolution in Australia. We are now in the process of replacing the other affected EDR schemes, including Credit and Investments Ombudsman Limited, and the Superannuation Complaints Tribunal.

**Subsequent events**

Since the end of the financial period to the date of this report, the Company has received authorisation from the Australian Securities and Investments Commission to operate the EDR scheme previously run by Credit and Investments Ombudsman Limited (CIOL). A Deed of Transition was entered into with CIOL to transition relevant aspects of the EDR scheme to the Company, but without a full acquisition of the business. This was executed on 31 August 2018 and has no impact on reported amounts for the financial period to 30 June 2018. As of the date of this report, it is not possible to quantify the financial impact of the transaction due to the funding nature of the EDR scheme and yet to be calculated values for accrued revenue on disputes in progress.

Aside from the above, 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 2018, the maximum total members' contribution is \$1,197,300 if the company is wound up.

### ***Directors' Declaration***

For the financial period ended 30 June 2018, the directors declare that:

- a) 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
- b) the attached financial statements are in compliance with International Financial Reporting Standards, as noted in Note 2 to the financial statements
- c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and give a true and fair view of the financial position and performance of the company.

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 Melbourne this 2<sup>th</sup> day of September 2018

The Board of Directors  
Australian Financial Complaints Authority Limited  
Level 12  
717 Bourke Street  
Melbourne, VIC 3000

12 September 2017

Dear Chairman

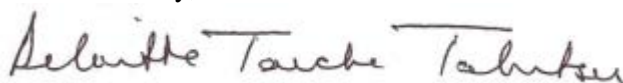
## **Australian Financial Complaints Authority Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Australian Financial Complaints Authority Limited.

As lead audit partner for the audit of the financial statements of Australian Financial Complaints Authority Limited for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully,



DELOITTE TOUCHE TOHMATSU



Robert D D Collie  
Partner  
Chartered Accountants

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## Independent Auditor's Report to the Members of Australian Financial Complaints Authority Limited

We have audited the financial report of Australian Financial Complaints Authority Limited (the "Company") which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the period from 17 July 2017 (date of incorporation) to 30 June 2018, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Company 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 2018 and of its financial performance for the period then ended; and
- (ii) complying with Australian Accounting Standards 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 describe 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 of the *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 confirm that the independence declaration required by the *Corporations Act 2001*, which have been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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 **Directors' report for the** period ended 30 June 2018, 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 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 the Directors for the Financial Report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the **Corporations Act 2001** and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and 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.

## *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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing **an opinion on the effectiveness of the Company's internal control.**
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists **related to events or conditions that may cast significant doubt on the Company's ability to** continue as a going concern. If we conclude that a material uncertainty exists, we are **required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.**
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.



We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read "Paul Miller".

Partner  
Chartered Accountants  
Melbourne, 12 September 2018

**Australian Financial Complaints Authority Limited**

**Statement of profit or loss and other comprehensive income**

**for the period from 17 July 2017 to 30 June 2018**

	Notes	Period from 17 July 2017 to 30 June 2018 \$
Revenue	4	7,731,188
Employee benefits expense		(7,242,286)
Office expenses		(135,953)
Communication & Stakeholder relations expenses		(221,736)
Occupancy expenses		(619,734)
Board expenses		(147,759)
Increase in provision for doubtful debts		(224,353)
Net recovery of doubtful debts		5,361
Insurance expenses		(15,506)
Professional assistance expenses		(834,764)
Depreciation expense		(196,107)
Free decisions provided to members		(4,002)
Technology expenses		(574,576)
Other expenses		(16,472)
<b>Deficit before tax</b>		<b>(2,496,699)</b>
Income tax expense		-
<b>Deficit for the period</b>		<b>(2,496,699)</b>
Other comprehensive income		-
<b>Total comprehensive income</b>		<b>(2,496,699)</b>

Notes to and forming part of the financial statements are included on pages 22 to 41.

# Australian Financial Complaints Authority Limited

## Statement of financial position as at 30 June 2018

	Notes	30 June 2018 \$
<b>Current Assets</b>		
Cash and cash equivalents	17 (i)	3,054,625
Trade and other receivables	5	12,156,162
Other financial assets	6	31,500,000
<b>Total Current Assets</b>		<b>46,710,787</b>
<b>Non-Current Assets</b>		
Property, plant and equipment	7	2,133,757
<b>Total Non-Current Assets</b>		<b>2,133,757</b>
<b>Total Assets</b>		<b>48,844,544</b>
<b>Current Liabilities</b>		
Trade and other payables	8	2,698,505
Income received in advance		1,162,356
Provisions	9	2,470,739
<b>Total Current Liabilities</b>		<b>6,331,600</b>
<b>Non-Current Liabilities</b>		
Provisions	9	6,750,926
<b>Total Non-Current Liabilities</b>		<b>6,750,926</b>
<b>Total Liabilities</b>		<b>13,082,526</b>
<b>NET ASSETS</b>		<b>35,762,018</b>
<b>ACCUMULATED FUNDS</b>	10	<b>35,762,018</b>
<b>Total Accumulated Funds</b>		<b>35,762,018</b>

Notes to and forming part of the financial statements are included on pages 22 to 41.

# Australian Financial Complaints Authority Limited

## Statement of changes in equity for the period from 17 July 2017 to 30 June 2018

	Notes	Equity from FOS	Retained Earnings \$	Total \$
Net Assets Transferred from FOS – 1 May 2018	15	38,258,717	-	38,258,717
Deficit for the period		-	(2,496,699)	(2,496,699)
Other comprehensive income for the period, net of income tax		-	-	-
<b>Total comprehensive loss for the period</b>		<b>-</b>	<b>(2,496,699)</b>	<b>(2,496,699)</b>
<b>Balance at 30 June 2018</b>		<b>38,258,717</b>	<b>(2,496,699)</b>	<b>35,762,018</b>

Notes to and forming part of the financial statements are included on pages 22 to 41.

# Australian Financial Complaints Authority Limited

## Statement of cash flows for the period from 17 July 2017 to 30 June 2018

	Notes	Period from 17 July 2017 to 30 June 2018 \$
<b>Cash Flows from operating activities</b>		
Receipts from members and others		7,782,738
Interest received		5,744
Payments to suppliers and employees		(7,381,720)
<b>Net cash provided by operating activities</b>	<b>17 (ii)</b>	<b>406,762</b>
<b>Cash Flow from investing activities</b>		
Payment for property plant and equipment		(387,513)
Payment for investments in term deposits		(31,500,000)
<b>Net cash used in investing activities</b>		<b>(31,887,513)</b>
<b>Cash Flow from financing activities</b>		
Proceeds from FOS scheme	15	34,535,376
<b>Net cash provided by financing activities</b>		<b>34,535,376</b>
Cash and cash equivalents at the beginning of the financial period		-
<b>Net increase in cash and cash equivalents</b>		<b>3,054,625</b>
<b>Cash and cash equivalents at the end of the financial period</b>	<b>17 (i)</b>	<b>3,054,625</b>

Notes to and forming part of the financial statements are included on pages 22 to 41

**Australian Financial Complaints Authority Limited**  
**Notes to and forming part of the Financial Statements**  
**for the period from 17 July 2017 to 30 June 2018**

**1) General information**

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

Australian Financial Complaints Authority Limited’s registered office and its principal place of business is:

Level 12  
717 Bourke Street  
DOCKLANDS VIC 3008

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 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*.

Following Ministerial approval, the operations of the company started on 1 May 2018 with the company becoming the operating entity of the EDR service previously provided by Financial Ombudsman Service Limited (FOS).

The company’s EDR scheme, AFCA, will commence on 1 November 2018.

**2) Significant accounting policies**

**Statement of compliance**

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply with other requirements of the law.

For the purposes of preparing the financial statements, the company is a not for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the company comply with International Financial Reporting Standards.

The financial statements were approved by the directors and authorised for issue on 12 September 2018.



## **Basis of preparation**

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. All amounts are presented in Australian dollars, unless otherwise noted.

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

### *(a) Cash and cash equivalents*

Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### *(b) Revenue*

Revenue is measured at fair value of the consideration received or receivable.

## **Membership levies and User Charges**

Annual membership 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.

## **Dispute resolution fees and User Charges**

Revenue from dispute resolution fees and user charges are recorded on the basis of the stage of completion of the case to the extent revenue can be reliably measured.

## **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.

## **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 accrued on a time basis.

### *(c) 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.

### *(d) Financial instruments*

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### *(i) Financial assets*

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

### **Held-to-maturity investments**

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

### **Loans and receivables**

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

### **Impairment of financial assets**

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

## **Derecognition of financial assets**

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

### **(ii) Financial liabilities**

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs

### ***(e) Operating lease payments***

Operating lease payments are recognised as an expense on a straight line basis over the term of the lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### ***(f) Accounts payable***

Accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

### ***(g) 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.

### ***(h) 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	1-3 years
Computer hardware and software	3-5 years
Office equipment	1-3 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.

#### *(i) 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.

#### *(j) Employee benefits*

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and purchased leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to the reporting date.

Contributions to defined contribution plans are recognised as an expense when employees have rendered service entitling them to the contributions. The Company does not provide any defined benefits plans to employees.

#### *(k) 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.

Equity from FOS relates to net assets transferred from FOS under the *Restructure and Transition Deed* executed on 5 March 2018 between FOS and the company. The net assets are recognised in equity as accumulated funds unless they relate to any service provided by the company during the year, in which case they are recognised as revenue earned during the year.

#### (l) Adoption of new and revised Accounting Standards

New and revised Standards and amendments thereof and Interpretations effective for the current period that are relevant to the Company include:

- AASB 1048 Interpretation of Standards
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016.

The Company has adopted all new and revised standards in the current period and none of the standards have materially affected any of the amounts recognised in the period. At the date of authorisation of the financial statements, the company has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

Standards/amendment	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the year ending
AASB 9 Financial Instruments	1 January 2018	30 June 2019
AASB 15 Revenue from Contracts with Customers, AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15, and AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15	1 January 2019	30 June 2020
AASB 16 Leases	1 January 2019	30 June 2020
AASB 1058 Income of Not-for-Profit Entities, and AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities	1 January 2019	30 June 2020
AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation	1 January 2019	30 June 2020
AASB 2008-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle	1 January 2019	30 June 2020

Preliminary analysis of *AASB 15 Revenue from Contracts with Customers* has been performed, however, it is impractical at this stage to provide any reasonable estimate of any impact. The impact of other future accounting standards is not expected to have a material impact on the reported results.

### **3) Critical accounting judgements and key sources of estimation uncertainty**

In the application of the company's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

#### ***Critical judgements in applying the entity's accounting policies***

The following are the critical judgements (apart from those involving estimations, which are dealt with below), that management has made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

##### ***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.

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.

#### ***Key sources of estimation uncertainty***

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

##### ***Useful lives of property, plant and equipment***

As described in note 2(h), the company reviews the estimated useful lives of property, plant and equipment at the end of each reporting year.



### *Employee entitlements*

Employee entitlement provisions were taken up by the company for annual leave and long service leave for employees who transferred from FOS to AFCA on 1 May 2018. 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.

## **4) Revenue**

Deficit for the period includes the following items of revenue:

REVENUE	Period from 17 July 2017 to 30 June 2018 \$
Dispute resolution fees	7,488,750
Interest income	144,147
Code monitoring	64,774
Membership levies	17,166
Other fees & charges	16,351
<b>Total Revenue from Continuing Operations</b>	<b>7,731,188</b>

## **5) Trade and other receivables – current**

	30 June 2018
Trade receivables (i)	6,690,835
Allowance for doubtful debts	(966,489)
	5,724,346
Accrued income	5,824,928
Prepayments	386,105
Other receivables	220,783
	<b>12,156,162</b>

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.

## 5) Trade and other receivables – current (continued)

Under a Restructure and Transition Deed executed on 5 March 2018 between FOS and AFCA, effective 1 May 2018, FOS transferred all debtors to AFCA with the same payment due dates. Therefore, included in the company's trade receivable balance are debtors with a carrying amount of \$864,492 which are past due at the reporting date for which the company has not provided as there has not been a significant change in credit quality and the company believes that the amounts are still recoverable. The company does not hold any collateral over these balances.

	Period from 17 July 2017 to 30 June 2018 \$
Movement in the allowance for doubtful debts	
Balance on debts transferred from FOS – 1 May 2018	742,136
Impairment losses recognised on receivables	268,731
Amounts recovered during the period	(44,378)
<b>Balance at end of the period</b>	<b>966,489</b>

	30 June 2018
Current – 30 days	325,135
30 – 60 days	82,131
60 – 90 days	46,000
90+ days	513,223
<b>Total</b>	<b>966,489</b>

## 6) Other financial assets

Term Deposits amounting to \$31,500,000 are recognised as held to maturity financial assets.

## 7) Property, plant and equipment

	Furniture and Fittings	Computer Hardware and Software	Office Equipment	Leasehold improvements	Work in Progress	Total
<b>Gross carrying amount</b>						
Transferred from FOS on 1 May	50,032	338,250	68,386	1,485,683	-	1,942,351
Additions	-	376,313			11,200	387,513
<b>Balance at 30 June 2018</b>	<b>50,032</b>	<b>714,563</b>	<b>68,386</b>	<b>1,485,683</b>	<b>11,200</b>	<b>2,329,864</b>
<b>Accumulated Depreciation</b>						
Transferred from FOS on 1 May	-	-	-	-	-	-
Depreciation expense	(2,002)	(86,333)	(5,978)	(101,794)	-	(196,107)
<b>Balance at 30 June 2018</b>	<b>(2,002)</b>	<b>(86,333)</b>	<b>(5,978)</b>	<b>(101,794)</b>	<b>-</b>	<b>(196,107)</b>
<b>Book Value as at 30 June 2018</b>	<b>48,030</b>	<b>628,230</b>	<b>62,408</b>	<b>1,383,889</b>	<b>11,200</b>	<b>2,133,757</b>

As noted in Note 15, under a Restructure and Transition Deed executed on 5 March 2018 between FOS and AFCA, effective 1 May 2018, FOS transferred all property, plant and equipment of FOS to AFCA at net realisable value. These amounts have been included above as additions at gross carrying value.

## 8) Payables – current

	30 June 2018
Trade payables and accruals	2,430,514
Amounts due to Australian Taxation Office	267,991
<b>Total Trade and Other Payables</b>	<b>2,698,505</b>

Trade payables mainly consist of amounts owing for services rendered which have an average credit period of 14 days. No interest is charged on the trade payables for the first 60 days. The company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## 9) Provisions

### *Provisions - current*

	30 June 2018
Employee benefits	2,120,402
Lease Liability	350,337
<b>Balance at end of financial period</b>	<b>2,470,739</b>

### *Provisions – non-current*

	30 June 2018
Employee benefits	4,716,006
Make good provision	1,467,586
Lease liability	567,334
<b>Balance at end of financial period</b>	<b>6,750,926</b>

## 10) Accumulated funds

	30 June 2018
Net Assets Transferred from FOS on 1 May 2018	38,258,717
Net deficit for the year	(2,496,699)
<b>Balance at end of financial period</b>	<b>35,762,018</b>

## 11) Remuneration of auditors

	Period from 17 July 2017 to 30 June 2018 \$
(a) Auditing the Financial Report	15,000
(b) Non-audit services	96,725
	<b>111,725</b>

Non-audit services included financial analysis and the establishment of taxation frameworks upon commencement of operations of the company.

## 12) Commitments for expenditure

### *Non-cancellable operating lease commitments*

The company has three operating leases that were novated from FOS on 1 May 2018. These relate to premises occupied, one of which expires on 31/08/2020 and two on 30/09/2020.

The company does not have an option to purchase the leased asset at the expiry of the lease period.

	Period from 17 July 2017 to 30 June 2018 \$
<hr/>	
<b>Payments recognised as an expense</b>	
Minimum Lease Payments	433,388
<b>Non-Cancellable Operating Lease Commitments</b>	<b>As at 30 June 2018</b>
Future operating lease rentals and rentals not provided for in the financial statements:	
Not longer than one year	627,847
Longer than one year but not longer than five years	7,471,398
Longer than five years	-
	<hr/>
	<b>8,099,245</b>
	<hr/>

## 13) Contingent Assets

There are no contingent assets as at 30 June 2018.

## 14) Contingent Liabilities

There are no contingent liabilities as at 30 June 2018.

## 15) Transfer of Assets & Liabilities from FOS

Under a Restructure and Transition Deed executed on 5 March 2018 between FOS and AFCA, effective 1 May 2018, FOS transferred all assets, liabilities and business activities of FOS to AFCA, with the exception of liabilities that did not transfer to AFCA under the Deed and cash at bank to pay those liabilities. As such, all business activities of AFCA commenced from this date.

## 15) Transfer of Assets & Liabilities from FOS (continued)

Assets and liabilities were transferred at their net realisable value as shown below.

	Transferred on 1 May 2018 \$
<b>Assets</b>	
Cash and cash equivalents	34,535,376
Trade and other receivables	11,861,737
Property, plant and equipment	1,942,351
<b>Total Assets</b>	<b>48,339,464</b>
<b>Liabilities</b>	
Trade and other payables	600,933
Income received in advance	591,645
Provisions	8,888,169
<b>Total Liabilities</b>	<b>10,080,747</b>
<b>NET ASSETS TRANSFERRED</b>	<b>38,258,717</b>

## 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 2018, the maximum total members' contribution is \$1,197,300 if it was required by the company at winding-up.

## 17) Notes to the cash flow statement

### *(i) 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:

	30 June 2018 \$
Cash at bank	3,054,625
<b>Total cash and cash equivalents</b>	<b>3,054,625</b>

### **(ii) Reconciliation of deficit for the period to net cash flows from operating activities**

<b>Deficit for the year</b>	<b>(2,496,699)</b>
Depreciation of non-current assets	196,107
Provision for doubtful debts	224,353
<b>Changes in net assets and liabilities:</b>	
(Increase)/decrease in assets from 1 May 2018 transfer from FOS:	
Trade debtors	(149,953)
Other debtors and prepayments	(368,825)
Increase/(decrease) in liabilities:	
Trade creditors & accruals	2,097,572
Income received in advance	570,711
Provisions	333,496
<b>Net cash from operating activities</b>	<b>406,762</b>

## 18) Financial instruments disclosure

### *(a) Capital risk management*

The capital structure of the company consists of cash, and cash equivalents and accumulated funds. The company's board finance and risk management committee reviews the capital structure on a quarterly basis to ensure that the company's reserves are maintained at a minimum level of three months of expenses cover.



## 18) Financial instruments disclosure (continued)

### *(b) Significant accounting policies*

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, are disclosed in note 2 to the financial statements.

### *(c) Categories of financial instruments*

	30 June 2018
<b>Financial assets</b>	
Loans and receivables (including cash and cash equivalents)	15,210,787
Held to maturity investments	31,500,000
<b>Financial liabilities</b>	
Amortised cost	2,698,505

### *(d) 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 board audit and risk management committee.

### *(e) Market risk*

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

### *(f) Foreign currency risk management*

The company does not undertake foreign currency transactions.

## **18) Financial instruments disclosure (continued)**

### *(g) 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 \$27,022 for the period from 1 May to 30 June. 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.

### *(h) 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.

### *(i) 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.

## 18) Financial instruments disclosure (continued)

The following table details the company's expected maturity for its non-derivative financial assets and liabilities. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities including interest that will be earned or paid on those assets and liabilities except where the company anticipates that the cash flow will occur in a different period. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial asset on the statement of financial position.

	Weighted average effective interest rate	Less than 3 Months	3 Months to 1 year	1-5 years	5+ years	Total
<b>Financial Assets</b>						
Non-interest bearing	0.00%	12,156,163	-	-	-	12,156,163
Cash at bank	1.15%	3,054,625	-	-	-	3,054,625
Short term deposits	2.81%	10,568,353	21,507,606	-	-	32,075,959
<b>Financial Liabilities</b>						
Non-interest bearing	0.00%	2,698,505	--	-	-	2,698,505

### j) 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

The directors and other members of key management personnel of the company during the period were:

The Hon. H Coonan (Chair from 4 May 2018);  
Prof. The Hon. M Lavarch (Chair from 17 July 2017 to 4 May 2018);  
R Belleville (Non-executive director from 17 July 2017);  
J Berrill (Non-executive Director from 16 February 2018 to 4 May 2018);  
D Coorey (Non-executive Director from 16 February 2018 to 4 May 2018);  
J Darbyshire (Non-executive director from 16 February 2018);  
M Dwyer AM (Non-executive Director from 16 February 2018 to 4 May 2018);  
A Fairley (Non-executive Director, from 4 May 2018);  
C Franklin (Non-executive director from 17 July 2017);  
E Freeman (Non-executive director from 16 February 2018);  
L Lakomy (Non-executive director from 16 February 2018 to 4 May 2018);  
C E Lowe (Non-executive director from 16 February 2018);  
C Mackay (Non-executive Director, from 4 May 2018);  
E Turner (Non-executive Director, from 4 May 2018);  
J Turner (Non-executive director from 16 February 2018);  
A Wein (Non-executive Director, from 4 May 2018);  
N S Crowhurst (Company Secretary, from 17 July 2017);  
D A Locke (Chief Ombudsman and Chief Executive Officer from 26 June 2018);  
S Tregillis (Transitional Chief Ombudsman, from 1 May 2018 to 29 June 2018);  
P Field (Lead Ombudsman – Banking and Finance, from 1 May 2018);  
J Price (Lead Ombudsman – General Insurance, from 1 May 2018);  
J Smith (Lead Ombudsman – Investments and Advice, from 1 May 2018);  
D Ennis (Executive General Manager – Resolution, from 1 May 2018);  
M Ridgway (Executive General Manager – Corporate Strategy/Services, from 1 May 2018);  
J Stringer (Chief Operating Officer from 1 May 2018);  
A Buttigieg (Chief Financial Officer from 1 May 2018).

As at 30 June  
2018

Number of Directors	11
Number of Non-Director Key Management Personnel	9

## 19) Key management personnel compensation (continued)

The aggregate compensation made to directors and other members of key management personnel of the company is set out below.

	30 June 2018 \$
<b>Short Term Employee Benefits</b>	
Salaries, fees and leave entitlements paid	590,045
<b>Post-Employment Benefits</b>	
Superannuation	121,964
<b>Total benefits</b>	<b>712,009</b>

## 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 transactions with any related party.

## 21) Subsequent events

Since the end of the financial period to the date of this report, the Company has received authorisation from the Australian Securities and Investments Commission to operate the EDR scheme previously run by Credit and Investments Ombudsman Limited (CIOL). A Deed of Transition was entered into with CIOL to transition relevant aspects of the EDR scheme to the Company, but without a full acquisition of the business. This was executed on 31 August 2018 and has no impact on reported amounts for the financial period to 30 June 2018. As of the date of this report, it is not possible to quantify the financial impact of the transaction due to the funding nature of the EDR scheme and yet to be calculated values for accrued revenue on disputes in progress.

Aside from the above, 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.